



Rewarding Learning

**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2014**

Economics

Assessment Unit AS 2

The National Economy

[AE121]

TUESDAY 10 JUNE, AFTERNOON



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** questions except **1(e)**.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

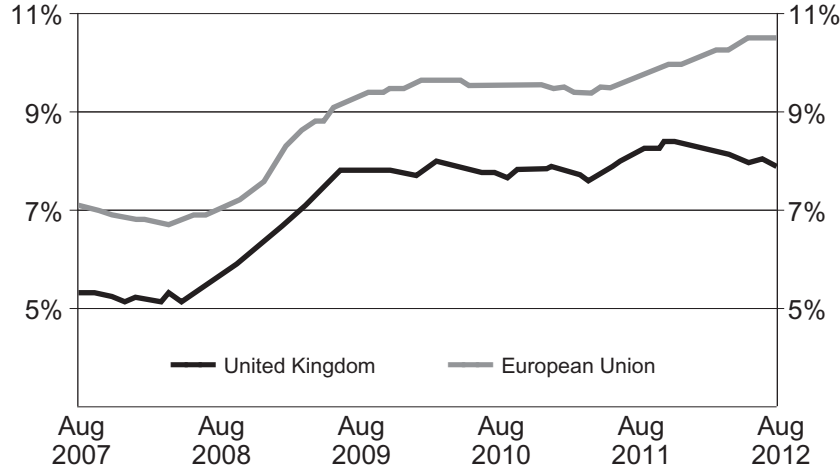
You are advised to take account of the marks for each part question in allocating the available examination time.

Question 1: Data response

The following article was written in November 2012. Study it carefully and answer the questions which follow.

Recovery in UK labour market helps government finances

Unemployment rates for the United Kingdom and the European Union, seasonally adjusted



Source: ONS

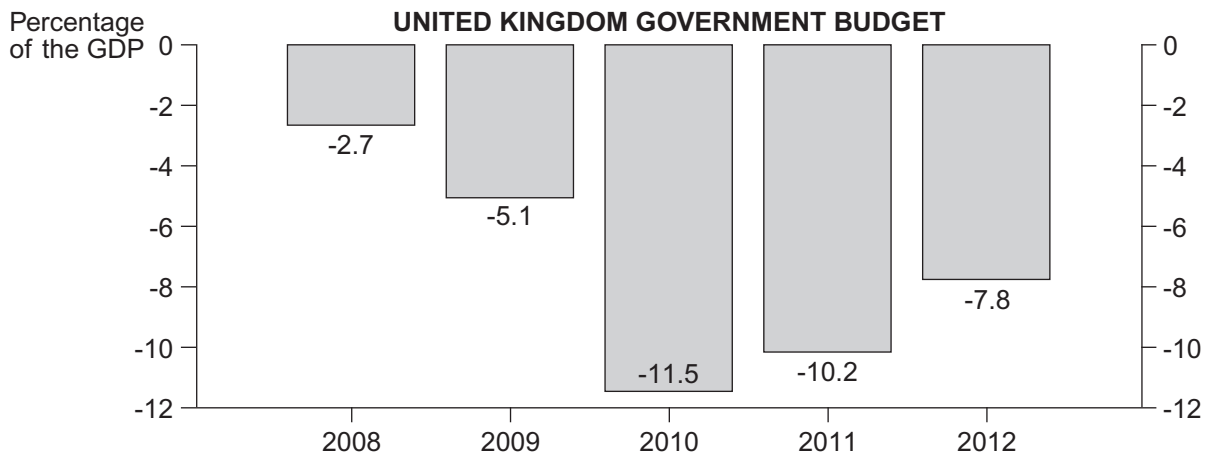
Fig. 1

Figures for the period June to August 2012 show that the UK unemployment rate was 7.9%, a fall of 0.3% on a year earlier. This was similar to the USA which stood at 7.8% but significantly lower than the EU average of 10.5%. Within the EU there were vast differences in rates, from Austria at 4.5% to Spain at 25.1%. 1

The level of economic inactivity shows a similar pattern with the numbers not in employment and not actively seeking work down by 314 000 to 9.04 million or 22.5% of the working age population. The figure for Northern Ireland was 27.3%, the highest rate of the 12 UK regions. 2

The falls in unemployment and economic inactivity have contributed to a significant rise in the number of people in employment. This now stands at 29.59 million, a rise of 510 000 on a year earlier. 71.3% of the working-age population now have jobs, though many of these are part-time. 3

The rise in employment is good news, not just for the work force, but also for the Treasury which has seen the government's budget deficit fall for the second successive year. 4



Source: www.tradingeconomics.com/eurostat

Fig. 2

However, the government is continuing to spend more than it collects in taxation and as a consequence the total National Debt (Public Sector Net Debt) is continuing to rise. In 2010 it constituted 67.8% of GDP and by 2012 it had risen to 85%. With the coalition government committed to reducing both the budget deficit and the National Debt it is not surprising that the ever-increasing level of welfare spending has come under scrutiny. This stood at £117bn in 2012, up from £80bn in 2006.

5

Work and Pensions Secretary Iain Duncan Smith has suggested that unemployed parents should lose the right to claim extra benefits if they have more than two children. He said, "The vast majority of families make decisions about the numbers of children they have based on what they think they can afford. However, those on welfare are freed from that decision". He went on to say that cutting benefits to these families was not just a financial decision, "The welfare system is promoting destructive behaviour by encouraging poorer families to have more children and denying them the incentive to get a job".

6

The Child Poverty Action Group disagreed, saying that there are very few families having children where the parents have no intention of getting a job. One Labour MP went further and accused the government of seeking to punish children while allowing state-owned banks to pay bumper bonuses. "Why should the burden of cutting the deficit be borne by the children of the unemployed?" he asked.

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Source: adapted from a variety of sources Autumn 2012

- 1 (a) Using the information in **Fig. 1** compare the trends in unemployment for the UK and the EU. [6]
- (b) Explain some of the reasons for differences in the rates of unemployment of the UK and the EU. [6]
- (c) Explain some of the reasons for the high rate of economic inactivity amongst the working age population in Northern Ireland. [6]
- (d) Analyse the impact of falling unemployment on government finances. [6]
- (e) Explain how the budget deficit may fall but the National Debt rise. [4]
- (f) Critically examine the proposal of Iain Duncan Smith to pay no extra benefits to unemployed parents when they have more than two children. [12]

Essays:

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

2 Inflation destroys jobs and growth

- (a) Explain how the UK's rate of inflation is measured. [10]
- (b) Analyse the impact of persistently high rates of inflation upon an economy. [15]
- (c) Critically examine the view that only monetary policy can control an economy's rate of inflation. [15]

3 Economic stability requires a balanced budget

- (a) Describe the main components of aggregate demand in an economy. [10]
- (b) Using aggregate demand and aggregate supply analysis, explain the impact on an economy of an expansionary fiscal policy. [15]
- (c) Evaluate the view that the UK Government should always maintain a balanced budget. [15]

4 Social justice should be top priority

- (a) Outline the main macroeconomic policy objectives of a government. [10]
- (b) Explain some of the ways in which these objectives can be in conflict. [15]
- (c) Evaluate the view that the government's top priority should be to achieve a more equitable distribution of income. [15]