

## AS ECONOMICS

Paper 2 The national economy in a global context

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### Source booklet

**DO NOT WRITE ANY ANSWERS IN THIS SOURCE BOOKLET. YOU MUST ANSWER THE QUESTIONS IN THE ANSWER BOOKLET PROVIDED.**

#### **CONTEXT 1: FALLING WORLD COMMODITY PRICES GIVE THE UK ECONOMY A BOOST**

##### **Questions 21 to 26**

- **Extract A:** Indices of world energy and world food prices, 2010 = 100
- **Extract B:** UK inflation at zero percent
- **Extract C:** Low commodity prices are good for us... or are they?

#### **CONTEXT 2: HOW HAS IMMIGRATION AFFECTED THE PERFORMANCE OF THE UK ECONOMY?**

##### **Questions 27 to 32**

- **Extract D:** Changes in the UK population in thousands, 2007 to 2013
- **Extract E:** Has immigration from the EU reduced the UK budget deficit?
- **Extract F:** Is immigration good for the UK economy?

**Context 1****Total for this Context: 50 marks****FALLING WORLD COMMODITY PRICES GIVE THE UK ECONOMY A BOOST****Extract A: Indices of world energy and world food prices, 2010 = 100**

		<b>Index of world energy prices</b>	<b>Index of world food prices</b>
2014	September	116.62	101.26
	October	106.20	100.68
	November	96.38	103.03
	December	78.55	101.45
2015	January	63.06	98.87
	February	70.46	96.58
	March	68.32	94.10

Source: official statistics, April 2015

**Extract B: UK inflation at zero percent**

The annual change in consumer prices was zero percent in March 2015. This is the second month in a row that the cost of living is broadly the same as it was a year earlier. Some economists are predicting that the CPI inflation rate will fall further in the coming months. However, few believe that the UK is at risk of suffering a period of sustained deflation as experienced by Japan during the past 25 years.

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The weakness in global energy prices and food prices combined with the recent appreciation in the pound sterling exchange rate help to explain the recent fall in inflation in the UK. The recent price war between the supermarkets has benefited consumers but it cannot be assumed that such intense competition will be maintained. The price of petrol in the UK has already started to increase again in response to the recent recovery in the world market price of oil.

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Source: news reports, April 2015

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**Extract C: Low commodity prices are good for us... or are they?**

Falling energy and food prices have benefited UK households, leading to a rise in their real incomes. Average earnings growth remains low at around 2% but, with inflation even lower, many people are now starting to feel better off. Rising real incomes should help to boost consumer confidence, encouraging households to spend more. Lower commodity prices have also been good for most businesses; the average price that manufacturers are paying for raw materials and fuel has fallen by 13% during the past year. However, not everyone benefits. Firms involved in the extraction of oil and gas from the North Sea have been hit hard by reduced revenues as a result of falling world oil and gas prices.

Low or non-existent inflation means that the Bank of England does not need to raise interest rates for a while and some economists are predicting that, as long as inflation remains below the government's 2% target, the current expansionary monetary policy will be maintained. This should help to sustain the growth in business investment and in house building. Borrowers will benefit but savers will lose out once again.

Low commodity prices will affect the UK balance of payments on current account which was close to a record deficit of nearly 6% of nominal GDP in 2014. Whilst the amount spent on importing energy and raw materials is likely to fall, the effect on the competitiveness of UK manufacturing is less certain. The impact on the markets in which we sell our exports is also hard to predict.

Source: news reports, April 2015

**Turn over for Context 1 questions**

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**Context 1 – Questions 21 to 26****2 1**Define 'expansionary monetary policy' **Extract C** (line 11).**[3 marks]****2 2**Use **Extract A** to calculate, to two decimal places, the percentage change in the price of energy between September 2014 and March 2015.**[4 marks]****2 3**Use **Extract A** to identify **two** significant points of comparison between the index of world energy prices and the index of world food prices over the period shown.**[4 marks]****2 4**Use the data in **Extract A** to draw a bar chart to show the index of world energy prices between September 2014 and March 2015.**[4 marks]****2 5****Extract B** (lines 6 to 8) states 'The weakness in global energy prices and food prices combined with the recent appreciation in the pound sterling exchange rate help to explain the recent fall in inflation in the UK.'

Explain why a rise in the pound sterling exchange rate is likely to affect the rate of inflation in the UK.

**[10 marks]****2 6****Extract C** (lines 4 to 7) states 'Lower commodity prices have also been good for most businesses... However, not everyone benefits.'

Use the data in the extracts and your knowledge of economics to assess the likely impact of the fall in world commodity prices on the performance of the UK economy.

**[25 marks]**

**There are no questions printed on this page**

**Turn over for Context 2**

**Context 2****Total for this Context: 50 marks****HOW HAS IMMIGRATION AFFECTED THE PERFORMANCE OF THE UK ECONOMY?****Extract D: Changes in the UK population in thousands, 2007 to 2013**

Year	Natural increase in the population <sup>1</sup>	Net migration <sup>2</sup>	Population change
2007	187.1	304.9	492.0
2008	220.6	284.1	504.7
2009	216.7	220.1	436.8
2010	243.3	255.6	498.9
2011	255.2	270.5	525.7
2012	254.4	165.5	419.9
2013	212.1	188.5	400.6

Source: ONS, UK Population Bulletin, June 2014

**Note 1:** The natural increase in the population is the difference between the number of live births and the number of deaths during the year. The natural increase is positive when the number of births exceeds the number of deaths.

**Note 2:** Net migration is the difference between immigration (people moving to the UK for more than one year) and emigration (people leaving the UK for more than one year).

**Extract E: Has immigration from the EU reduced the UK budget deficit?**

A report produced by University College London has estimated that European migrants who arrived in the UK since 2000 have made a net contribution of more than £20bn to UK public finances. Migrants from the 10 countries that joined the European Union (EU) in 2004 contributed almost £5bn more to taxes in the years between 2004 and 2011 than the value of the public services they consumed. Those who arrived in the UK since 2000 were 43% less likely than British people to receive state benefits and 7% less likely to live in subsidised social housing. Migrants from the EU are also better educated with a substantially higher proportion of them having a degree than people born in the UK. Also, a higher percentage of EU migrants living in the UK are in employment than UK citizens. 1 5

However, critics have claimed that the report is too narrowly focused and does not adequately consider the pressure that immigration has placed on public services such as schools, hospitals, roads and housing. They also point out that many of the migrants are young and hence less likely to claim off the state but in later years, if they remain in the UK, they will become more dependent on welfare and other public services. 10

Source: news reports, accessed April 2015

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**Extract F: Is immigration good for the UK economy?**

Immigration is very important for the UK economy; it is estimated that foreign-born people comprise around 15% of the UK labour force. Migrants add to the total productive capacity of the economy but there is limited evidence to support the view that immigration increases real GDP per head. The long-run effects of immigration are hard to determine but recent research conducted by the NIESR (National Institute for Economic and Social Research) concluded that there is a significant and positive correlation between immigration and labour productivity. 1 5

It is often asserted that because immigration increases the supply of labour, it increases unemployment amongst UK workers and drives down wages. There is some evidence to suggest that large-scale immigration, particularly when the economy is in recession, may increase unemployment in the short run, but in the long run there is no noticeable effect. However, although the impact on average wages is small, low-wage workers tend to lose out while higher-paid workers gain. 10

It is often forgotten that migrant workers also increase aggregate demand. Not only does consumption increase but, in the long run, immigration leads to more investment. This increases the demand for labour, raising wages and employment. 15

Source: news reports, April 2014

**Turn over for Context 2 questions**

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**Context 2 – Questions 27 to 32****2 7**Define 'labour productivity' **Extract F** (line 7).**[3 marks]****2 8**

In 2006, the UK population was estimated to be 60 827 100 people.  
Use **Extract D** to calculate, to two decimal places, the percentage change in the size of the UK population between 2006 and 2013.

**[4 marks]****2 9**

Use **Extract D** to identify **two** significant points of comparison between the natural increase in the UK population and net migration into the UK.

**[4 marks]****3 0**

Use the data in **Extract D** to draw a bar chart to show net migration into the UK for each of the years between 2007 and 2013.

**[4 marks]****3 1**

**Extract E** (lines 1 to 3) states 'European migrants who arrived in the UK since 2000 have made a net contribution of more than £20bn to UK public finances.'

Explain how immigration from the rest of Europe affects the UK government's budget deficit.

**[10 marks]****3 2**

**Extract F** (lines 1 to 2) states 'Immigration is very important for the UK economy; it is estimated that foreign-born people comprise around 15% of the UK labour force.'

Use the data in the extracts and your economic knowledge to discuss the ways in which immigration affects the performance of the UK economy.

**[25 marks]****Copyright Information**

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