



ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2010

Economics

Assessment Unit AS 2

The National Economy

[AE121]

MONDAY 7 JUNE, AFTERNOON



AE121

TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **Question 1** and **one** question from **Questions 2, 3 or 4**.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.
Quality of written communication will be assessed in parts of **all** questions.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

INFORMATION FOR CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

Question 1: Data Response

The article below was written in March 2009.

Study it carefully and answer the questions which follow.

“Jobless total soars”

Figures just released show that the number of people out of work in the UK has passed the two million mark, the highest level since Labour came to power in 1997. 1

The Labour Force Survey showed that in the three months ending January 2009 joblessness reached 2.03 million. The narrower Claimant Count measure showed 1.39 million in the dole queues. 2

Bad as this is, the outlook for the future shows little sign of improvement. The International Monetary Fund (IMF) has predicted that the UK economy will continue to shrink well into next year, even after most of its competitors have begun to enjoy renewed growth. 3

IMF projections are that the world economy will shrink by 0.6 per cent this year. The UK is expected to fare worst of the major world economies with its GDP predicted to suffer a contraction of 3.8 per cent in 2009. This compares with falls of 2.6 per cent for the USA and 3.2 per cent for the eurozone. 4

For 2010 Britain is expected to have negative growth while the USA will manage a rise of 0.2 per cent and the eurozone 0.1 per cent. Unfortunately, the UK government is already over-borrowed and in no position to give the economy the fiscal stimulus which would be appropriate in these circumstances. 5

Recession and unemployment are beginning to cause social and political tensions throughout Europe. In the UK the low paid and low status jobs, traditionally the preserve of immigrant labour, are now being sought by British-born workers with a rash of strikes demanding “British jobs for British workers”. In France some 3 million people took to the streets to protest against job losses. They demanded more measures to protect employment and a tax hike for high income earners. In Ireland, research institute Amárach predicted that a surge in unemployment amongst males in their early 20s would lead to higher crime rates and social unrest. 6

This weakness in the UK economy is reflected in the value of its currency with sterling hitting 1.06 euros to the pound and \$1.38. However many economists are unconcerned about the currency and see the falling pound as part of the solution to the UK’s economic woes. One said that he expected the weak pound to stimulate the economy and reduce unemployment. 7

Faced with soaring unemployment the government is now confronted with demands for decisive and immediate action. One trade union official said, “The only solution to unemployment on this scale is a massive programme of public works and an expansion of the public sector so that those made unemployed by the free market become employed by the state. This should be financed by borrowing and by higher taxes on the earnings of the rich and on the profits of big companies. Failure to act risks massive public disorder and perhaps worse. 8

- (a) In paragraph 2 the Labour Force Survey showed unemployment in January to be 2.03 million, whilst the Claimant count showed it to be 1.39 million. Explain the main differences between these two measures of unemployment. [1]
- (b) Paragraphs 4 and 5 predict that the recession in the UK will be longer and deeper than in other major developed countries. Explain why this might be so. [8]
- (c) Analyse how the fall in the value of the pound referred to in paragraph 7 could stimulate the economy and reduce unemployment. [8]
- (d) Explain why rising unemployment may be a cause of social unrest. [8]
- (e) Critically examine the proposals of the trade union official advocated in paragraph 8. [10]

Essays:

Answer **one** from **Questions 2, 3 or 4**.

2 “GDP statistics tell us little”

- (a) Explain the difference between nominal and real gross domestic product (GDP). [10]
- (b) Explain the main uses to which GDP statistics may be put. [15]
- (c) Evaluate the view that in spite of their shortcomings GDP figures remain the best indicator of a country’s standard of living. [15]

3 “Attempts to control aggregate demand only damage the economy”

- (a) Explain what is shown by an aggregate demand curve. [10]
- (b) Using aggregate demand and supply analysis, explain the likely impact on the economy of a fall in consumer confidence. [15]
- (c) Critically examine the view that attempts by governments to control aggregate demand cause long term damage to the economy. [15]

4 “Inflation undermines economic progress”

- (a) Explain how the UK’s rate of inflation is measured. [10]
- (b) Analyse the impact of a high rate of inflation upon an economy. [15]
- (c) Critically examine the policies which a government might use in order to reduce an economy’s rate of inflation. [15]