

General Certificate of Education
June 2007
Advanced Subsidiary Examination



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

Friday 8 June 2007 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 will be marked on your ability to use good English, to organise 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.

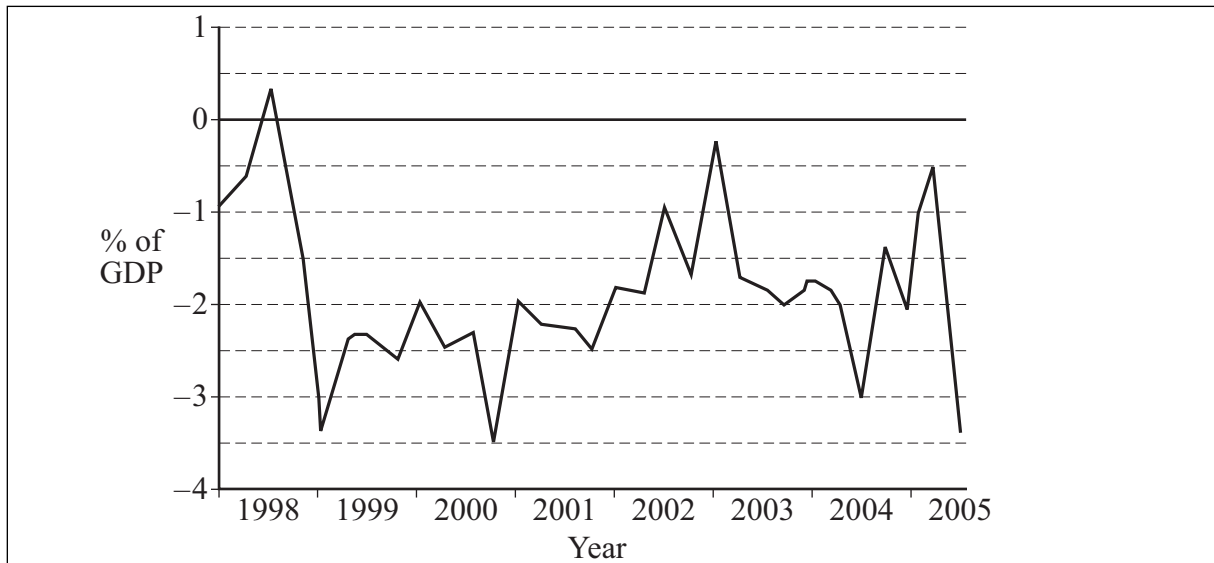
EITHER

1 UK OVERSEAS PERFORMANCE

Total for this question: 25 marks

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

Extract A: The UK balance of payments on current account as a % of GDP, quarterly, 1998 – 2005



Source: www.statistics.gov.uk, accessed on 3 January 2006

Extract B: Are we competitive enough?

A country's competitiveness is the degree to which it is successful in selling its goods and services in world markets and in the domestic market, when challenged by overseas suppliers. It may rest on price comparisons, but might also be based on comparisons of design, quality, reliability, after-sales service, and so on. 1

Improvements in UK competitiveness should help strengthen the balance of payments on current account. Productivity growth, an important determinant of competitiveness, will be important, therefore, in determining current account performance. Also significant may be such factors as the rate of inflation, a fall in the country's exchange rate, the state of the economies of major trading partners, such as the US and other EU countries, and the ability of the manufacturing sector to challenge imports. 5 10

Extract C: UK productivity remains disappointing

The rate of growth of labour productivity in the UK has fallen to its lowest level in 15 years. One explanation is that employment continues to grow at a faster pace than the economy as a whole, so dragging down productivity as total output is divided among more workers. There is certainly evidence that companies are hanging on to staff, even though there is less work for them to do. 1
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Another suggestion is that workers often find their performance impeded by unreliable, inefficient equipment, which might, in turn, imply inadequate business investment. Limited technological progress could also be a factor. An international study points to poor skill levels in the UK when compared to our competitors.

Source: adapted from an article by MALCOLM MOORE, *The Daily Telegraph*, 24 December 2005

Question 1

- (a) Using **Extract A**, identify the main features of the UK balance of payments on current account for the period 1998 to 2005. (4 marks)
- (b) **Extract C** (lines 1-2) states that the ‘rate of growth of labour productivity in the UK has fallen to its lowest level in 15 years’. Explain **two** determinants of productivity performance. (6 marks)
- (c) Using the data and your economic knowledge, evaluate the importance of rising productivity in bringing about an improvement in the UK balance of payments on current account. (15 marks)

Turn over for the next question

Turn over ▶

OR

2 GOVERNMENT EXPENDITURE**Total for this question: 25 marks**Study **Extracts D, E and F**, and then answer **all** parts of Question 2 which follows.**Extract D: Government expenditure, 2002 – 2007 (% of GDP)**

	2002	2003	2004	2005	2006 _f	2007 _f
UK	41.7	43.3	43.9	44.9	45.4	45.7
USA	36.3	36.7	36.4	36.6	36.9	36.6
Eurozone (average for member countries)	47.8	48.3	47.7	47.9	47.3	46.9

f = forecastSource: OECD (Organisation for Economic Co-operation and Development) *Economic Outlook*, No 78, December 2005, www.oecd.org, accessed on 3 January 2006**Extract E: Is government expenditure of economic benefit?**

The <i>Pre-Budget Report</i> of December 2005 highlighted some of the reasons for, and benefits of, government expenditure, which is due to total £520 billion in 2005-06. These included the 'delivery of high-quality public services' which will lead to the 'promotion of enterprise, innovation and skills, and high employment'. More generally, government expenditure is one source of a multiplier process. The economy is able to reach higher levels of economic activity than perhaps the initial level of increased expenditure might suggest. This can, in turn, bring macroeconomic benefits in terms of recovery from recession, economic growth and employment.	1 5
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Source: quotations included are taken from the *Pre-Budget Report*, December 2005, www.hm-treasury.gov.uk, accessed on 6 December 2005

Extract F: Should the growth in government expenditure be restricted?

Extract F was an extract of text.

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Question 2

- (a) Using **Extract D**, compare government expenditure as a % of GDP in the UK and the USA for the period 2002 to 2007. *(4 marks)*

- (b) **Extract E** refers to various reasons for government expenditure. Explain **two** economic reasons. *(6 marks)*

- (c) Using the data and your economic knowledge, evaluate the contribution that the growth of government expenditure may make to UK economic performance. *(15 marks)*

END OF QUESTIONS

There are no questions printed on this page

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Extract D: Based on: Annex Table 25. General government total outlays, OECD Economic Outlook: December No 78 – Volume 2005 Issue 2,
© OECD 2005

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