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Centre Number		Candidate Number	
Candidate Signature			

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General Certificate of Secondary Education  
June 2005



**ECONOMICS  
HIGHER TIER  
Paper 2**

**3144/2H**

**H**

Thursday 30 June 2005 1.30 pm to 2.30 pm

**In addition to this paper you will require:**  
the Information Leaflet (enclosed).  
You may use a calculator.

For Examiner's Use			
Number	Mark	Number	Mark
1			
Total (Column 1)		→	
Total (Column 2)		→	
Quality of Written Communication			
TOTAL			
Examiner's Initials			

Time allowed: 1 hour

**Instructions**

- Use blue or black ink or ball-point pen.
- Fill in the boxes at the top of this page.
- Write your report in this booklet, starting on page 3.
- Do all rough work in this book. Cross through any work you do not want marked.

**Information**

- The maximum mark for this paper is 84.
- The marking criteria and the allocation of marks are given on page 2.
- You will be awarded up to 4 marks for the quality of your written communication.
- You will be assessed on your ability to present relevant information in a form that suits its purposes. 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 15 minutes:
  - reading the questions;
  - reading through all of the information in the Information Leaflet;
  - identifying parts of the information that you might use in answering the questions.
- Writing your answers should take up to 45 minutes.

The Government has a budget deficit problem.

A budget deficit arises when government spending is greater than government income. The Government therefore has to finance the difference.

In 2003–2004 the budget deficit was £37 billion but this was predicted to grow to £42 billion in 2004–2005.

**Your task**

As an economist working for a national newspaper, you have collected the information given to you in the Information Leaflet.

Using the Information Leaflet, together with your own knowledge and understanding of economics, write a report for the national newspaper, which clearly explains the problems facing the Chancellor and which suggests the best way forward.

In your report, you should:

- outline the Government's main macroeconomic policy objectives;
- select which policy objective you think was likely to give the Government the greatest concern in 2004–2005. Explain your choice;
- describe the Government's budget position for 2003–2004;
- explain the problems which the Government faces with regard to the budget;
- discuss the effects of extra government expenditure on education and less expenditure on defence;
- recommend and discuss the possible ways in which the budget deficit could be reduced.

**Your report will be assessed on your ability to:**

use economic knowledge, show understanding and use information; *(20 marks)*

apply economic concepts and theories and use appropriate economic terminology and methods; *(20 marks)*

select, organise and interpret information; *(20 marks)*

evaluate evidence, make reasoned judgements and draw appropriate conclusions; *(20 marks)*

present information in a clear, legible and logical way; spell, punctuate and use the rules of grammar accurately; and enable the meaning of the text to be understood. *(4 marks)*

***(Total: 84 marks)***















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Study **all** the information before you begin your task.

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**Item A**

**The Government's budget deficit 2003–2004**

Quote from a government minister:



## Item B

### The Economy

Macroeconomic indicators	Figures for 2003–2004	Predicted figures for 2004–2005
Economic Growth	2.1%	3 – 3.5%
Consumer Prices Index*	2.5%	5%
Unemployment	1 million	2 million
Balance of Payments**	–£25 billion (deficit)	–£35 billion (deficit)
Exchange Rate***	\$1.60	\$1.40

\* Consumer Prices Index is the replacement for the Retail Prices Index and it measures inflation.

\*\* Balance of Payments – a deficit exists when the value of imports is greater than the value of exports.

\*\*\* Exchange Rate is the exchange rate between the pound sterling (£) and the US dollar (\$).

## Item C

### The Chancellor's Budget 2003–2004

AT A GLANCE		
<ul style="list-style-type: none"> <li>■ Government borrowing rises to £37 billion this year, £10 billion more than forecast in April.</li> <li>■ Economy to grow 2.1% this year, 3–3.5% forecast for next year.</li> <li>■ Help for childcare schemes.</li> </ul>	<ul style="list-style-type: none"> <li>■ Extra £406 million to curb council tax* bills – still likely to rise by more than 8%.</li> <li>■ Additional £800 million to fund military operations in Iraq and Afghanistan.</li> <li>■ Tax breaks for 100 000 sports clubs.</li> </ul>	<ul style="list-style-type: none"> <li>■ Possible freeze on duty on spirits, eg whisky, gin.</li> <li>■ Bank of England given new 2% inflation target.</li> </ul>

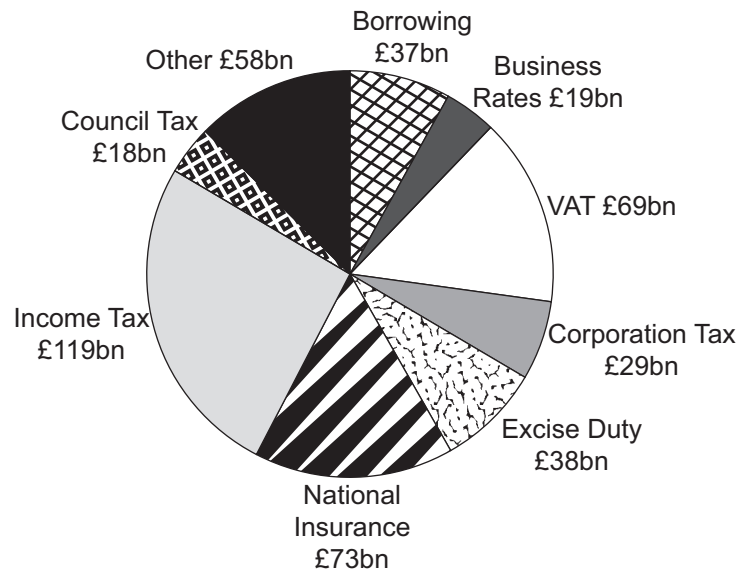
*Source: adapted from the Daily Mail, 11 December 2003*

\* Council tax is a tax paid by residents to the local authority.

### Item D

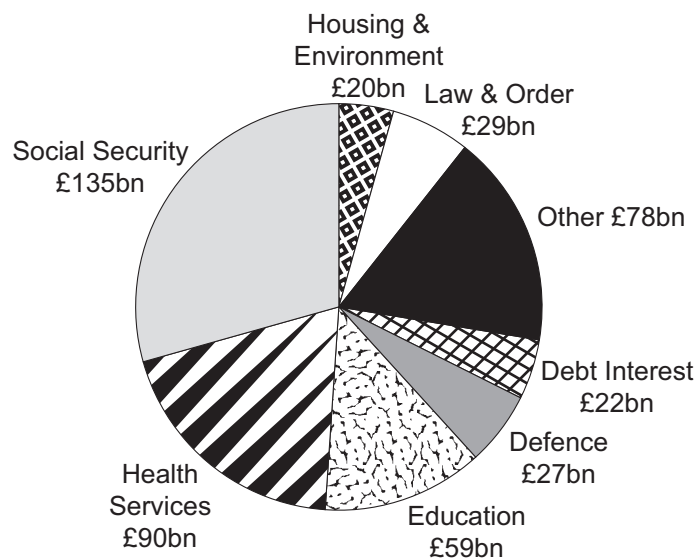
#### Where the money comes from and where it goes

##### Government income 2003–2004



bn = billion

##### Government spending 2003–2004



bn = billion

Source: adapted from the *Daily Mail*, 11 December 2003

Turn over ►

**Item E****Brown goes deeper into the red**

GORDON BROWN, the Chancellor of the Exchequer, moved to prevent further tax increases by adding an extra £10 billion to government borrowing and curbing big increases in council tax.

In his pre-Budget report, the Chancellor surprised the City by disclosing that borrowing this year would rise from the £27 billion he forecast in April to a record £37 billion. Some experts said that the Government would be forced to raise taxes after the election, expected in 2005, to make up the difference between income and spending plans.

It was argued that the increase in borrowing was caused by lower than expected tax receipts and the Iraq war. Mr Brown announced an extra £800 million for operations in Iraq, taking the total amount to be spent in Iraq and the war on terrorism to £6.3 billion.

Those who disagree with the Chancellor said: "This is the pay now, pay later Chancellor: after 60 tax rises and at a time when he says the economy is doing well, why is he borrowing £37 billion this year and £120 billion over four years? Borrowing now will have to be paid for later".

Most economists think that the Chancellor will have to raise taxes on consumers and businesses very soon.

*Source: adapted from The Independent, 11 December 2003*

**Item F****Future government spending plans revealed for 2004–2005**

Government expenditure on education will rise to £63 billion while that on defence will fall to £23 billion and the same pattern will continue in the following year.