



General Certificate of Education  
Advanced Level Examination

## ECONOMICS

## ECON4

### Unit 4 The National and International Economy

**Specimen paper for examinations in June 2010 onwards**

**This question paper uses the [new numbering system](#) and [new AQA answer book](#)**

**For this paper you must have:**

- an AQA 12-page answer book.

You may use a calculator.

#### Time allowed

- 2 hours

#### Instructions

- Use black ink or black 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 ECON4.
- In **Section A**, answer **EITHER** Question 1 **OR** Question 2.
- In **Section B**, answer **one** question.

#### Information

- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

#### Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

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

**EITHER**

**Total for this question: 40 marks**

### Question 1

#### THE GLOBAL CONTEXT

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

**Extract A: The economic performance of the UK and China, selected indicators, 2000 and 2005**

Economic indicator	UK		China	
	2000	2005	2000	2005
GDP (% growth per annum)	3.9	1.8	8.4	9.9
Inflation (% per annum)	1.3	2.1	2.1	3.8
Trade in goods and services (% of GDP)	43.7	40.1	39.6	63.8

Source: *worldbank.org*, accessed on 30 October 2006

#### Extract B: China's relentless growth

The UK is highly integrated into the global economy. As for any country, this tends to increase the sensitivity of the economy to external events and developments in other countries, inevitably affecting macroeconomic performance including growth and jobs. 1

In recent years, for example, China's sustained high rate of economic growth has had an increasing impact on the rest of the world. Its growth rate in real terms in 2005 was marginally under 10%. In January 2006, it was reported that its economy had overtaken the UK to become the 4<sup>th</sup> largest in the world, with a GDP of £1.22 trillion (million million). In particular, growth was driven along by a strong export performance and an increase in foreign investment. Some predictions for 2007 show growth slipping back to some extent but China will still be able to boast impressive economic progress. 5  
10

The impact of China on the UK economy has been especially noticeable in the destruction of manufacturing. Nevertheless, there are opportunities for the UK. In 2006, it was the 14<sup>th</sup> largest exporter to China, although this still placed us behind France (12<sup>th</sup>) and Germany (4<sup>th</sup>). To maintain, or improve upon this position, the UK must give more attention to the issue of competitiveness in its widest sense and exploit any comparative advantage it has, such as in financial services. 15

Labour productivity can make a vital contribution to competitiveness. UK labour productivity remains below the average of the seven most industrialised nations (the so-called Group of Seven or G7) and average educational attainment levels compare unfavourably with many developed countries and even some developing nations. Education is only one factor, however, in determining productivity

performance. Others include the attitudes of the labour force to changes in work practices, the level of investment, and the extent to which Research and Development (R&D) leads to technological progress. 20

A UK government report of December 2004 broadened out the debate over the impact of China. Its references to the promotion of a flexible and innovative business sector can obviously be related back to the issue of productivity. However, it also cited macroeconomic stability as a crucial ingredient for an economy wanting to face global challenges successfully. One aspect of this will be the need to maintain price stability, with a heavy burden resting on the Monetary Policy Committee (MPC) of the Bank of England to achieve the Government's inflation target. Price stability can allow low interest rates. Stability can also have an impact on business confidence, with beneficial consequences for innovation and investment. 25 30

While competition from countries such as China may help to drive down costs and prices, the UK has also experienced some negative price influences from China's rapid growth. The country's ever-increasing demand for oil and other commodities has boosted their prices, causing higher costs for businesses and hence higher consumer prices. The alternative to price increases is to squeeze profit margins but this may damage investment. Inflation needs to be kept at bay even if this means higher interest rates. 35

### Question 1

**0 1** Using **Extract A**, compare the economic performance of the UK with that of China for 2000 and 2005. (5 marks)

**0 2** **Extract B** (lines 16-17) states that labour productivity in the UK economy 'remains below the average of the seven most industrialised nations'.

Explain the concept of labour productivity **and** analyse **two** ways in which labour productivity might be improved. (10 marks)

**0 3** **Extract B** (lines 25-26) refers to macroeconomic stability as a 'crucial ingredient for an economy wanting to face global challenges successfully'.

Using the data and your economic knowledge, evaluate the contribution that macroeconomic stability in the UK may make in facing the challenges posed by economies such as China. (25 marks)

**Turn over for the next question**

Do **not** answer Question 2 if you have answered Question 1.

OR

**Total for this question: 40 marks**

**Question 2**

**THE EUROPEAN UNION CONTEXT**

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

**Extract C: GDP data for the UK and selected new members of the European Union (EU), 2000 and 2005**

	2000		2005	
	GDP (\$US)	Annual % rate of growth of GDP	GDP (\$US)	Annual % rate of growth of GDP
<b>UK</b>	1.4 trillion	3.9	2.2 trillion	1.8
<b>Poland</b>	171 billion	4.2	299 billion	3.2
<b>Lithuania</b>	11.5 billion	3.9	25.5 billion	7.3
<b>Estonia</b>	5.5 billion	7.9	13.1 billion	9.8

A trillion = a million million; a billion = a thousand million

Source: *worldbank.org*, accessed on 30 October 2006

**Extract D: Can the UK succeed in an enlarged European Union?**

In 2004, ten countries, including Poland, Lithuania and Estonia, were admitted to the EU. These ten caused membership of the EU to reach a total of 25 countries. 1

Any assessment of the impact of EU enlargement on UK economic performance can, to some extent, be based on a review of macroeconomic indicators such as growth, jobs and prices. However, the impact of EU enlargement itself may be difficult to isolate from other determinants of economic success such as export performance beyond the EU, sound demand-management policies and supply-side reforms such as in education and training, welfare and taxation reform. All of these factors can become intertwined when assessing the performance of the UK economy. 5

Some commentators are optimistic about the EU's future. They point to the growing stability of many of the new members and their emergence as dynamic, market-orientated economies. Trade and investment have multiplied between members of the EU, and the UK has reaped some of the benefits, even if these benefits could have been greater. There can, nevertheless, be tremendously powerful multiplier effects as investment and export expansion get underway, so allowing higher economic growth to be achieved. 10 15

Immigration into the UK from the new member countries is one of the more controversial consequences of enlargement. Judgements here may not always be based on economic criteria, but when an economic assessment *is* made, there can be, once again, some reason for optimism. One City analyst has spoken of the UK economy being 'on the crest of a new immigration wave' which has had a positive influence for the most part. Immigration has eased pressure 20

on the labour market and hence reduced wage-inflationary pressures. With such benefits of immigration, it is argued that interest rates could currently be at least one percentage point lower than would otherwise have been the case. This inevitably may have an impact on consumer credit, savings and the exchange rate, and hence on aggregate demand.

Nevertheless, it is also recognised that recent inflows of labour have been accompanied by a rise in unemployment, even though the rate of job creation in recent years has been impressive, whether in skilled or unskilled sectors of the labour market. 25

Some economists remain upbeat about future prospects for the UK economy in an enlarged EU. Increased international competition can be of concern but can also be a stimulus to domestic economic reform. In the 12 months to August 2006, while productivity overall in the UK economy has increased by 2%, manufacturing productivity has risen by 3.5%. We might also expect competition to stimulate other supply-side improvements, allowing a higher trend rate of economic growth to become established. Manufacturing output has improved by 1.2%, perhaps very modest, but welcome in the context of the long-term decline of this sector. Business investment improved by a more impressive 5.5%. 30 35

The UK must show itself to be highly responsive to the recent, and any future, enlargement of the EU. Perhaps the data given above is beginning to show some success in this respect.

## Question 2

**0 4** Using **Extract C**, compare the GDP and the rate of growth of GDP of the UK with those of the other economies for the years 2000 and 2005. (5 marks)

**0 5** **Extract D** (lines 21-24) suggests that immigration has helped keep interest rates at low levels which 'inevitably may have an impact on consumer credit, savings and the exchange rate, and hence on aggregate demand'.

Explain the concept of aggregate demand **and** analyse **two** ways in which lower interest rates might raise the level of aggregate demand. (10 marks)

**0 6** **Extract D** (lines 5-6) states that, in assessing UK economic performance, 'the impact of EU enlargement itself may be difficult to isolate from other determinants of economic success'.

Using the data and your economic knowledge, evaluate the significance of EU enlargement to UK macroeconomic performance. (25 marks)

**Turn over for the next question**

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**Section B**

Answer **one** question from Section B.

Each question carries 40 marks.

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**Question 3**

**0 7** Explain the possible causes of a recession **and** the subsequent recovery phase of an economic cycle. *(15 marks)*

**0 8** During the last UK recession, 1990 to 1992, the level of GDP fell by about 2%. In the years 1994 to 1997, during the economy's recovery phase, the annual average rate of growth of GDP was 3.2%.

Assess the contribution which supply-side reforms might make to the reduction of such variations in economic growth during the period of an economic cycle. *(25 marks)*

**Question 4**

**0 9** Explain the economic reasons for public expenditure **and** the reasons for taxation other than to finance public expenditure. *(15 marks)*

**1 0** Within the last ten years or so, the UK budget balance has moved from surplus to deficit. In 1998-9, a surplus of £6.5 billion was recorded, but in 2005, the deficit was £41 billion.

Discuss the possible economic consequences of such a change in an economy's budget balance. *(25 marks)*

**Question 5**

**1 1** Explain the possible causes of deficits in an economy's balance of payments on current account. *(15 marks)*

**1 2** Annual deficits on the UK balance of payments on current account averaged £20 billion between 2000 and 2005.

Evaluate the measures which might be taken to bring about an improvement in the UK's balance of payments performance on current account. *(25 marks)*

**END OF QUESTIONS**

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