

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced GCE

ECONOMICS

2887

THE UK ECONOMY

Wednesday

14 JUNE 2006

Morning

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.

This question paper consists of 4 printed pages.

Section A

Answer this question.

1

Oil prices and the UK Economy

An extract has been removed due to third party copyright restrictions

Details:

An extract from the Daily Mail explaining how the price of oil is related to the strength of the UK economy

Fig. 3: US crude oil (\$ / barrel)



Source: Thomson Datastream

Answer all parts.

- (a) Define real GDP. [2]
- (b) Fig. 1 shows that the rate of real GDP growth increased between 2003 and 2004. Explain one possible cause of this increase. [2]
- (c) (i) Explain how the rate of real GDP growth might influence the current account on the Balance of Payments. [4]
- (ii) Explain whether the data in Figs. 1 and 2 between 2001 and 2004 supports this expected relationship. [2]
- (d) Fig. 2 shows the current account on the Balance of Payments and Fig. 3 shows the change in oil prices.
- (i) To what extent might the rise in the current account deficit on the Balance of Payments from the second to the third quarter of 2004 (lines 10–11) be caused by factors other than oil price changes? [4]
- (ii) Discuss the likely impact of the oil price increase (lines 8–9) on the domestic performance of the UK economy. [6]

Section B

Answer **one** question.

- 2 (a) Explain **two** possible causes of a rise in the rate of unemployment. [10]
- (b) Discuss the extent to which changes in government spending and taxation should be used by the UK government to control the rate of unemployment. [15]
- 3 (a) With the aid of a diagram, explain the reasons why the demand for money might change. [10]
- (b) Discuss whether an increase in the rate of inflation in the UK always and solely results from an increase in the money supply. [15]
- 4 (a) Explain how an increase in a government's budget deficit might affect an economy. [10]
- (b) Discuss the extent to which a change in the performance of the UK economy might cause the government's budget deficit or surplus to change. [15]

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