

General Certificate of Education
January 2007
Advanced Level Examination



ECONOMICS
Unit 6 Government Policy, the National and International Economy

ECN6

Tuesday 30 January 2007 9.00 am to 10.30 am

For this paper you must have:

- 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 paper is 100.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- 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 approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

SECTION A

Answer **all** parts of this question.

Total for this question: 50 marks

1 UNEMPLOYMENT

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

Extract A: UK unemployment and inflation rates, 1981–2005

Extract A was a graph.
It has not been reproduced electronically due to
third-party copyright constraints.

Extract B: How beneficial is falling unemployment?

| | |
|--|----------|
| Unemployment can have a number of causes, both on the demand side (e.g. tax rises and higher interest rates) and on the supply side (e.g. higher unemployment benefits and rising oil prices). In recent years, however, unemployment has been falling, bringing clear benefits to both individuals and the economy. For individuals, these include higher incomes, more spending power and reduced welfare dependency; for the economy, these include the prospect of higher output and the potential benefits arising from increased tax revenue and less welfare spending. | 1 5 |
| Nevertheless, it must be remembered that a fall in unemployment and a rise in employment, resulting from an increase in low-skilled and low-paid jobs, are likely to be less beneficial than the same change occurring due to an increase in high-skilled and high-paid jobs. Also, the impact of falling unemployment on inflation must be gauged. Inflation can present problems for the macroeconomy. Economic growth, unemployment and the balance of payments may deteriorate, given the likely consequent increases in interest rates, falling business and consumer confidence, and the possible damage to competitiveness. | 10 15 |

Source: adapted from an article by SUSAN GRANT, *British Economy Survey*, Vol 34 (1), Autumn 2004

SECTION B

Answer **one** question from this section.

Each question carries 50 marks.

- 2 The 2005 Budget Statement has forecast that, for the period 2004 to 2010, the average annual borrowing by the UK government (the Public Sector Net Cash Requirement or PSNCR) would be £26 billion.
- (a) Explain the likely economic reasons for government borrowing. *(20 marks)*
- (b) Evaluate the possible problems for the UK economy of increased government borrowing. *(30 marks)*
- 3 (a) Explain the possible causes of economic growth. *(20 marks)*
- (b) In recent years, eastern European countries, such as Poland, have joined the European Union (EU). New markets and business locations are developing, with resource mobility, including labour, increasing. This expansion of the EU has therefore brought opportunities for growth, jobs and investment to the UK.
- Evaluate the possible impact of this expansion of the EU on UK economic performance. *(30 marks)*
- 4 (a) Explain the possible reasons for changes in the pattern of trade between the UK and the rest of the world. *(20 marks)*
- (b) In the years 2000 to 2004, the annual average balance of payments deficit on current account for the UK was £22 billion.
- Evaluate the measures which may be taken to deal with a balance of payments deficit on current account. *(30 marks)*

END OF QUESTIONS

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Extract B: Extract from 'British Economy Survey' 34/1, © Esterbrooke Enterprises 2004

Extract C: CentrePiece magazine is published three times a year by the Centre for Economic Performance, London School of Economics (<http://cep.lse.ac.uk>). This extract is taken from the article 'Full Employment Is Not Just A Dream' by Richard Layard and Stephen Nickell.

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