

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

ECONOMICS

2883

THE NATIONAL AND INTERNATIONAL ECONOMY

Revised Specimen Paper

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** questions.

Write all your answers in 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(*).

The total mark for this paper is 45.

7812/3812/SP/EN/02

This question paper consists of 4 printed pages.

Boom, Boom ... Bust? A Tale of Two Economies

In 2001, for the first time in eight years, the annual change in real GDP of the United States (US) economy was negative. As the domestic US economy experienced a downturn, the number of people out of work increased. The Federal Reserve, the US central bank, reacted to the decline in economic activity by cutting its interest rate to just 2% in October 2001, the lowest level for forty years.

5

In the United Kingdom (UK), the Monetary Policy Committee of the Bank of England responded by reducing its interest rate to 4%. High levels of consumer spending, in particular, were helping to keep UK aggregate demand rising. It was feared that falling business confidence would have a negative effect on consumption and investment, and that aggregate supply, as well as aggregate demand, would be affected by the expected downturn.

10

Table 1 below shows the annual growth rate in real GDP and the average unemployment rate for the UK economy from 1996 to 2001. Here, the UK unemployment figure is based on the claimant count.

Source: Daily Telegraph, 19th August 2000 (adapted).

Selected statistics on the UK economy, 1996–2001

	UNITED KINGDOM	
	% change in real GDP	% unemployment rate
1996	2.6	6.2
1997	3.5	5.5
1998	2.6	4.7
1999	2.3	4.3
2000	3.0	3.7
2001	0.6 ¹	3.5 ¹

Note: ¹ forecasts

Source: The World in 2002, economist.com

Table 1

1. (a) What is meant by the following economic terms as they appear in the text:
- (i) investment (line 10); [2]
 - (ii) aggregate supply (line 10); [2]
 - (iii) real GDP (line 12); [2]
 - (iv) the claimant count (line 14)? [2]
- (b) (i) Explain how changes in an economy's real GDP would usually be expected to affect its rate of unemployment. [4]
- (ii) To what extent does the data relating to the UK economy (see Table 1) support this relationship? [6]
- (c) In 2001, the US Federal Reserve cut interest rates on various occasions, reaching a forty year low in October (see lines 3–5).
- (i) What evidence is there in the passage to suggest why these interest rate cuts were made? [2]
 - (ii) **Apart from a cut in interest rates**, explain **two** other measures that the US government could have used to stimulate aggregate demand. [6]
 - (iii) Using an aggregate demand and aggregate supply diagram, analyse the effect of a **fall** in aggregate demand on an economy. [7]
- (d)* Discuss the alternative policies a government may use to improve a deficit in the balance of payments. [12]

t:
Copyright Acknowledgement:
Table 1: The World in 2002, economist.com © The Economist, 2001.
