

Please write clearly in block capitals.

Centre number

Candidate number

Surname

Forename(s)

Candidate signature

I declare this is my own work.

INTERNATIONAL AS ECONOMICS

Unit 2 The National Economy in a Global Environment

Wednesday 7 January 2026

07:00 UK Time

Time allowed: 1 hour 45 minutes

Materials

For this paper you must have:

- the Source Booklet, provided as an insert (enclosed)
- a calculator, which you are expected to use where appropriate.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do **not** write outside the box around each page or on blank pages.
- Do **not** write in the Source Booklet.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- You may use a bilingual dictionary for this exam.
- You may **not** use an English dictionary.

For Examiner's Use	
Question	Mark
1–15	
16	
17	
18	
19	
20	
21	
TOTAL	



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EC02

Section AAnswer **all** questions in the spaces provided.Only **one** answer per question is allowed.

For each question completely fill in the circle alongside the appropriate answer.

CORRECT METHOD



WRONG METHODS



If you want to change your answer you must cross out your original answer as shown.



If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.

**0 1**

Which one of the following is an injection into the circular flow of income?

[1 mark]**A** Consumption☐**B** Imports☐**C** Investment☐**D** Wealth☐**0 2**

Which one of the following is most likely to explain why a country has a current account deficit?

[1 mark]**A** Government spending is more than taxation.☐**B** Households save a high percentage of their income.☐**C** People in the country own assets abroad that earn income.☐**D** The country has lower productivity than other countries.☐

0 3 **Table 1** shows the values of a range of measures of economic activity at different price levels.

Table 1

Price level (index)	Short-run aggregate supply (\$m)	Consumption (\$m)	Investment (\$m)	Government spending (\$m)	Government revenue (\$m)	Exports minus Imports (\$m)
90	1300	1400	300	100	400	400
100	1400	1050	300	150	350	300
110	1500	800	300	200	300	200
120	1600	700	300	300	250	100

The economy is in equilibrium and its normal capacity level of output is \$1400m.

What is the size of its output gap?

[1 mark]

- A** -\$500m ☐
- B** -\$200m ☐
- C** \$100m ☐
- D** \$400m ☐

Turn over for the next question

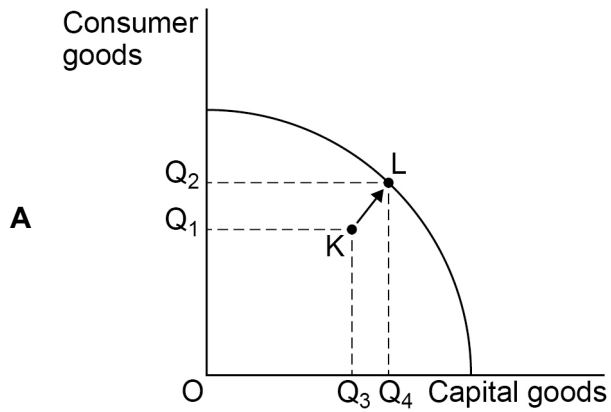
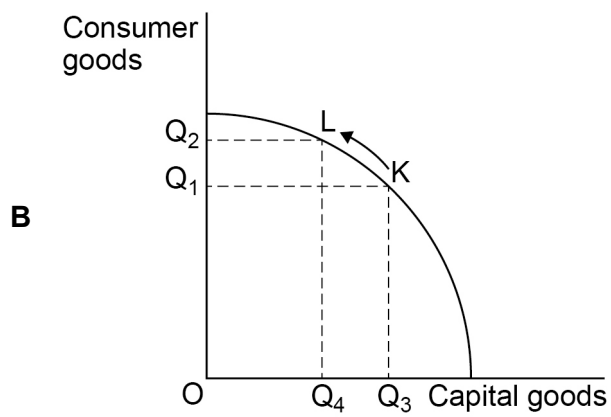
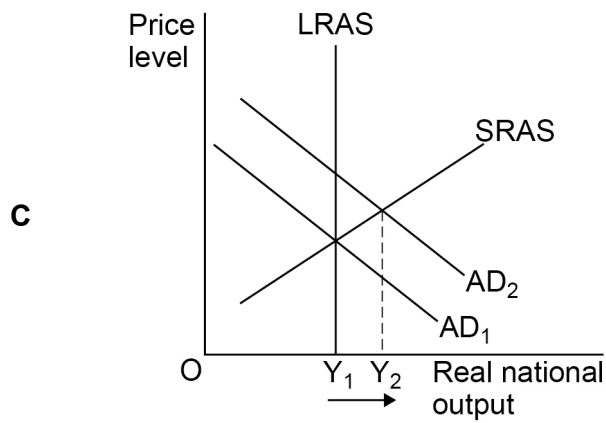
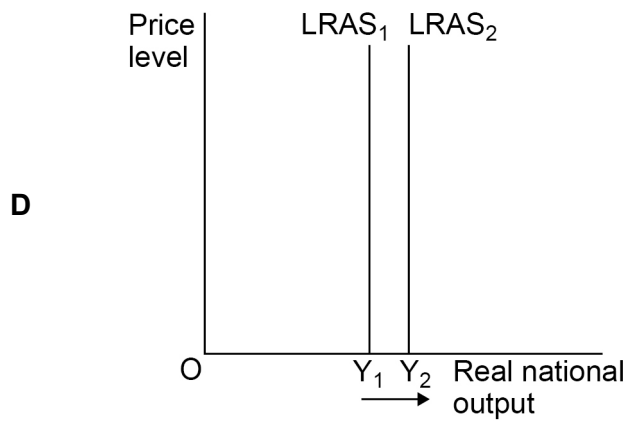
Turn over ►



0 4

Which one of the following diagrams shows underlying economic growth in the economy?

[1 mark]



0 5

Firms in an economy are experiencing an accelerator process. Which one of the following is most likely to cause this?

[1 mark]

A A rise in aggregate demand

☐

B A rise in competition from imports

☐

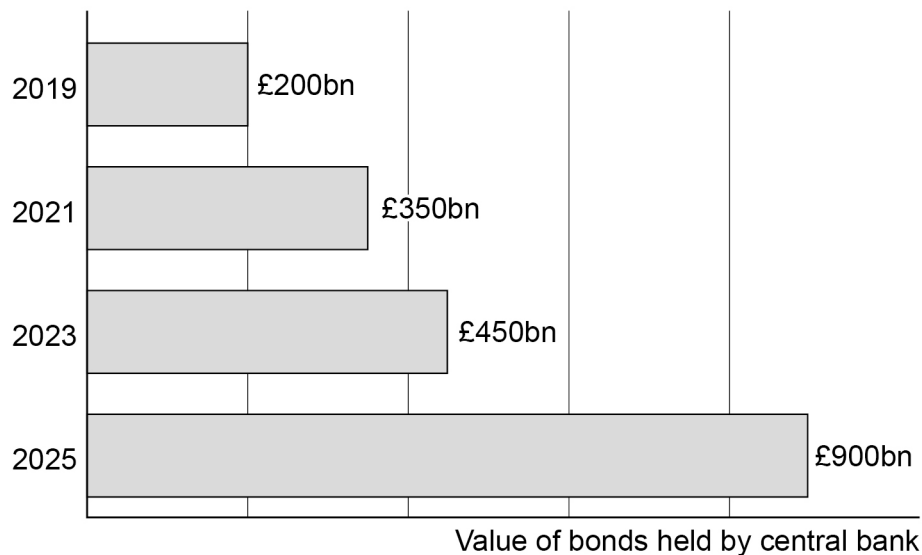
C A rise in costs of production

☐

D A rise in productivity

☐
0 6

Central banks sometimes buy bonds from other financial institutions. **Figure 1** shows the total value of bonds in UK pounds (£) held by a central bank at different times.

Figure 1

Which one of the following can be concluded from **Figure 1**?

[1 mark]

A The central bank has used quantitative easing to reduce inflation.

☐

B The country has a structural deficit in its budget balance.

☐

C The country's national debt has increased since 2019.

☐

D The money supply has increased because of quantitative easing.

☐
Turn over ►

0 7

A consumer price index (CPI) is used to measure inflation. The index must reflect the relative importance of price changes for different items.

What feature of a CPI is most important in ensuring this?

[1 mark]

A Base year

☐

B Index number

☐

C Large sample size

☐

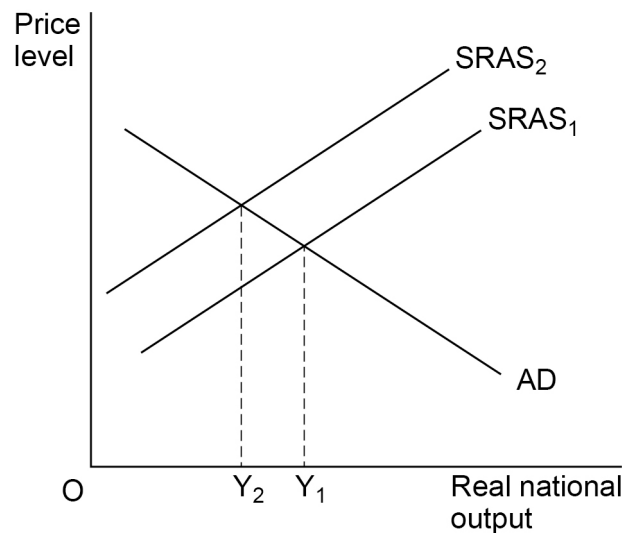
D Weights

☐

0 8

Figure 2 shows aggregate demand (AD), the initial short-run aggregate supply ($SRAS_1$) and the new short-run aggregate supply ($SRAS_2$) curves in an economy.

Figure 2



Which one of the following is the most likely cause of the shift from Y_1 to Y_2 ?

[1 mark]

A A fall in business taxes

☐

B A fall in the national minimum wage

☐

C An increase in business regulations

☐

D An increase in the general price level

☐


0 9

Table 2 shows the values of different sections of a country's balance of payments on current account in 2024 and 2025 in billions of Japanese yen (¥bn).

Table 2

Year	Balance of trade in goods (¥bn)	Balance of trade in services (¥bn)	Primary income balance (¥bn)	Secondary income balance (¥bn)
2024	800	–200	150	–100
2025	900	–100	150	–200

All other things being equal, which one of the following is the most likely cause of the changes in the current account between 2024 and 2025?

[1 mark]

- A** A fall in economic activity in other countries
- B** A fall in the country's exchange rate
- C** A rise in the country's national income
- D** A rise in the rate of inflation compared to other countries

☐☐☐☐**1 0**

A government is trying to expand the economy and wants a large multiplier effect.

Which one of the following is most likely to help the government achieve this?

[1 mark]

- A** A high marginal propensity to consume
- B** A high marginal propensity to import
- C** A high marginal propensity to save
- D** A high marginal propensity to tax

☐☐☐☐

Turn over for the next question

Turn over ►



1 1

Which one of the following is the best example of a supply-side policy used to reduce the rate of unemployment?

[1 mark]

A Government increasing the national minimum wage

☐

B Government increasing welfare benefits

☐

C Government investing to improve local transport

☐

D Government removing subsidies from inefficient firms

☐
1 2

Table 3 shows inflation data for four countries for the years 2019 to 2023.

Table 3

	2019 (%)	2020 (%)	2021 (%)	2022 (%)	2023 (%)
Angola	17.1	22.3	25.8	21.4	13.6
Brunei Darussalam	−0.4	1.9	1.7	3.7	0.4
Nigeria	11.4	13.2	17.0	18.8	24.7
The Gambia	7.1	5.9	7.4	11.5	17.0

Which country did **not** experience disinflation at any time between 2019 and 2023?

[1 mark]

A Angola

☐

B Brunei Darussalam

☐

C Nigeria

☐

D The Gambia

☐


1 3

Table 4 shows a country's nominal GDP in billions of euros (€bn) and its population size. It also shows the value of the country's inflation index.

Table 4

Year	Nominal GDP (€bn)	Population	Inflation index
2024	300	35 million	120
2025	360	37 million	132

It can be concluded from **Table 4** that between 2024 and 2025

[1 mark]

- A** economic growth was 20%. ☐
- B** real GDP decreased. ☐
- C** real income per capita increased. ☐
- D** the rate of inflation increased. ☐

1 4

Which one of the following is the best example of underemployment?

[1 mark]

- A** Ahmed chooses to work three days a week and looks after his children on the other days. ☐
- B** Dambisa has a degree in Economics and works full-time as a cleaner while looking for a job in a bank. ☐
- C** Ding does not have a job and has written to all the big local employers to ask for work. ☐
- D** Yolanda was the manager of a car company for 30 years and has now stopped working because of her age. ☐

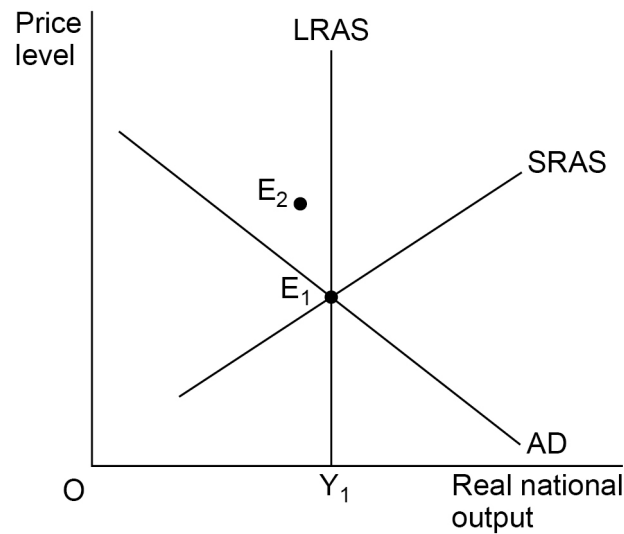
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1 5

Figure 3 shows the long-run aggregate supply (LRAS), short-run aggregate supply (SRAS) and aggregate demand (AD) curves in an economy.

Figure 3

The economy is initially in equilibrium at E_1 . After three events, the economy moves to a new equilibrium E_2 .

Which one of the following combinations of events is most likely to explain the change from E_1 to E_2 ?

[1 mark]

	Event 1	Event 2	Event 3	
A	Demand for the country's exports falls	The price of imported oil rises	Firms reduce investment	☐
B	The government cuts taxes for firms that invest	The government increases welfare payments	More skilled workers are allowed to enter the country	☐
C	The government reduces income tax	The central bank reduces the rate of interest	Households increase their savings	☐
D	There is a rise in consumer confidence	The government increases indirect taxes	The government increases the minimum wage	☐



Section B

Look at the Source Booklet and answer **all** questions in the spaces provided.

Do **not** write in the Source Booklet.

1 6 . 1 Define 'cyclical unemployment' (**Extract B**, line 10).

[3 marks]

1 6 . 2 Define 'negative supply-side shock' (**Extract C**, line 3).

[3 marks]

Turn over ►



1 7

Extract A shows inflation and the official central bank interest rate in Pakistan, the Philippines and the United Kingdom from 2019 to 2023.

You are advised to show your working for the calculations below.

1 7 . 1

Assume that a worker in Pakistan earned an annual wage of 500 000 Pakistani rupees (PKR) at the beginning of 2022 and that their wage rose by the rate of inflation in each of 2022 and 2023.

Use **Extract A (i)** to calculate their wage at the end of 2023.

Give your answer in Pakistani rupees (PKR) to the nearest 1000 PKR.

[3 marks]

1 7 . 2

The UK's interest rate stayed at 0.1% during the whole of 2021, while the Philippines' interest rate stayed at 2.0% during the same year.

Use **Extract A (i)** to calculate the difference between the real interest rates in the UK and the Philippines in 2021.

[3 marks]



Extract B (lines 14–16) states: ‘Central banks use changes in interest rates and other types of monetary policy to affect the inflation rate.’

Explain how changes in the interest rate set by a central bank affect the rate of inflation.

[6 marks]

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Extra space

Turn over ►



To what extent do the data suggest that changes in the interest rate set by a central bank affect the rate of inflation?

[6 marks]

[illegible]

Extract B (lines 18–19) states: ‘Some economists think keeping interest rates high can cause a negative output gap’.

With the help of a diagram, explain how high interest rates can cause a negative output gap.

[illegible]

2 0

Extract C (line 10) states: 'Budget balances rise and fall in different phases of the economic cycle.'

Analyse how the budget balance is affected by the different phases of the economic cycle.

[12 marks]



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[20 marks]

[illegible]

[illegible]

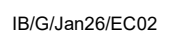
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20



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ANSWER IN THE SPACES PROVIDED**



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