

**Modified Enlarged 24pt
OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

Friday 8 October 2021 – Afternoon

A Level Economics

H460/02 Macroeconomics

Stimulus Material Insert

**Time allowed: 2 hours
plus your additional time allowance**



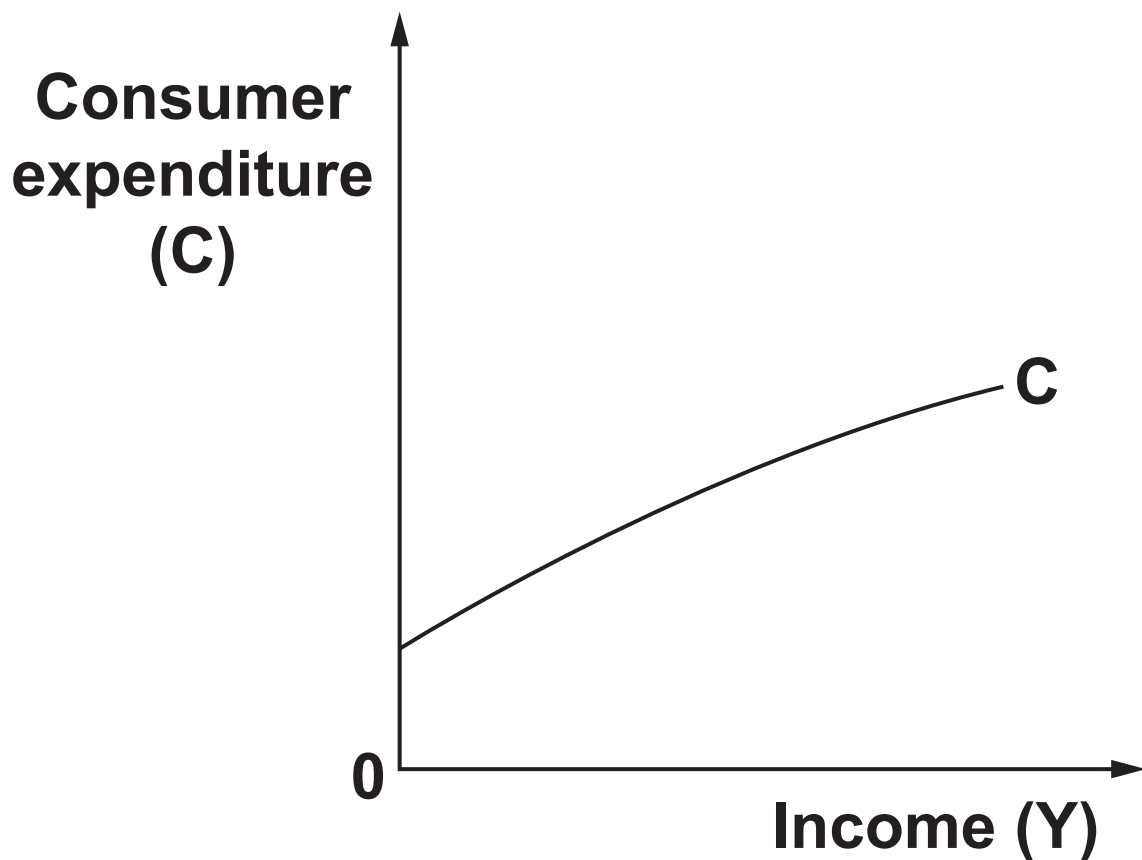
SECTION A

Read the following stimulus material and answer ALL parts of question 1 in the question paper.

Are we moving towards a cashless society?

Recent years have seen a change in both the amount consumers spend and how they make their payments. How much consumers spend is influenced by a variety of factors. These include changes in income and changes in confidence. During an economic boom, consumer expenditure is likely to be high. Indeed, an economic boom is often consumer-led. In contrast, consumer expenditure can fall to a low level during a recession. Fig. 1 shows how consumer expenditure can vary as income changes.

FIG. 1 The relationship between changes in income and changes in consumer expenditure



- 15 Changes in injections and leakages can alter a country's income. It has been estimated, for instance, that an injection of \$200m of government spending in the Swiss economy would**
- 20 cause a rise in GDP of \$300m.**

The proportion of payments made in cash in Switzerland is declining. It is also falling in the UK. In 2005, 70% of payments in the UK were made in cash.

25 By 2015, this had fallen to 50% and is
forecast to decline to 30% by 2025. The
extent to which cash is used influences
the number of banknotes printed and
in circulation. Fig. 2 shows the value of
30 banknotes in circulation in the UK over
a five year period.

**FIG. 2 The value of banknotes in
circulation (£million) 2014–2018**

Year	£5	£10	£20	£50	Total
2014	1 540	7 182	36 483	11 025	56 230
2015	1 601	7 371	38 912	11 788	59 672
2016	1 645	7 767	41 037	13 157	63 606
2017	1 912	8 006	43 357	15 601	68 876
2018	1 910	7 789	42 692	16 508	68 899

Some central banks favour ending the
use of cash. One reason is because of
the role that cash plays in a number
35 of criminal activities including money
laundering and drug dealing. A more
significant motive is probably to enable
central banks to charge negative
interest rates when needed to stimulate
40 economic activity. If people and banks

can take money out of their deposits and hold them as cash, negative interest rates are likely to have less power to encourage an increase in
45 spending.

Negative interest rates involve commercial banks having to pay to hold deposits at the central bank. As commercial banks often have excess
50 funds held at the central bank, a negative interest rate may encourage them to lend the funds instead. If commercial banks pass on the negative rates to their customers, people
55 will have to pay to save. Negative interest rates would have an impact on borrowing, the cost of servicing government debt and probably on the exchange rate.

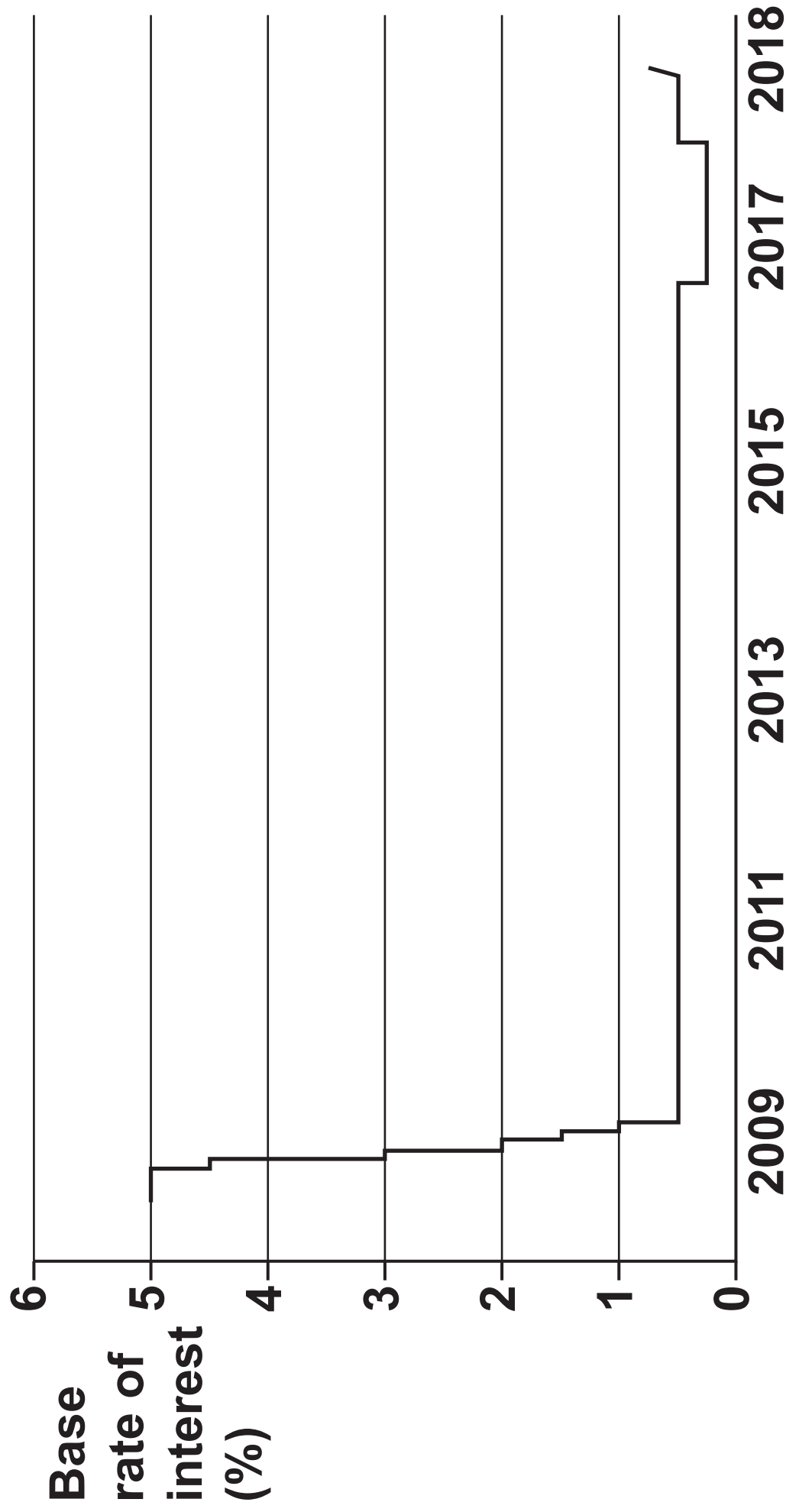
60 A number of central banks, including the Bank of Japan, the Swiss National Bank, Denmark's National Bank and the European Central Bank (ECB) have used negative interest rates in
65 a bid to avoid deflation. These banks received some criticism for the effect

that the negative interest rates had on confidence, saving and bank profitability.

70 The Bank of England has yet to introduce a negative interest rate. Fig. 3 shows how the UK interest rate has changed in recent years.

75 While the ECB has stopped producing its €500 note, the Bank of England has not yet scrapped any notes. Getting rid of cash is likely to affect the poor most. Nearly 1.5 million UK adults do not have a bank account and most of these are
80 poor. Some of them are unemployed. The number of people unemployed may increase during a recession. The impact on unemployment will depend on a number of factors. These include
85 firms' stock levels, the length of the recession, how easily firms can adjust working hours and the number of people they employ and whether the numbers in the labour force stay the
90 same.

FIG. 3 UK interest rates 2009–2018





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