

General Certificate of Education  
January 2008  
Advanced Subsidiary Examination



## **ECONOMICS**

**ECN2/2**

### **Unit 2 Part 2 Data Response: The National Economy**

Thursday 17 January 2008 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 information clearly and to use specialist vocabulary where appropriate.

#### **Advice**

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

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

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**EITHER**

**Total for this question: 25 marks**

**1 THE SUMMER OF 2006**

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

**Extract A: Quarterly percentage change in consumer sales: UK retail sector by volume**

		Quarterly % change*		
		All retailing	Food retailing	Non-food retailing
<b>2006</b>	April	0.0	0.5	-0.3
	May	0.9	0.5	1.1
	June	1.9	0.9	2.6
	July	1.8	1.3	2.1
	August	1.5	1.5	1.4

\* Quarterly changes. For example, the August figure for 'All retailing' sales of 1.5% indicates that the volume of consumer sales has increased by 1.5% between May and August.

Source: *www.statistics.gov.uk*, accessed on 17 November 2006

**Extract B: An eventful summer in 2006**

In June 2006, the Monetary Policy Committee (MPC) received fresh evidence of a recovery in consumer spending and indicated that inflationary pressures were building. This recovery is reflected in the consumer sales data and was no doubt helped along by the World Cup football competition in Germany. In the UK, for example, there was a notable rise in sales of competition-related products such as widescreen televisions and alcohol.	1 5
Germany, as the host country, received a significant economic boost, caused most importantly by government spending of approximately £1.5 billion on stadiums and transport infrastructure. The <i>Centre for Economics and Business Research</i> predicted a £1.3 billion boost to the UK economy. In both countries, the multiplier process would bring considerable benefits to aggregate demand and to jobs.	10
As July progressed, the UK experienced record-breaking temperatures. Once again, retail sales were given a boost. Supermarkets, for example, benefited significantly from higher demand for salad products, fresh fruit, drinks and suntan lotion. On the supply side, however, one estimate predicted that the heatwave would cost the UK economy £168 million per day in lost output because of lower labour productivity.	15
Internationally, the latest crisis in the Middle East damaged business confidence and led to oil and petrol price rises.	
In August, the MPC took the City and the media by surprise when it raised the base rate from 4.5% to 4.75%. It justified this with reference to a number of factors including higher energy prices and a faster pace of economic activity. It is difficult not to conclude that the events of the summer had each played their part in some way in the MPC's decision.	20
Certainly, by late summer, the UK economy was facing mixed fortunes, with inevitable consequences for economic growth.	25

*Question 1*

- (a) Using **Extract A**, identify **two** main features in the consumer sales data for the period April to August 2006. (4 marks)
- (b) **Extract B** (lines 10–11) refers to the multiplier process bringing ‘considerable benefits to aggregate demand and to jobs’. Explain how the multiplier process can help to bring about a fall in the rate of unemployment. (6 marks)
- (c) Using the data and your economic knowledge, evaluate the extent to which the events outlined in **Extract B** might have affected UK macroeconomic performance. (15 marks)

**Turn over ►**

OR

Total for this question: 25 marks

**2 AN UNBALANCED WORLD ECONOMY**

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

**Extract C: Estimates for the balance of payments on current account, 2005–2007**

Economy	% of GDP		
	2005	2006	2007
United States	-6.4	-7.2	-7.6
Japan	3.6	4.3	5.5
Euro area*	-0.2	-0.4	-0.3
OECD**	-1.9	-2.1	-2.1

\* The euro area is made up of those countries which use the euro as a currency. This does not include the UK.

\*\* The OECD is the Organisation for Economic Co-operation and Development, made up of the leading world economies.

Source: Economic Outlook No.79, © OECD, May 2006, [www.oecd.org](http://www.oecd.org), accessed on 9 August 2006

**Extract D: Imbalances persist**

In recent years, comparisons between countries show that balance of payments current account imbalances have tended to widen. In 2006, the OECD (Organisation for Economic Co-operation and Development) predicted that the deficit for the euro area as a whole would be 0.3% of GDP by 2007, but with some big variations amongst its members. The prediction for Spain, for example, was a deficit as high as 10% of GDP; for Germany, a surplus of 4.5%. Beyond Europe, the US would have a deficit of 7.6% of GDP in 2007, while China and Japan would have surpluses of between 5.5% and 6%.	1 5
For any economy, deficits, rather than surpluses, have caused more concern and a greater likelihood of corrective action. Problems for the world economy could arise if both the US and members of the euro area tried simultaneously to correct their deficits. In the short term, the US and the euro area could attempt to reduce their deficits by controlling aggregate demand in order to reduce imports, and improve competitiveness by controlling inflation. A further policy would be to bring about a fall in exchange rates against other currencies.	10
In the longer term, deficits could be reduced by supply-side policies, such as the promotion of innovation and investment, in order to improve competitiveness.	15
The attempts to reduce deficits could pose a threat to growth and jobs in economies such as the UK, which lie outside the US and euro area. The markets of the US and the euro area account for about two-thirds of UK exports. In 2005, for example, the UK had a deficit of between 2% and 3% of GDP.	20
With such a high profile needing to be given to price competitiveness, it is vital that countries in deficit maintain control over inflation. In recent years, in fact, Japan has experienced deflation (a fall in prices) which has allowed exports to become an important driver for economic growth. However, the OECD identifies Japan, the euro area and the US as economies likely to grow above trend in the second half of this decade. This could bring inflationary pressure to these economies and hence further problems for the UK balance of payments on current account.	25

*Question 2*

- (a) Using **Extract C**, identify **two** main features in the balance of payments on current account in the economies shown for the period 2005 to 2007. *(4 marks)*
- (b) **Extract D** (lines 22–24) refers to deflation in the Japanese economy allowing exports to become ‘an important driver for economic growth’. Explain how falling prices might help to stimulate the economic growth of a country in this way. *(6 marks)*
- (c) Using the data and your economic knowledge, evaluate the possible consequences for UK macroeconomic performance if the euro area and the US seek to reduce their balance of payments deficits on current account. *(15 marks)*

**END OF QUESTIONS**

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