

General Certificate of Education
January 2005
Advanced Subsidiary Examination



ECONOMICS **ECN2/2**
Unit 2 Part 2 Data Response: The National Economy

Tuesday 18 January 2005 Morning Session

In addition to this paper you will require:

- an 8-page answer book;
- the question paper for Part 1 (ECN2/1).

You may use a calculator.

Time allowed: 1 hour for papers ECN2/1 and ECN2/2 together

Instructions

- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN2/2.
- Answer **EITHER** Question 1 **OR** Question 2.

Information

- The maximum mark for this paper is 25.
- Mark allocations are shown in brackets.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

Advice

- You are advised to spend at least 45 minutes on paper ECN2/2.

Answer **EITHER** Question 1 **OR** Question 2.

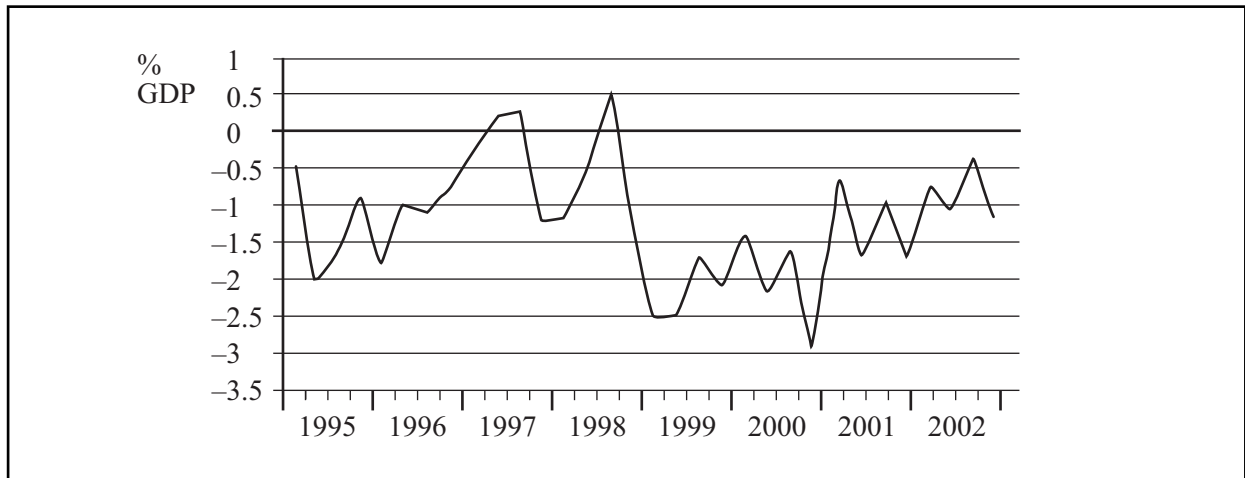
EITHER

1 THE BALANCE OF PAYMENTS

Total for this question: 25 marks

Study **Extracts A, B and C**, and then answer **all** parts of Question 1 which follows.

Extract A: The UK balance of payments on current account as a % of GDP, 1995–2002



Source: *www.statistics.gov.uk*, accessed 20 April 2003

Extract B: The UK balance of payments on current account, 2001 and 2002, £bn

	Balance of trade in goods	Balance of trade in services	Income	Current transfers	Balance on current account
2001	-33.6	?	+16.3	-6.6	-12.6
2002	-34.4	+15.5	+19.3	-9.0	?

Source: *www.statistics.gov.uk*, accessed 20 April 2003

Extract C:

Extract C was an extract of text.
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Question 1

- (a) Using **Extract A**, describe the main changes in the UK balance of payments on current account for the period 1995 to 2002. *(4 marks)*
- (b) (i) From the data provided in **Extract B**, calculate the balance of trade in services for 2001 **and** the balance on current account for 2002. *(2 marks)*
- (ii) Explain **one** way in which the “over-valuation of the pound” (**Extract C**, line 8) might have contributed to the deficits in the balance of trade in goods shown in **Extract B**. *(4 marks)*
- (c) Evaluate the possible effects on the UK balance of payments on current account of a “slowdown in the global economy” (**Extract C**, line 2). *(15 marks)*

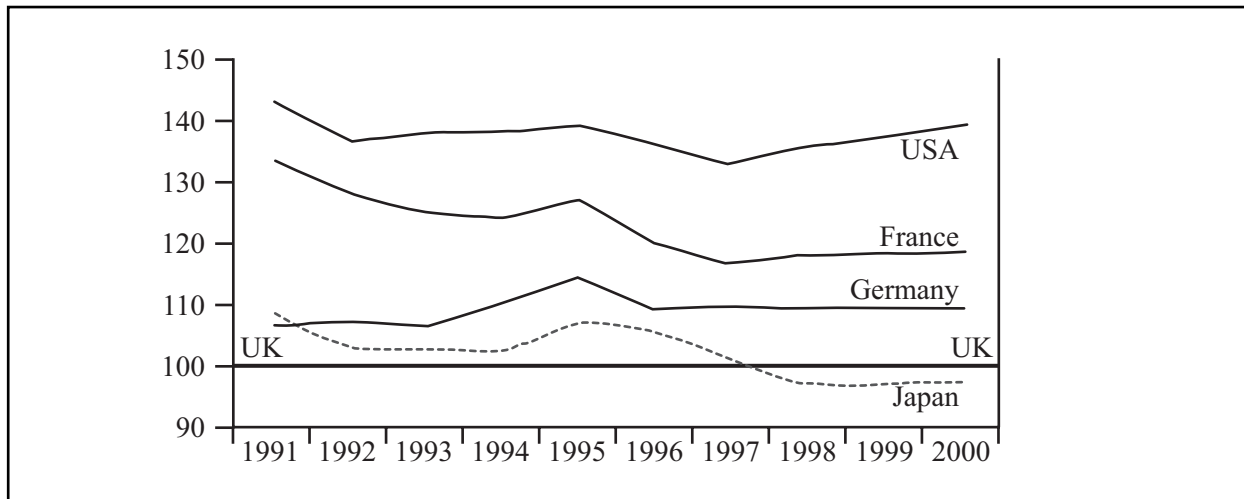
TURN OVER FOR THE NEXT QUESTION

Turn over ►

OR

2 UK ECONOMIC PERFORMANCE**Total for this question: 25 marks**

Study **Extracts D, E and F**, and then answer **all** parts of Question 2 which follows.

Extract D: Relative output per worker, 1991–2000: the productivity gap (UK = 100)

Source: HM Treasury, *The Budget Report, 2002*, Chapter 3

Extract E: Closing the productivity gap

By international standards, the UK's productivity performance has historically been weak. Whether measured in terms of output per worker (the Government's measure) or output per hour, the productivity gap (the differences in productivity performance) between the UK and its main competitors is substantial. 1

The Government's strategy for closing the gap has two broad strands: maintaining macroeconomic stability, and implementing microeconomic reforms to help markets work more efficiently. 5

These reforms reflect the five key determinants of productivity performance: strengthening competition to encourage innovation, encouraging enterprise to unlock new technologies and working practices, encouraging investment, improving skills, and increasing efficiency in such areas of the public sector as health and education. 10

Source: adapted from HM Treasury, *The Budget Report, 2002*, Chapter 3

Extract F: Productivity and economic performance

Productivity growth is important because it enhances the economy's productive capacity. It can be placed alongside other supply-side influences such as technology, labour attitudes, mobility of resources and economic incentives, together with macroeconomic stability, as long term influences on economic performance. 1

The slowdown in productivity growth is alarming because the UK is 40% behind the USA, where output per worker has soared during the recent high tech boom. We can put our poor productivity performance down to weak investment, low R&D (Research and Development) spending on new processes and low levels of spending on labour training. 5

Source: adapted from Economics Update 2001, by GARY COOK, Sterling Books, 2001

Question 2

- (a) Using **Extract D**, compare the trends in productivity in the countries shown relative to the UK during the period 1991 to 2000. (4 marks)
- (b) Using the data in **Extracts E and F** and your economic knowledge, explain **two** determinants of productivity in an economy. (6 marks)
- (c) Evaluate the contribution that "productivity growth" (**Extract F**, line 1) may make to the long term performance of the UK economy. (15 marks)

END OF QUESTIONS

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