General Certificate of Education
June 2002
Advanced Level Examination

ECONOMICS **ECN6**
Unit 6 Government Policy, the National and International Economy

Friday 28 June 2002 Afternoon Session

In addition to this paper you will require:
- an 8-page answer book.

You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions
- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN6.
- In **Section A,** answer **all** parts of the question.
- In **Section B,** answer **one** question.

Information
- The maximum mark for this unit is 100.
- Mark allocations are shown in brackets.
- This unit is synoptic. It assesses your understanding of the relationship between different aspects of Economics.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

Advice
- You are advised to spend approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

SECTION A

Answer **all** parts of this question.

1 **Total for this question:** ***50 marks***

Study **Extract A** and **Table 1** and then answer **all** parts of the question which follow.

Extract A

ECONOMIC OUTLOOK MAY 2001

The outlook for growth has weakened more than expected...

Economic growth in the OECD area has been weakening since the autumn of 2000, but the forces dampening down growth are projected to lessen during the year. Growth in the OECD area is now predicted to drop to 2% in 2001 before recovering somewhat next year to between 2.5% and 3%. At the same time the long-running reduction in unemployment is expected to come to an end. Slower growth across the OECD area should also, in combination with the assumed fall in the price of oil, help to keep inflation low.

...but recovery is likely in the coming months.

The projected recovery of growth is based on a number of factors. Recent interest rate reductions, a shift towards looser fiscal policy together with lower oil prices, should all help to increase aggregate demand in the coming months. In addition, the sustained pace of productivity growth in the United States, which was so remarkable in the second half of the 1990s, suggests that these efficiency gains can be extended elsewhere. Finally, inflationary pressures show no sign of increasing in much of the region, leaving monetary policy in most countries with the scope to support activity further in the period ahead, if needed.

In the euro area, some easing of monetary policy is envisaged...

Growth in the euro area has also slowed in the second half of 2000 but is expected to remain satisfactory, provided the global economy does not turn out to be weaker than projected. This view assumes some easing of monetary policy in the coming months. The strengthening of the foreign exchange value of the euro since November and the drop in oil prices, coupled with a less buoyant external environment, should help to reduce inflationary pressures. Furthermore, even though the output gap is expected to disappear over the projection period, domestically generated price pressures may turn out to be low if past structural reforms and the development of new technologies succeed in raising the productive capacity of the economy. With inflationary pressure low, monetary policy could be eased more aggressively if the slowdown were to intensify.

...but product and labour market reforms need to continue.

Supply-side reforms to enhance the flexibility of labour markets along with measures to increase competition in product markets, need to continue. Initiatives to make work more financially attractive, working arrangements more flexible, and lower skilled workers more productive, will help to extend the employment gains achieved in recent years.

Table 1
SUMMARY OF THE PROJECTIONS

	Actual	**Projected**	
	2000	**2001**	**2002**
Real total domestic demand	*Percentage change from the previous period*		
United States	5.7	1.9	3.1
European Union	3.0	2.6	2.7
Real GDP	*Percentage change from the previous period*		
United States	5.0	1.7	3.1
European Union	3.3	2.6	2.7
Inflation	*Per cent*		
United States	2.0	2.3	1.9
European Union	1.4	2.2	2.1
Unemployment	*Per cent of the labour force*		
United States	4.0	4.6	5.0
European Union	8.2	7.7	7.3
Current account balance	*Per cent of GDP*		
United States	–4.4	–4.2	–4.0
European Union	–0.3	–0.4	–0.4

Source: adapted from *OECD Economic Outlook No.69, preliminary edition,* May 2001, www.oecd.org

Note: The OECD (Organisation for Economic Co-operation and Development) area includes the developed countries of the world.

(a) Explain what is meant by the phrase “the outlook for growth has weakened” (subheading, **Extract A**).

(4 marks)

(b) Compare the actual and the projected performance of the United States and European Union economies between 2000 and 2002, as shown in **Table 1**.

(6 marks)

(c) Discuss the relationships between economic growth, productivity and unemployment.

(10 marks)

(d) Assess the likely costs and benefits of product and labour market reforms for the countries of the European Union.

(30 marks)

Turn over ▶

SECTION B

Answer **one** question from this Section.

Total for this question: ***50 marks***

2 (a) Explain the causes of inflation.

(20 marks)

(b) Assess the contribution that the Monetary Policy Committee of the Bank of England has made to the control of inflation in the United Kingdom.

(30 marks)

3 (a) Explain how fiscal policy can be used to influence both the level **and** the pattern of economic activity.

(20 marks)

(b) Discuss the view that the government should always attempt to balance its budget.

(30 marks)

4 (a) Explain the benefits of international trade.

(20 marks)

(b) Assess the arguments **for** and **against** encouraging developing countries to protect their economies from foreign competition by imposing restrictions on the imports of manufactured products from developed countries.

(30 marks)

END OF QUESTIONS

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