General Certificate of Education
June 2005
Advanced Subsidiary Examination

ECONOMICS **ECN2/2**
Unit 2 Part 2 Data Response: The National Economy

Friday 10 June 2005 Afternoon Session

In addition to this paper you will require:
- an 8-page answer book;
- the question paper for Part 1 (ECN2/1).

You may use a calculator.

Time allowed: 1 hour for papers ECN2/1 and ECN2/2 together

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 ECN2/2.
- Answer **EITHER** Question 1 **OR** Question 2.

Information
- The maximum mark for this paper is 25.
- Mark allocations are shown in brackets.
- 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 at least 45 minutes on paper ECN2/2.

Answer **EITHER** Question 1 **OR** Question 2.

EITHER

1 ECONOMIC GROWTH **Total for this question:** ***25 marks***

Study **Extracts A, B and C**, and then answer **all** parts of Question 1 which follows.

Extract A:

Extract A was a graph.
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Extract B:

Extract B was an extract of text.
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Extract C: The global recovery

The global economic recovery appears to be gaining momentum, although the pattern is uneven across the world. In the USA, growth increased well above trend, while output growth in the Eurozone has hardly changed. Output growth in the UK was close to trend in the second and third quarters of 2003, although growth remains disappointing when viewed against performance since the early 1990s. Stronger recovery in other parts of the world economy may hold the key to stronger growth in the UK.

Source: adapted from Bank of England, *Inflation Report Overview*, November 2003

Question 1

(a) Using **Extract A**, describe the main changes in UK real GDP for the period 1993 to 2003.

(4 marks)

(b) With the help of an aggregate demand / aggregate supply (AD/AS) diagram, briefly explain the possible consequences for the UK price level and UK real output of a "rise in interest rates" (**Extract B**, line 2).

(6 marks)

(c) Using the data and your economic knowledge, evaluate the importance of aggregate demand in bringing about an increase in the rate of growth of the UK economy. *(15 marks)*

TURN OVER FOR THE NEXT QUESTION

Turn over ▶

OR

2 EXCHANGE RATES **Total for this question:** ***25 marks***

Study **Extracts D, E and F**, and then answer **all** parts of Question 2 which follows.

Extract D:

Extract D was a graph.
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Extract E: The USA's current account deficit

In the first six months of 2003, the USA was responsible for half of all the economic growth in the developed world. But with a current account deficit already standing at 5% of GDP, can the US economy continue to stimulate world growth by drawing in more imports? The current account deficit cannot continue to grow forever, and the USA will have to manage aggregate demand, or the dollar will have to fall substantially. The dollar's fall could be good for US exports and jobs as well as helping the current account. It will, however, have an impact on US import prices and hence inflation.

Source: adapted from *Economics Today* magazine, volume 3, no.2, November 2003

Extract F:

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Question 2

(a) Using **Extract D**, describe the main changes in the dollar ($) value of the euro (€) for the period 1999 to 2003. *(4 marks)*

(b) With the help of an aggregate demand / aggregate supply (AD/AS) diagram, briefly explain the possible consequences for the US price level and US real output of a decision to "manage aggregate demand" (**Extract E**, lines 4–5) to help correct a current account deficit. *(6 marks)*

(c) Using the data and your economic knowledge, evaluate the consequences for an economy such as the USA of a fall in the exchange rate of its currency against the currencies of its major trading partners. *(15 marks)*

END OF QUESTIONS

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