

General Certificate of Education
January 2006
Advanced Subsidiary Examination



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

Wednesday 18 January 2006 9.00 am to 10.00 am

For this paper you must have:

- an 8-page answer book
- the question paper for Part 1 (ECN2/1)

You may use a calculator.

Time allowed: the total time for papers ECN2/1 and ECN2/2 together is 1 hour

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.
- The marks for questions are shown in brackets.
- You are reminded of the need for good English and clear presentation in your answers. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in all answers.

Advice

- You are advised to spend at least 45 minutes on paper ECN2/2.

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

EITHER

Total for this question: 25 marks

1 ECONOMIC OUTLOOK

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

Extract A:

Extract A was a table of data.
It has not been reproduced here due to third-party
copyright constraints.

Extract B:

Extract B was an extract of text.
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copyright constraints.

Extract C: 2005: a tougher year?

1 It looks very much as though 2004 will be a good year for the world economy. But, in recent weeks, although some economists have been optimistic about 2005, there have also been concerns expressed.

5 In the UK, higher interest rates and oil prices could have a damaging effect. Both government and economists will be concerned about the impact of a series of increases in oil prices on such macroeconomic variables as the balance of payments, employment, growth and inflation, as well as more generally on confidence and expectations.

Source: adapted from an article by HAMISH MCRAE, *The Independent*, 25 March 2004

Question 1

- (a) Using the data in **Extract A**, compare real GDP growth and unemployment forecasts for the USA, Japan and the Euro area during the period 2003 to 2005. (4 marks)
- (b) Explain **two** ways in which a world recovery might ‘help start a recovery in European economies’ (**Extract B**, line 7). (6 marks)
- (c) Using the data and your economic knowledge, evaluate the impact which ‘a series of increases in oil prices’ (**Extract C**, lines 5 and 6) might have on the performance of economies such as the UK. (15 marks)

Turn over for the next question

Turn over ►

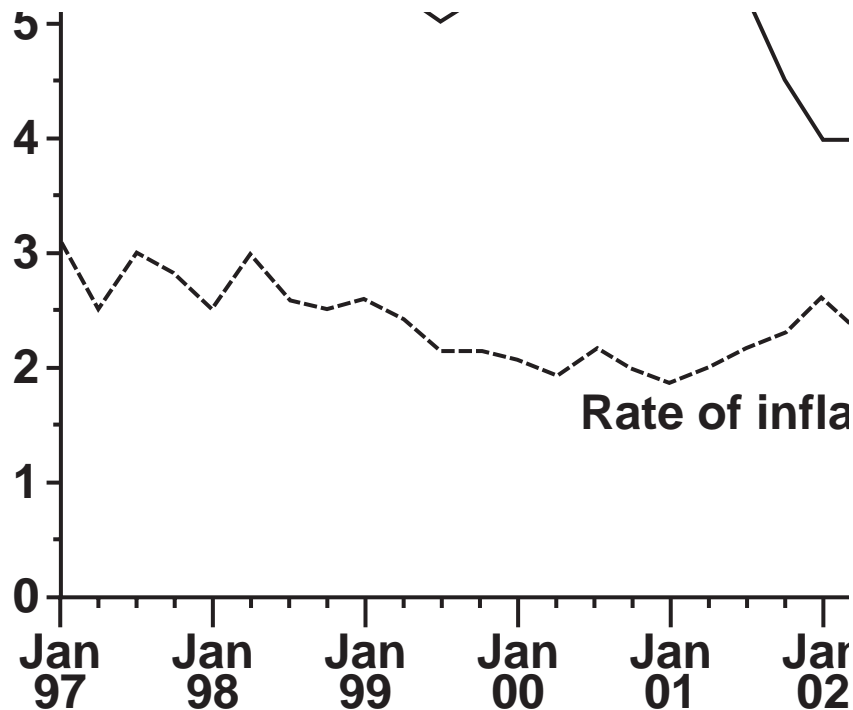
OR

Total for this question: 25 marks

2 UK DEBT

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

Extract D: UK inflation and the base rate of interest, 1997–2004



RPIX is the Retail Price Index excluding mortgage payments

Source: from official figures

Extract E: Is the UK in debt danger?

- 1 UK households are now amongst the biggest borrowers in the world. However, there needs to be a balanced view adopted of the impact of such borrowing. At the moment, borrowing seems comfortably affordable and the level of spending that it helps to finance can provide a welcome boost to aggregate demand.
- 5 However, the potential problems cannot be denied. For example, increased imports are likely. There may be difficulties for families when mortgage payments cannot be met and houses are repossessed. The economy may also be at risk if the public do not respond to interest rate rises, designed, of course, to control aggregate demand and thereby reduce inflation.
- 10 None of the difficulties is inevitable. These difficulties may, nevertheless, create a climate of uncertainty and declining confidence which will eventually harm the economy.

Source: adapted from analysis by EVAN DAVIS, www.bbc.co.uk/news, accessed on 9 August 2004

Extract F: Bank of England raises interest rates

- 1 Demand is already high relative to the supply capacity. Consumer borrowing continues at high levels. Strong growth is likely to be maintained and this could lead to inflationary pressures. Against this background, the Monetary Policy Committee (MPC) of the Bank of England judged that an increase of 0.25 percentage points in the
- 5 rate of interest to 4.75% was necessary to keep inflation on target. Economic theory predicts that rising interest rates might discourage consumer spending and investment, encourage saving and raise the exchange rate.

Source: adapted from the Bank of England press release, 5 August 2004, www.bankofengland.co.uk, accessed on 9 August 2004

Question 2

- (a) Using **Extract D**, compare the changes in the base rate of interest with those in the rate of inflation for the period January 1997 to January 2004. *(4 marks)*
- (b) Explain **two** ways in which interest rate rises might help ‘to control aggregate demand’ (**Extract E**, line 8). *(6 marks)*
- (c) Using the data and your economic knowledge, evaluate the significance of increasing levels of consumer borrowing for UK macroeconomic performance. *(15 marks)*

END OF QUESTIONS

There are no questions printed on this page

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Extract A: adapted from "Summary of projections", *OECD Economic Outlook*, June No.75 – Volume 2004 Issue 1, OECD, 2004.

Extract B: adapted from Cotis, J-P (2004), "Towards a shared recovery", *OECD Economic Outlook*, June No.75 – Volume 2004 Issue 1, OECD, 2004

Extract C: © The Independent, 25 March 2004

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