



Rewarding Learning

ADVANCED SUBSIDIARY (AS)
General Certificate of Education
January 2014

Economics

Assessment Unit AS 2

The National Economy

[AE121]

THURSDAY 23 JANUARY, MORNING



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.

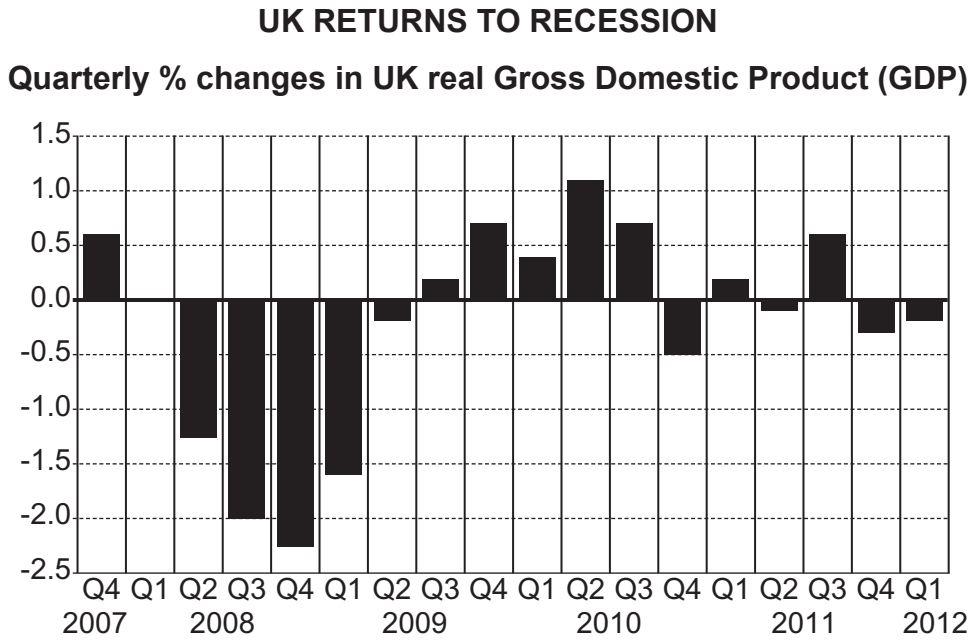
Quality of written communication will be assessed in all parts of **all** questions **except 1(a)**.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO 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 following article was written in 2012. Study it carefully and answer the questions that follow.



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Fig. 1

The 0.2% fall in UK real GDP in the first quarter of 2012 meant that the UK had slipped into double dip recession for the first time since 1975. Then the average salary was £3,825, the average house price was £10,846 and the Bay City Rollers were top of the charts. 1

A number of factors have contributed to this downturn. UK households are burdened by a legacy of debt, and facing falling real wages. This makes them reluctant to spend. Indeed average spending per person has fallen to levels last seen in 2004. 2

The Eurozone, on which Britain depends for much of its trade, has also slipped into recession. The Treasury suggested that Britain was being dragged down by other countries such as Italy, Holland and Ireland, where output was also falling. The UK's position is made worse by the fall in the value of the euro against sterling which is making life difficult for UK exporters. 3

Nor is there any light at the end of this dark economic tunnel. The Bank of England in its August Inflation Report predicted zero growth in 2012 after forecasting a 0.7% rise just three months earlier. It also cut its 2013 forecast to 1.7% growth from 2.1%. The Bank of England Governor Sir Mervyn King urged patience on economic recovery and warned that the crisis had a long way to go. 4

As would be expected different political leaders took different views on how government should respond to these gloomy figures. Prime Minister David Cameron insisted it would be "absolute folly" to heed Labour calls to change course and borrow more money to try to get out of a debt crisis. He added: "The one thing we mustn't do is abandon spending and deficit-reduction plans, because the solution to a debt crisis cannot be more debt. The most important thing for families and businesses was to keep interest rates at record lows rather than risk them spiralling upwards. This would be likely to happen if international markets began to doubt Britain's ability to pay its way". 5

Labour leader Ed Miliband disagreed and said that the figures were proof of the failure of the Government's "catastrophic" deficit-reduction plan. He described the downturn in the economy as a "double-dip recession made by the Prime Minister and the Chancellor in Downing Street". He urged the government to cut VAT and embark on a programme of spending on infrastructure. His views were echoed by Michael Saunders, the London-based head of European economics at investment bank Citigroup, who said, "This is the worst recession-recovery cycle of the last 100 years – worse than the thirties".

Adapted from: © "PM vows not to change course in face of first double-dip recession for 37 years" by Hugo Duncan, James Chapman and Becky Barrow, Daily Mail, 25 April 2012

- 1 (a) Explain what is meant by **real** Gross Domestic Product (GDP). (Paragraph 1) [4]
- (b) Using the information in **Fig. 1**, explain the concept of double dip recession. [6]
- (c) Explain why average UK consumer spending has fallen so dramatically. (Paragraph 2) [6]
- (d) Analyse the impact of the Eurozone crisis on the UK economy. (Paragraph 3) [8]
- (e) Explain why forecasts of GDP growth, such as those made by the Bank of England (Paragraph 4), are frequently inaccurate. [6]
- (f) Critically examine the view that the government should abandon its deficit-reduction policy and embark on a significant programme of spending on infrastructure, as suggested in paragraph 6. [10]

Essays:

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

2 Increased productivity the only way for the economy to expand

- (a) Explain what is shown by an economy's short run aggregate supply curve. (SRAS) [10]
- (b) Using aggregate demand and supply analysis, explain the impact on an economy of an increase in commodity prices such as oil and copper. [15]
- (c) Critically examine the policies which governments could adopt in order to shift the long run aggregate supply curve (LRAS) to the right. [15]

3 Unemployment difficult to reduce

- (a) Explain how the UK's level of unemployment is measured. [10]
- (b) Analyse the main causes of current unemployment in the UK. [15]
- (c) Critically examine the main policies which the UK government might use to reduce the current rate of unemployment. [15]

4 GDP figures not worth the cost of collecting

- (a) Explain the difference between microeconomics and macroeconomics. [10]
- (b) Analyse the impact of a substantial fall in investment upon an economy's equilibrium level of national income. [15]
- (c) Evaluate the view that GDP figures are so flawed that they are not worth collecting. [15]