General Certificate of Education
January 2007
Advanced Subsidiary Examination

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

Thursday 18 January 2007   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 will be marked on your ability to use good English, to organise relevant information clearly and to use specialist vocabulary where appropriate.

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 INCOME AND SAVING

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

Extract A: UK GDP per capita and the savings ratio, 1995 – 2004

Year	GDP per capita (£)*	Savings ratio (%)**
1995	12 400	10.0
1996	13 100	9.4
1997	13 900	9.2
1998	14 700	6.2
1999	15 400	4.9
2000	16 200	5.0
2001	16 900	6.3
2002	17 700	4.8
2003	18 600	5.3
2004	19 500	4.2

Source: *www.statistics.gov.uk,* accessed on 8 August 2005

*GDP per capita at current prices (income per head of population) rounded to nearest £100
**The savings ratio is the household savings ratio: households' savings as a percentage of
   households' income

Extract B: A nation of savers once again

UK households will break their addiction to the high street and become a nation of savers again next year, according to the head of a leading insurance company. He argues that the conditions are right for a revival of interest in such things as private pensions and individual savings accounts, now that high street spending is slowing and property prices have stagnated. The consumer boom is cooling.	1 5

Source: adapted from an article by PHILIP ALDRICK in *The Daily Telegraph*, 12 August 2005

Extract C: Consumption trends

During the 1980s and 1990s, the relationship between house price inflation and consumption growth was particularly strong. Rapid rises in house prices have been associated with consumer booms. Evidence from the Bank of England suggests, however, that since 2000 this has not been the case. During the recent boom in house prices, for example, consumption has remained relatively steady. The Bank says that a much stronger determinant of consumption is now households' expectations of future income. Of course, interest rates also play their part in influencing macroeconomic indicators such as economic growth and prices, especially through their impact on consumption, savings and investment decisions. For example, the flattening out of consumer spending and business investment during 2005 caused a cut in base rate by the Bank of England from 4.75% to 4.5% in August. It has to be borne in mind that consumer spending is the single most important determinant of aggregate demand (AD). However, macroeconomic performance not only requires a consideration of rising AD and its causes, but also supply-side factors such as productivity and innovation.

Lines: 1, 5, 10, 15

Source: adapted from GARY COOK, *Economics Update 2005*, Hidcote Press, 2005

Question 1

(a) Using **Extract A**, compare the trend in GDP per capita with the trend in the household savings ratio for the period 1995 to 2004.

(4 marks)

(b) **Extract B** (lines 1 and 2) suggests that UK households will become a 'nation of savers again next year'. Explain **two** possible determinants of household saving.

(6 marks)

(c) Using the data and your economic knowledge, evaluate the importance to UK macroeconomic performance of increases in income per head of the population.

(15 marks)

Turn over for the next question

OR

Total for this question: 25 marks

2 GROWTH AND UNEMPLOYMENT

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

Extract D: UK real GDP growth and unemployment, 1997 – 2006

Year	Real GDP (annual % change)	Unemployment (% of labour force)
1997	3.3	7.1
1998	3.1	6.3
1999	2.9	6.0
2000	3.9	5.5
2001	2.3	5.1
2002	1.8	5.2
2003	2.2	5.0
2004	3.1	4.8
2005*f*	2.6	4.7
2006*f*	2.6	4.7
Average 1997–2006	2.8	5.4

f = forecast

Source: 'World Economic Outlook', 2005, *www.imf.org*, accessed on 8 August 2005

Extract E: A strong labour market performance

In the UK, unemployment rose to 12% in the 1980s and to nearly 11% in the early 1990s, with over 3 million unemployed on both occasions. By the mid-1990s, unemployment had begun to fall. The strong labour market performance of recent years has, to some extent, been based on a foundation of macroeconomic stability, using appropriate fiscal and monetary policies to manage aggregate demand.

Stability alone, however, cannot ensure employment for all. This also requires supply-side reforms to improve the functioning and flexibility of the labour market, including the reduction of barriers to work through education and training, skills, and childcare. Additionally, there is a need to tackle unemployment caused in part by the decline of industries, to improve work incentives through the tax and benefit system, and to address the problems within specific groups such as ethnic minorities.

Such supply-side policies will not only help reduce unemployment but will also help bring sustained economic growth.

Source: adapted from the Budget Report, 2005, *www.hm-treasury.gov.uk*, accessed on 8 August 2005

Extract F: Lasting stability in the UK economy

The Government's macroeconomic framework is designed to ensure lasting stability so   1
that businesses, individuals and the Government can plan effectively for the long term.
The Bank of England has been given sufficient independence to meet the
Government's inflation target, and fiscal policy is underpinned by a clear objective of
ensuring sound public finances. The UK economy is currently experiencing its longest   5
unbroken period of economic growth on record, with GDP now having grown for fifty
consecutive quarters. The domestic stability delivered by the Government's
macroeconomic framework, together with supply-side reforms, should not only create
jobs and reduce unemployment, but more generally put the UK in a strong position to
respond to the global challenges and opportunities of the next decade.   10

Source: adapted from the Budget Report, 2005, *www.hm-treasury.gov.uk*, accessed on 8 August 2005

Question 2

(a) Using **Extract D**, compare the changes in UK real GDP growth with the changes in the
rate of unemployment for the period 1997 to 2006.   *(4 marks)*

(b) **Extract F** (lines 5 and 6) states that, by 2005, the UK had experienced its 'longest
unbroken period of economic growth on record'. Explain **two** factors which might
influence the rate of economic growth.   *(6 marks)*

(c) Using the data and your economic knowledge, evaluate the importance of managing
aggregate demand to bring about a sustained reduction in the rate of unemployment in the
UK economy.
    (15 marks)

END OF QUESTIONS

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