

General Certificate of Education
June 2006
Advanced Subsidiary Examination



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

Friday 9 June 2006 1.30 pm to 2.30 pm

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.

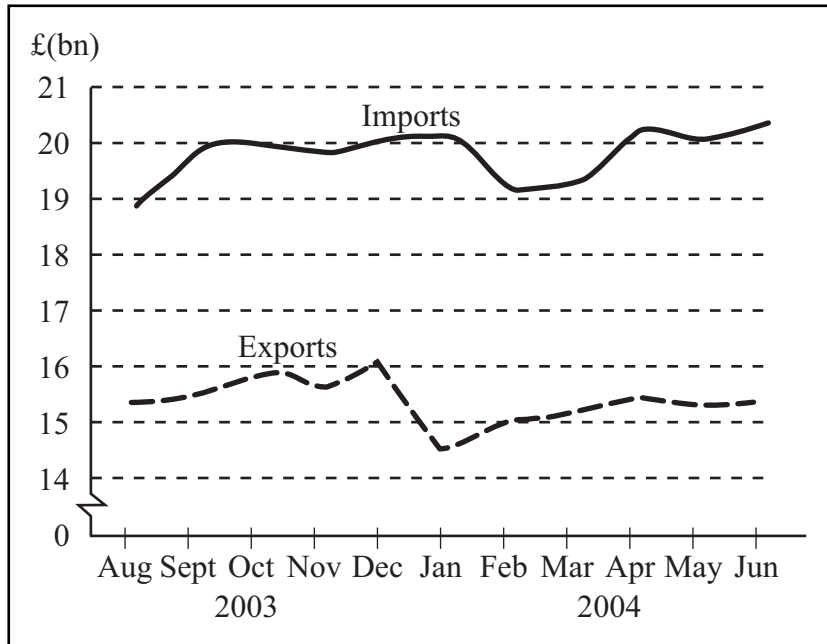
EITHER

Total for this question: 25 marks

1 UK TRADE

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

Extract A: UK trade in goods, August 2003 – June 2004 (£bn)



Source: adapted from *British Economy Survey*, Vol 34 (1), Autumn 2004, Esterbrooke Enterprises Limited.2004

Extract B: The deepening deficit

1 Data on the UK trade balance in goods and services make depressing reading, with the deficit likely to continue to deepen. The trade in goods shows the severest problems. There are various factors that can help explain this weakness. The sterling exchange rate continues to be high, generating greater pressure on manufacturers in export

5 markets and causing home producers to face stiffer competition from imports. The increases in interest rates in 2004 might push the exchange rate even higher. Exporters will argue more strongly than ever that a fall in the exchange rate is needed for an improved balance of payments on current account, as well as for growth and jobs.

10 In May, another ten countries joined the existing fifteen members of the European Union (EU). This will lead to an intensification of competition as all the member countries attempt to improve their trading position inside the EU. The UK needs to improve its competitiveness and this is reliant on further improvements to the supply side of the economy such as productivity, skills and investment.

Thus the conclusion seems inescapable that 2004 is going to see a substantial deficit.

Source: adapted from MICHAEL MORRIS, *British Economy Survey*, Vol 34 (1), Autumn 2004, Esterbrooke Enterprises Limited.2004

Question 1

- (a) Using **Extract A**, compare the changes in UK exports and imports of goods for the period August 2003 to June 2004. (4 marks)
- (b) Explain why a fall in the exchange rate of the pound sterling is ‘needed for an improved balance of payments on current account, as well as for growth and jobs’ (**Extract B**, lines 7–8). (6 marks)
- (c) Using the data and your economic knowledge, evaluate the effects on the UK trade balance in goods and services of ‘further improvements to the supply side of the economy’ (**Extract B**, lines 12–13). (15 marks)

Turn over for the next question

Turn over ►

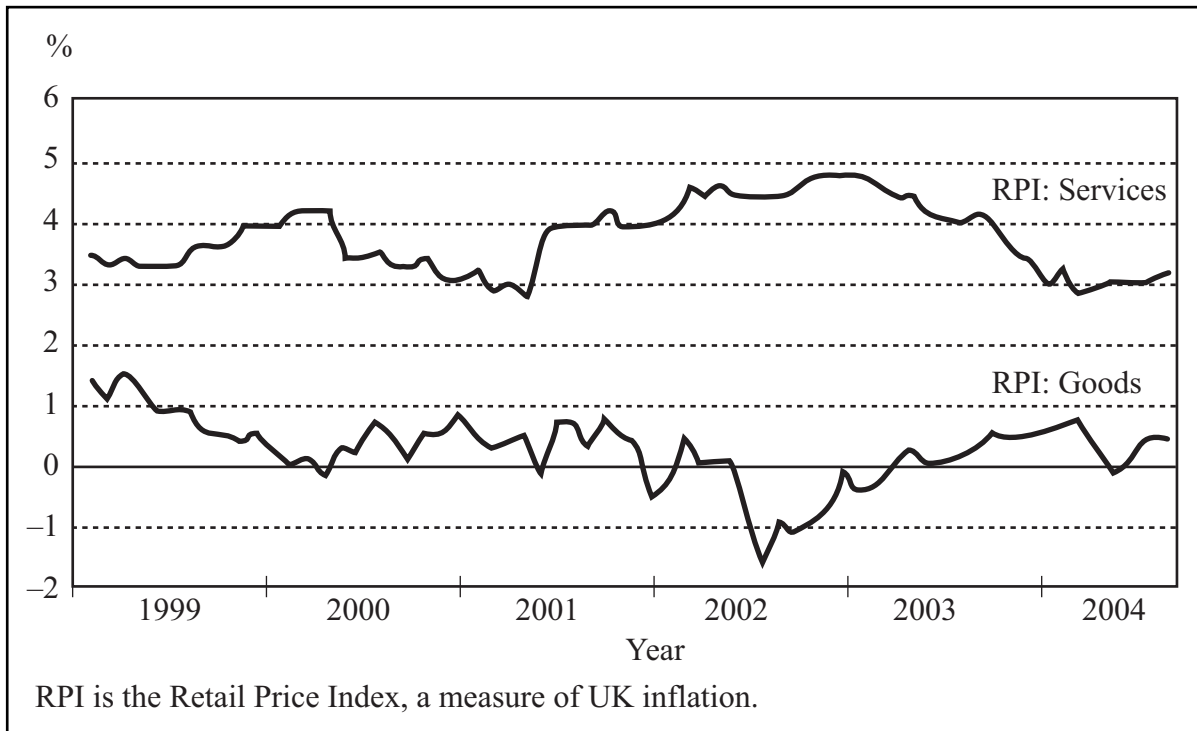
OR

Total for this question: 25 marks

2 UK INFLATION

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

Extract C: UK inflation in goods and services, 1999–2004



Source: IAN BLACK, *The UK Economy 1994–2004*, Anforme Ltd, 2005

Extract D: Inflation on the increase?

- 1 The annual rate of inflation rose for the third month in a row in December 2004, reducing the prospect of a cut in interest rates in 2005. Steep price rises in a number of goods lifted the Consumer Price Index (CPI), a measure of UK inflation, to 1.6% in December from 1.5% in November. It also reached this level in June 2004 but has not
- 5 been higher for two years. The surprising rise may even force the Bank of England to raise interest rates. A spokesman for a high street bank said that, although the rate of inflation is still low, it may revive concerns that cost pressures, such as those in the oil and labour markets, are strengthening. These cost pressures come at a time of rising demand pushing growth above trend. The Bank of England's *Inflation Report* of
- 10 November 2004 referred to 'vigorous expansion in public spending and robust growth in private consumption'.

Source: adapted from MALCOLM MOORE, *The Daily Telegraph*, 19 January 2005

Extract E: Inflation or deflation?

- 1 In October 2004, oil prices hit record levels and raw material costs saw sharp increases. However, it is possible that higher costs might not be passed on to consumers and so we may continue to find evidence of deflation in goods markets. Such price falls will be reinforced by increases in productivity and strong competition
- 5 amongst suppliers.

Question 2

- (a) Using **Extract C**, compare the UK rate of inflation for goods with the UK rate of inflation for services over the period 1999 to 2004. *(4 marks)*
- (b) Explain how ‘increases in productivity **and** strong competition amongst suppliers’ might cause deflation in goods markets (**Extract E**, lines 4–5). *(6 marks)*
- (c) Using the data and your economic knowledge, evaluate the extent to which changes in costs explain the trends in UK inflation in recent years. *(15 marks)*

END OF QUESTIONS

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