Pearson Edexcel International Advanced Level

Wednesday 13 May 2026

Morning (Time: 1 hour 45 minutes)

Paper reference **WEC12/01A**

Economics

International Advanced Subsidiary

UNIT 2: Macroeconomic performance and policy

Question Paper

You must have: Source Booklet and Answer Book (sent separately)
Do not return this Question Paper with the Answer Book.

Turn over

P87898A

P:1/1/1/1/1/1/

P 8 7 8 9 8 A

SECTION A

Answer ALL questions in this section in the Answer Book.

1 In 2023 the youth unemployment rate in Spain increased to 27.4%. This was partly caused by laws and policies that guarantee all workers a minimum level of income.

Which **one** of the following best describes this type of unemployment experienced in Spain?

A Real-wage unemployment

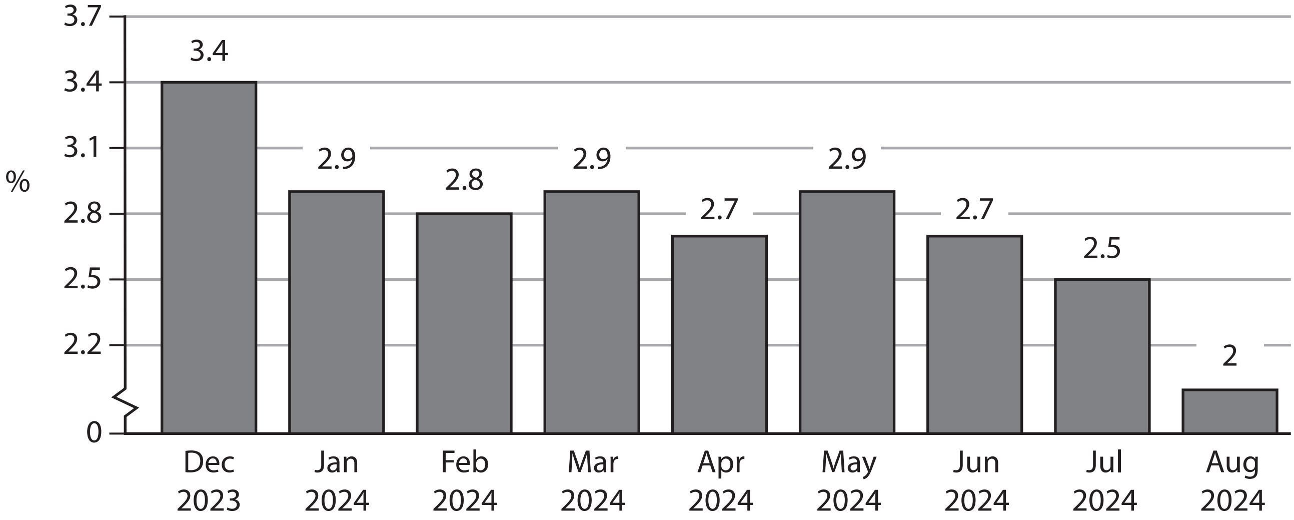
B Structural unemployment

C Frictional unemployment

D Seasonal unemployment

(Total for Question 1 = 1 mark)

2 The graph shows the annual rate of inflation* in Canada between December 2023 and August 2024.



*This is the year-on-year inflation rate calculated monthly

Which **one** of the following best describes how the average price level was changing?

A Between December 2023 and February 2024 the average price level was falling

B The average price level was lower in August 2024 than it was in December 2023

C Between May 2024 and August 2024 the average price level was rising at a slower rate

D The average price level was rising at a faster rate between May 2024 and July 2024

(Total for Question 2 = 1 mark)

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3 India's GDP per capita was $2 389 in 2023. However, when adjusted to account for differences in the cost of living, India's GDP per capita was $8 358.

Which **one** of the following statistical adjustments is used to account for differences in the cost of living when comparing GDP between countries?

A Government budget adjustments

B Population adjustments

C Interest rate adjustments

D Purchasing power parity (PPP) adjustments

(Total for Question 3 = 1 mark)

4 In the UK the average price of a house decreased between June 2022 and June 2023.

Which **one** of the following best explains why a decrease in house prices is most likely to cause a reduction in aggregate demand (AD)?

A A decrease in house prices increases disposable income and reduces savings

B A decrease in house prices decreases the wealth of households and reduces consumption

C A decrease in house prices directly reduces government spending on infrastructure

D A decrease in house prices encourages firms to invest more in housing

(Total for Question 4 = 1 mark)

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5 Which **one** of the following is most likely to be associated with a decrease in short-run aggregate supply (SRAS)?

A An increase in consumption

B An increase in government expenditure

C An increase in export revenue

D An increase in firms’ costs of production

(Total for Question 5 = 1 mark)

6 The table below shows the consumer price index (CPI) for Australia between 2021 and 2023. (2021 = base year)

Year	CPI
2021	100
2022	106.6
2023	112.6

Which **one** of the following is the percentage increase in the price level from 2022 to 2023?

A 5.6%

B 6.0%

C 6.6%

D 12.6%

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

SECTION B

Answer ALL questions in this section in the spaces provided in the Answer Book.

7 Citizens of New Zealand spend 10% of any additional income on imports and pay a tax rate of 20% on every extra dollar of income. The marginal propensity to save (MPS) for New Zealand is 10%.

Calculate the increase in government spending needed to increase GDP by $180 billion. Show all your workings.

(Total for Question 7 = 4 marks)

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8 The Government of Canada plans to spend $6 billion in subsidies over a five-year period to encourage firms to increase investment in renewable energy projects.

Explain **one** likely macroeconomic effect of these government subsidies to firms to encourage investment in renewable energy.

(Total for Question 8 = 4 marks)

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9 The table shows the five countries with the highest percentage rate of economic growth in real GDP in 2023.

Country	Real GDP growth %
India	7.58
Georgia	7.47
Panama	7.32
Guinea	7.06
Mongolia	7.02

With reference to the table, explain what is meant by 'real GDP'.

(Total for Question 9 = 4 marks)

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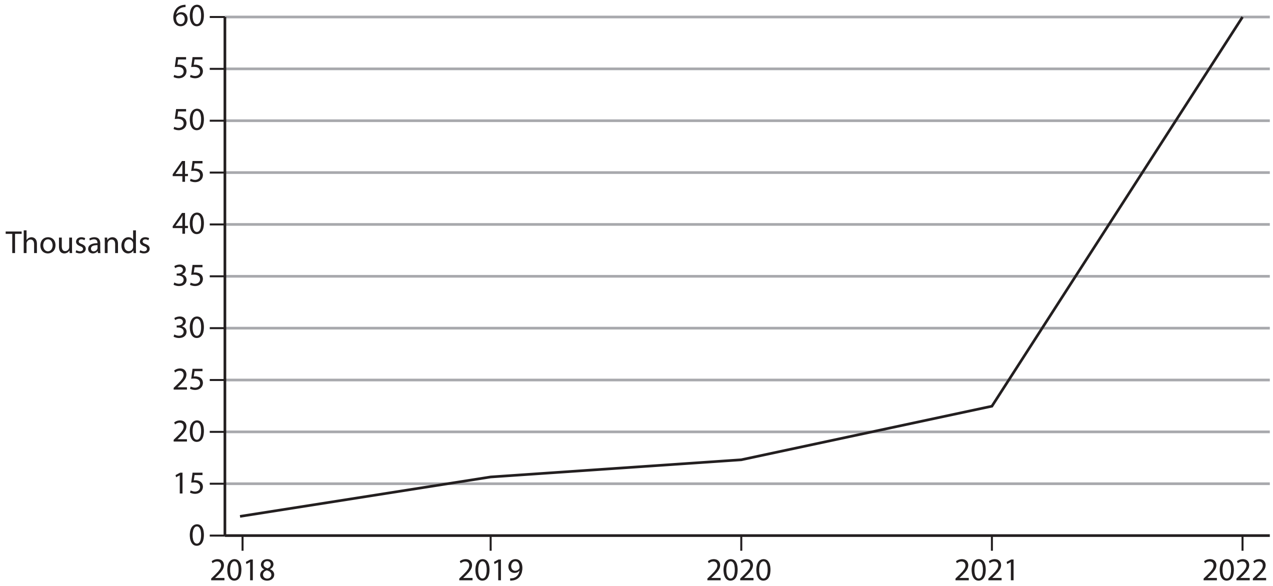
10 The chart shows net migration to Finland between 2018 and 2022.



Explain **one** likely effect of the change in net migration on the rate of unemployment in Finland.

(Total for Question 10 = 4 marks)

11 According to the International Monetary Fund (IMF), the real output of Greece exceeded its potential real output by more than 2.5% of real GDP in 2023.

Draw an AD/AS diagram to show a positive output gap.

(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

SECTION C

Study Figure 1 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the spaces provided in the Answer Book.

12 (a) Define the term 'recession'. (Extract A, line 10)

(2)

(b) With reference to Extract A, explain the term 'asset purchases'.

(4)

(c) With reference to Figure 1 and Extract A, examine the impact of a decrease in the exchange rate of the euro against other currencies on the trade balance in the Eurozone.

(8)

(d) With reference to Extract B, analyse the difference between Keynesian and Classical interpretations of the long-run aggregate supply (LRAS) curve.

(6)

(e) With reference to the information provided and your own knowledge, discuss the effects of a high rate of unemployment on an economy within the Eurozone.

(14)

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION D

Answer ONE question from this section.

Write your answer in the space provided in the Answer Book.

EITHER

13 The Central Banks of many economies increased their base rates of interest after 2021. This may have resulted in a decrease in investment.

Evaluate the view that the rate of interest is the most important factor influencing investment.

(Total for Question 13 = 20 marks)

OR

14 Between 2024 and 2025 the Government of the USA announced increased spending plans worth $3.4 trillion. This is expected to contribute to a higher rate of GDP growth and a lower unemployment rate but could also lead to the rate of inflation rising beyond the 2% target.

Evaluate conflicts between macroeconomic objectives that may occur when using macroeconomic policies.

(Total for Question 14 = 20 marks)

TOTAL FOR SECTION D = 20 MARKS
TOTAL FOR PAPER = 80 MARKS

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Source Booklet

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Turn over

P87898A

P:1/1/1/1/1/

P 8 7 8 9 8 A

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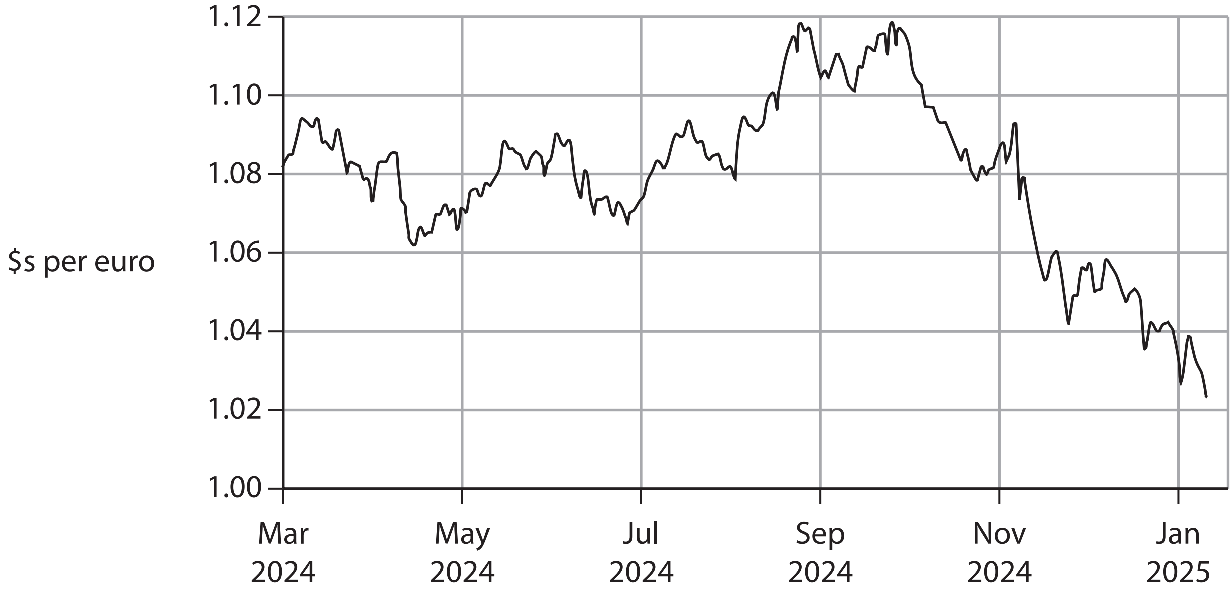
Sources for use with Section C

The Eurozone economy

Figure 1 Exchange rate of euro in $, March 2024 to January 2025



Extract A

Inflation, interest rates and trade

The Eurozone is a group of 20 out of 27 European Union (EU) countries. They share the same currency, the euro, and operate without protectionist measures. Inflation in the Eurozone began rising rapidly in 2021. In response, the European Central Bank (ECB) gradually raised the base rate of interest from 0% in 2022 to 4% in 2024 and reduced its asset purchases. For example, the ECB's asset purchases decreased from €40 bn in April 2022 to €20 bn in June 2022. These policies helped to reduce the rate of inflation from 8.4% in 2022 to 2.4% by December 2024.

However, these deflationary monetary policies had a negative impact on the rate of economic growth. They contributed to the Eurozone entering a recession in the fourth quarter of 2023.

The exchange rate of the euro has also played an important role in the EU's economic performance. A decrease in the value of the euro has improved international competitiveness. However, it also increased the prices of imported oil and gas. These energy sources typically account for a significant share of firms' costs of production. Since 2022 Eurozone countries have diversified their energy imports to reduce reliance on any single country.

Extract B

Keynesian vs Classical

Keynesian economists suggest that an increase in government spending can stimulate aggregate demand and reduce unemployment in the Eurozone. However, following the Financial Crisis in 2008 many member states reduced government spending, even though their levels of unemployment were relatively high.

By contrast, Classical economists argue that structural reforms, such as increasing labour market flexibility and increasing competition, are essential for long-term economic growth. They suggest that focusing on supply-side measures would allow the Eurozone economy to achieve full employment without causing an increase in the rate of inflation.

The differences in economic performance between member states have grown. By early 2024, Germany and the Netherlands had returned to near full employment, with unemployment rates of 3–4%. In contrast, southern European countries, such as Spain and Greece, experienced unemployment rates of above 10%. A high rate of unemployment is likely to reduce the rate of economic growth. In addition, it may cause government expenditure to rise above tax revenues. Also there may be negative social impacts such as increased crime rates and poverty.

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Acknowledgements

Figure 1 adapted from: https://tradingeconomics.com/euro-area/currency

Extract A adapted from:
https://www.ecb.europa.eu
https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Inflation_in_the_euro_area
https://data.oecd.org/trade/trade-in-goods-and-services.htm

Extract B adapted from:
https://www.imf.org/en/Publications/WEO
https://www.worldbank.org/en/publication/global-economic-prospects

Please check the examination details below before entering your candidate information

Candidate surname	Other names

Centre Number | Candidate Number

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Answer Book

You must have:
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Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **ALL** questions in Sections A, B and C.
- Answer **ONE** question in Section D.
- Answer the questions in the spaces provided – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

P87932A

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P 8 7 9 3 2 A 0 1 2 4

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SECTION A

Answer ALL questions in this section.

Questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

Question 1

☒ **A**

☒ **B**

☒ **C**

☒ **D**

(Total for Question 1 = 1 mark)

Question 2

☒ **A**

☒ **B**

☒ **C**

☒ **D**

(Total for Question 2 = 1 mark)

Question 3

☒ **A**

☒ **B**

☒ **C**

☒ **D**

(Total for Question 3 = 1 mark)

Question 4

☒ **A**

☒ **B**

☒ **C**

☒ **D**

(Total for Question 4 = 1 mark)

Question 5

☒ **A**

☒ **B**

☒ **C**

☒ **D**

(Total for Question 5 = 1 mark)

Question 6

☒ **A**

☒ **B**

☒ **C**

☒ **D**

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

SECTION B

Answer ALL questions in this section in the spaces provided.

Question 7

Write the answer to Question 7 in the space provided.

(Total for Question 7 = 4 marks)

Question 8

Write the answer to Question 8 in the space provided.

(Total for Question 8 = 4 marks)

Question 9

Write the answer to Question 9 in the space provided.

(Total for Question 9 = 4 marks)

DO NOT WRITE IN THIS AREA DO NOT WRITE IN THIS AREA DO NOT WRITE IN THIS AREA

Question 10

Write the answer to Question 10 in the space provided.

(Total for Question 10 = 4 marks)

Question 11

Write the answer to Question 11 in the space provided.

(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

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SECTION C

Study Figure 1 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the spaces provided.

Question 12

Write the answer to Question 12(a) in the space provided.

(2)

Write the answer to Question 12(b) in the space provided.

(4)

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Write the answer to Question 12(c) on the two pages provided.

(8)

Question 12(c) continued

Write the answer to Question 12(d) on the two pages provided.

(6)

Question 12(d) continued

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Write the answer to Question 12(e) on the three pages provided.

(14)

Question 12(e) continued

Question 12(e) continued

(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION D

Answer ONE question from this section.

Write your answer on the five pages provided.

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 13** ☒ **Question 14** ☒

Section D continued

Section D continued

Section D continued

Section D continued

TOTAL FOR SECTION D = 20 MARKS
TOTAL FOR PAPER = 80 MARKS

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