

**ADVANCED GCE
ECONOMICS**

The UK Economy

FRIDAY 6 JUNE 2008

2887

Afternoon
Time: 1 hour 30 minutes

Additional materials (enclosed): Answer Booklet (8 page)

Additional materials (required):
None



INSTRUCTIONS TO CANDIDATES

- Write your name in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Read each question carefully and make sure you know what you have to do before starting your answer.
- Answer Question 1 and **one** question from Section B.
- Write all your answers in 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 for each question is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **45**.
- The quality of your written communication will be taken into account in the marking of your answer to Section B.

This document consists of **4** printed pages.

Section A

Answer this question.

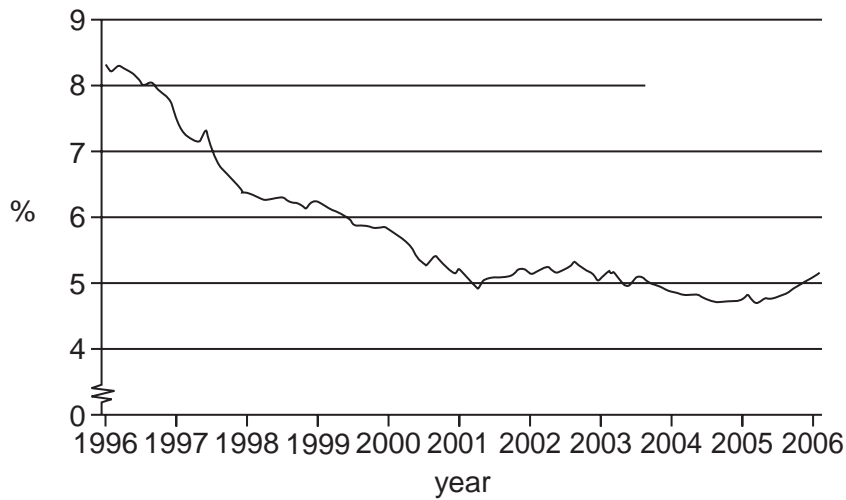
1

UK alone among G7 to see rise in jobless

In February 2006, there was growing concern about the state of the overall labour market in the UK. The Labour Force Survey (LFS) measure of unemployment rose to nearly 1.6 million – an unemployment rate of 5.1% (Fig. 1). Indeed, the UK was the only country in the Group of Seven (G7) major economies which saw its unemployment total rise over the previous 12 months (Fig. 2).

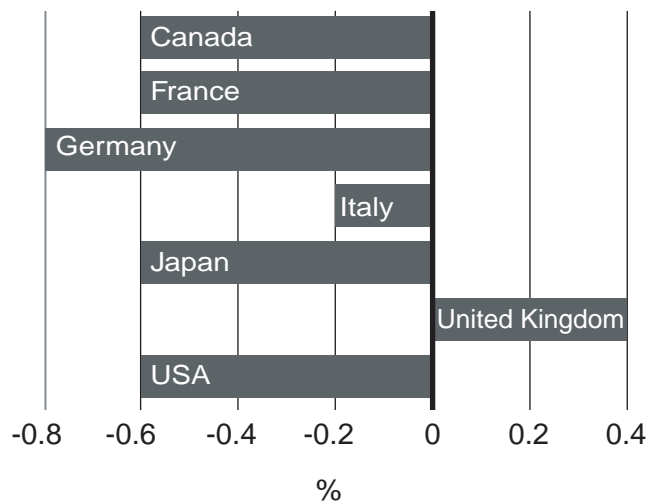
5

Fig. 1 Unemployment rate; United Kingdom; February 1996 to February 2006



Source: Labour Force Survey, www.statistics.gov.uk

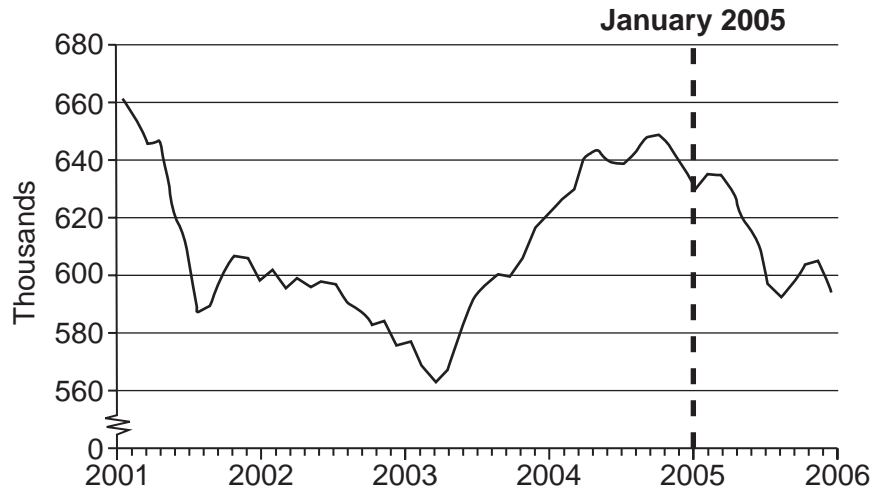
Fig. 2 G7 – % change in unemployment; March 2005 to February 2006



Source: Organisation for Economic Co-operation and Development / Office for National Statistics

Job losses, however, were not evenly spread across all sectors. Manufacturing firms, especially, were making workers redundant in response to weak domestic demand in 2004/05; and in some cases, relocating production to countries where wage costs were lower than in the UK. During this period of rising unemployment, earnings growth edged down – unsurprisingly, pay pressures remained subdued. Fig. 3 shows an additional feature of the UK labour market – the number of job vacancies. 10

Fig. 3 The number of job vacancies; United Kingdom; June 2001 to March 2006



Source: Vacancy Survey, www.statistics.gov.uk

Confusingly, however, at a time when more people were out of work, there were also more people in work! Employment actually rose by 76,000 to 28.84m in the three months before February 2006, the highest number since records began in 1971. Additionally, the total number of hours worked every week in the UK also increased. 15

Answer **all** parts.

- (a) (i) State how unemployment is defined by the Labour Force Survey. [2]
- (ii) Explain how the UK economy can, at the same time, experience 'more people ... out of work' and 'more people in work' (lines 12–13). [2]
- (b) Explain how the trend in job vacancies from January 2005 (Fig. 3) was consistent with 'weak domestic demand in 2004/05' (lines 7–8). [2]
- (c) (i) Using the Phillips Curve, explain why, during periods of rising unemployment, it was unsurprising that 'pay pressures remained subdued' (line 10). [4]
- (ii) Comment on the extent to which lower earnings growth alone will reduce cost-push inflationary pressures in the UK economy. [4]
- (d) Discuss whether the UK government should be concerned about being 'the only country in the Group of Seven (G7) major economies which saw its unemployment total rise over the previous 12 months' (lines 3–5). [6]

Section B

Answer **one** question.

- 2 In international terms, the UK has long suffered from relatively low rates of capital investment. As such the UK's capital stock/GDP ratio is lower than in many other countries. This affects the performance of the economy.
- (a) Explain the factors which influence the level of capital investment in an economy. [10]
- (b) Discuss the extent to which an increase in the rate of capital investment alone will improve the performance of the UK economy. [15]
- 3 International comparisons of multiplier values reveal significant variations between countries. One estimate suggested that the multiplier values were 1.42 for the UK, 1.13 for Germany and 1.76 for Japan.
- (a) Explain why multiplier values vary between countries. [10]
- (b) Discuss the usefulness of the estimated multiplier value in predicting the effects of an increase in government spending on the UK economy. [15]
- 4 The Scottish Economic Report suggested that Scotland has enjoyed significant welfare gains from its comparative advantage in high value-added products such as financial services, electrical and instrument engineering as well as niche products such as whisky.
- (a) Explain how specialisation and free trade, according to comparative advantage, can lead to welfare gains for a country. [10]
- (b) Discuss the extent to which globalisation may benefit countries such as Scotland which currently have a comparative advantage in high value-added products. [15]

Copyright Acknowledgements:

- Fig. 1 Source: Labour Force Survey published in Labour Market Trends, May 2006, www.statistics.gov.uk
- Fig. 2 Data source: Organisation for Economic Co-operation and Development (OECD) / Office for National Statistics. Sourced from Edward Conway, *UK alone among G7 to see rise in jobless*, The Daily Telegraph, 13 April 2006, www.telegraph.co.uk
- Fig. 3 Source: Vacancy Survey published in Labour Market Trends, May 2006, www.statistics.gov.uk
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