

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**Advanced GCE**

**ECONOMICS**

**2887**

**THE UK ECONOMY**

Tuesday **31 JANUARY 2006** Afternoon 1 hour 30 minutes

Additional materials:  
8 page Answer Booklet

**TIME** 1 hour 30 minutes

**INSTRUCTIONS TO CANDIDATES**

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.  
Answer Question 1 and **one** question from Section B.  
Write all your answers on the separate answer booklet provided.  
If you need to use additional answer sheets, fasten these sheets securely to the answer booklet.

**INFORMATION FOR CANDIDATES**

The number of marks is given in brackets [ ] at the end of each question or part question.  
The quality of your written communication will be taken into account in the marking of your answer to Section B.

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**This question paper consists of 4 printed pages.**

Section A

Answer this question.

1

**An extract of text has been removed due to third party copyright restrictions**

Details: An extract of text about the world economy adapted from an article in Business Week on 18th October 2004 and the Chancellor's Autumn Statement

Table 1 – Estimated real GDP growth for 2004

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Details: A table showing the estimated real GDP growth for 2004 for the UK, Eurozone, US, Japan, China and the world

- (a) Explain how a consumer price index is constructed. [3]
- (b) Explain what might have happened to the value of consumer price inflation in the UK if food and energy prices had been excluded from its index. [3]
- (c) (i) Explain how what is happening in the Chinese economy might help to keep the UK's rate of inflation under control. [4]
- (ii) To what extent might the relatively low rate of inflation in the UK be due to factors in the domestic economy rather than to external factors? [4]
- (d) With reference to Table 1, discuss whether continued high growth elsewhere in the world is likely to improve or worsen the performance of the UK economy. [6]

## Section B

Answer one question.

- 2 (a) Explain two possible causes of a reduction in the size of the UK's national income multiplier. [10]
- (b) Discuss the extent to which a smaller national income multiplier would reduce the effectiveness of the UK government's macroeconomic policies. [15]
- 3 (a) Explain how interest rate changes enable the Bank of England's Monetary Policy Committee to meet its annual inflation rate target. [10]
- (b) Assume the UK's inflation rate target has been achieved.
- Discuss whether a reduction in the rate of interest is more likely to benefit the domestic sector or the external sector of the UK economy. [15]
- 4 During November 2004, the pound sterling appreciated dramatically against the dollar and became worth almost \$2 US to the pound – the strongest position it had been in for several decades.
- (a) Using a diagram, explain how an appreciation in the rate of exchange between the pound sterling and the US dollar might occur. [10]
- (b) Discuss the extent to which a strong pound benefits or harms the UK economy. [15]