

OXFORD CAMBRIDGE AND RSA EXAMINATIONS
Advanced Subsidiary GCE

ECONOMICS

2883

THE NATIONAL AND INTERNATIONAL ECONOMY

Friday

9 JUNE 2006

Afternoon

1 hour

Additional materials:

Designated Answer Booklet [2883/AB]

TIME 1 hour

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

Answer **all** the questions.

Write all your answers on the separate answer booklet provided.

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 marking your answer to the question labelled with an asterisk (*).

This question paper consists of 4 printed pages.

Answer all parts of this question in the accompanying answer booklet.

A good report

Government spending and taxation can be altered to influence economic activity. Fig. 1 shows projected UK government spending and income for 2004–05.



Fig. 1

Between 2000 and 2004, economic activity appeared to be healthy in terms of three of the main macroeconomic policy objectives. Gross Domestic Product (GDP) was growing more rapidly than in the 1990s, inflation was low and stable, and the economy was close to full employment. The balance of payments, however, was more of a concern because of a growing current account deficit.

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There was some dispute about why overall UK economic performance had been so good. Some economists attributed the low level of unemployment, for example, to the success of supply-side policies, whereas others claimed it was mainly due to high levels of aggregate demand.

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- (a) Define:
- (i) Gross Domestic Product (GDP) (line 4); [2]
 - (ii) inflation (line 5). [2]
- (b) (i) Using Fig. 1, explain whether the government was expected to have a budget surplus or deficit in 2004–05. [2]
- (ii) Using an aggregate demand and aggregate supply diagram, analyse the effects of a decrease in government spending on an economy. [6]
- (c) Taxation is a leakage from the circular flow. Identify the other **two** leakages. [2]
- (d) 'The balance of payments, however, was more of a concern because of a growing current account deficit' (lines 6–7).
- (i) What is meant by a current account deficit? [3]
 - (ii) State and explain **two** possible causes of a growing current account deficit. [4]
- (e) (i) State and explain **two** possible costs of unemployment. [4]
- (ii) Comment on the effectiveness of **one** supply-side policy a government could take to reduce unemployment. [8]
- *f)** Discuss whether economic growth is always desirable. [12]

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Figure 1: © HM Treasury

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