

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**Advanced GCE**

**ECONOMICS**

**2887**

**THE UK ECONOMY**

Tuesday

**14 JUNE 2005**

Morning

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.

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**This question paper consists of 4 printed pages.**

## Section A

Answer this question.

1

How well is the UK doing?

Table 1 shows some broad indicators of the UK's economic performance relative to that of three other countries during 2003. During the same period, there have been significant changes in the UK's foreign exchange rates against those of these three countries.

Many economists believed that, during this period, the UK economy was enjoying its best state for some time ... other economists doubted this and asked whether this really was a relatively better performance.

Table 1 – Performance of selected economies (2003)

**A table has been removed due to third party copyright restrictions**

Details:

A table adapted from the Economist, January 17 2004 comparing the performance of 4 economies; the UK, Japan, Germany and the USA

Source: Adapted from The Economist, January 17 2004.

Table 2 – Pound Sterling Exchange Rates

**A table has been removed due to third party copyright restrictions**

Details:

A table from The Economist showing the exchange rates of the 4 countries listed above

Source: Adapted from The Economist, January 17 2004.

- (a) Define what is meant by the current account of the balance of payments. [2]
- (b) With reference to Table 1:
- (i) compare the UK's balance of trade in goods with its current account balance; [2]
  - (ii) explain the reason for this difference. [2]
- (c) (i) What relationship might an economist expect between the rate of unemployment and the balance of trade in goods? [2]
- (ii) To what extent does the data in Table 1 for the UK and Japan support this expected relationship? [2]
- (d) Table 2 indicates that the pound sterling appreciated against the US dollar between 14 January 2003 and 14 January 2004.
- (i) Explain **two** possible causes of this change in the value of the pound sterling. [4]
  - (ii) Discuss whether a continued appreciation of the value of the pound sterling against the US dollar would improve or worsen the UK's current account balance. [6]

**Section B**

Answer **one** question.

- 2 (a) Explain the possible causes of a **rise** in the rate of inflation. [10]
- (b) Discuss whether control of the rate of inflation should be the most important macroeconomic policy aim of the UK government. [15]
- 3 (a) Explain the reasons why the level of investment in an economy might rise. [10]
- (b) Discuss whether an increase in investment will always lead to an improvement in the performance of the UK economy. [15]
- 4 (a) Using a diagram, explain how a reduction in the rate of income tax could affect aggregate supply in an economy. [10]
- (b) Discuss whether a reduction in the rate of income tax is likely to improve or worsen the performance of the UK economy. [15]