

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced GCE

ECONOMICS

2887

THE UK ECONOMY

Monday **31 JANUARY 2005** Afternoon 1 hour 30 minutes

Additional materials:
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

A deflating experience.

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Details: An extract of text about inflation

5

10

Table 1 – Annual rates of inflation, May 2002 – May 2003 and Nominal interest rates, May 2003

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Details: A table showing the annual rates of inflation and nominal interest rate for developed countries

*Note: The European Central Bank sets a common interest rate for eurozone countries which have adopted the euro as their common currency.

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Details: An extract of text about deflation

15

20

Source: Adapted from The Economist, May 17 2003.

- (a) (i) Explain what is meant by the term '**real** rate of interest' (line 11). [2]
- (ii) Refer to Table 1. Explain for **both** the UK and the USA whether, in May 2003, the real rate of interest was positive or negative. [4]
- (b) With reference to Table 1, explain **one** effect on the UK's economy of the difference in interest rates between the UK and the eurozone countries. [4]
- (c) Comment on the extent to which deflation in the USA "could have a potentially devastating effect" on the UK (Line 15). [4]
- (d) Discuss which of the **two** policies presented (lines 20–21) is more likely to prevent the UK from plunging into recession. [6]

Section B

Answer one question.

- 2 (a) Using a diagram, explain the factors that determine the exchange rate of the pound sterling. [10]
- (b) Discuss whether a depreciation of the pound sterling will always have a positive impact on the UK economy. [15]
- 3 (a) Explain the main factors that affect the rate of economic growth. [10]
- (b) Discuss the extent to which it is possible for the UK economy to maintain a high rate of economic growth over a 10 year period. [15]
- 4 (a) Explain how the economic performance of an economy can be compared over time. [10]
- (b) Discuss whether the UK's economic performance has improved or worsened over the last 10 years. [15]