

Please write clearly, in block capitals.

Centre number

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Candidate number

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Surname

Forename(s)

Candidate signature

GCSE ECONOMICS

Paper 2 How the economy works

Specimen

Time allowed: 1 hour 45 minutes

Materials

You will need no other materials.

You may use a calculator.

Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information

- The marks for questions are shown in brackets.
 - The maximum mark for this paper is 80.
 - Questions should be answered in continuous prose. You will be assessed on your ability to:
 - use good English
 - organise information clearly
 - use specialist vocabulary where appropriate.
-

Section A

Answer **all** questions in the spaces provided

For questions with four responses only **one** answer per question is allowed.


For each answer completely fill in the circle alongside the appropriate answer.


CORRECT METHOD



WRONG METHODS



If you want to change your answer you must cross out your original answer as shown. 

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown. 

0 1

Which one of the following groups is most likely to benefit from higher interest rates?

A Borrowers

☐

B Mortgage holders

☐

C Retailers

☐

D Savers

☐

[1 mark]

0 2

'If money didn't exist then I would have to hope that the person selling the item I wanted to buy also wanted to buy an item I had for sale.'

Which function of money does the above statement relate to?

A Medium of exchange

☐

B Means of deferred payment

☐

C Store of value

☐

D Unit of account

☐

[1 mark]

0 3

Which of the following best describes the type of unemployment that arises as a result of a recession?

A Cyclical

☐

B Frictional

☐

C Seasonal

☐

D Structural

☐

[1 mark]

0 4

A budget deficit is best described as which of the following?

A Where government revenue is greater than government expenditure

☐

B Where government expenditure is greater than tax collected

☐

C Where the value of exports is greater than the value of imports

☐

D Where value of imports is greater than the value of exports

☐

[1 mark]

0 5

Monetary policy would involve changes in which of the following?

A Current account of the balance of payment

☐

B Government spending

☐

C Interest rates

☐

D Taxation

☐

[1 mark]

0 6

Which one of the following policies is most likely to reduce the inflation rate?

A Higher taxation

☐

B Higher government spending

☐

C Increased money supply

☐

D Lower interest rates

☐

[1 mark]

0 7

A fall in the exchange rate is most likely to lead to which of the following?

A Higher exports

☐

B Increased budget surplus

☐

C Increased deficit on the current account of the balance of payments

☐

D Lower inflation

☐

[1 mark]

0 8

A disadvantage of globalisation for producers in the UK would include which one of the following?

A Access to wider markets

☐

B Difficult to find workers

☐

C Low-cost competition from overseas firms

☐

D The spread of technology could cause local unemployment

☐

[1 mark]

0 9

Which pair of policies is most likely to lead to a reduction in income inequality?

- A** Less progressive income taxes and higher unemployment benefits ☐
- B** Less progressive income taxes and lower unemployment benefits ☐
- C** More progressive income taxes and higher unemployment benefits ☐
- D** More progressive income taxes and lower unemployment benefits ☐

[1 mark]**1 0**

Which of the following correctly indicates the overall effects that an increase in income tax is likely to have on unemployment and inflation?

	Effect on unemployment	Effect on inflation	
A	Increase	Increase	<input type="radio"/>
B	Increase	Reduction	<input type="radio"/>
C	Reduction	Increase	<input type="radio"/>
D	Reduction	Reduction	<input type="radio"/>

[1 mark]**Turn over for the next question**

1	1
---	---

State **two** economic objectives of the UK government.

[2 marks]

Objective 1 _____

Objective 2 _____

1	2
---	---

Explain why income tax in the UK is an example of progressive taxation.

[2 marks]

1	3
---	---

Explain **one** benefit of international trade for UK consumers.

[2 marks]

1	4
---	---

Figure 1 shows data on the UK labour market as of December 2015

Figure 1

	Number of people
Employed	31.3 million
Unemployed	1.7 million

1	4
---	---

 .

1

Using **Figure 1**, calculate the unemployment rate to **two** decimal places. Show your working.

[2 marks]

1	4
---	---

 .

2

Explain **one** benefit to the UK government of a lower unemployment rate.

[2 marks]

Turn over for the next question

1	5
---	---

Figure 2

Henwoods is a UK clothing manufacturer and retailer looking to expand by producing clothes in Bangladesh. The following data is available about the UK and Bangladesh.

Key Economic Facts		
	UK	Bangladesh
Population	64 million	160 million
Average economic growth (2004-2014)	1.4% per year	6.0% per year
GDP per capita (2014)	£28,482	£2,418
Average wage per worker (2013)	£14.45 per hour	£0.42 per hour

1	5
---	---

1

Using **Figure 2**, analyse the likely consequences of Henwoods moving their production to Bangladesh.

[6 marks]

[illegible]

1	6
---	---

State **two** supply-side policies.

[2 marks]

Policy 1 _____

Policy 2 _____

1	7
---	---

Explain why a government budget deficit is likely to stimulate economic growth.

[2 marks]

1	8
---	---

Explain **one** benefit of the UK developing free-trade agreements with non-EU countries.

[2 marks]

1 9

Figure 3 shows data relating to GDP and the population of an economy for 2015 and 2016.

Figure 3

GDP for 2015	£450,000 million
Rate of GDP growth 2015-16	5 %
Population in 2016	30 million

1 9**. 1**

Using **Figure 3**, calculate the GDP per capita for **2016** to the nearest pound (£). Show your working.

[2 marks]

1 9**. 2**

Explain why a rise in GDP will lead to a rise in the standard of living.

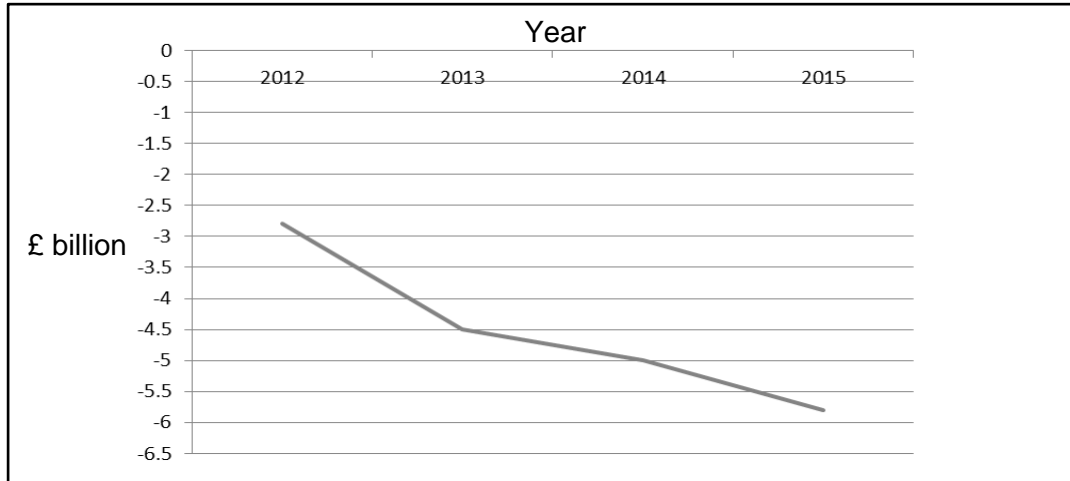
[2 marks]

2 0

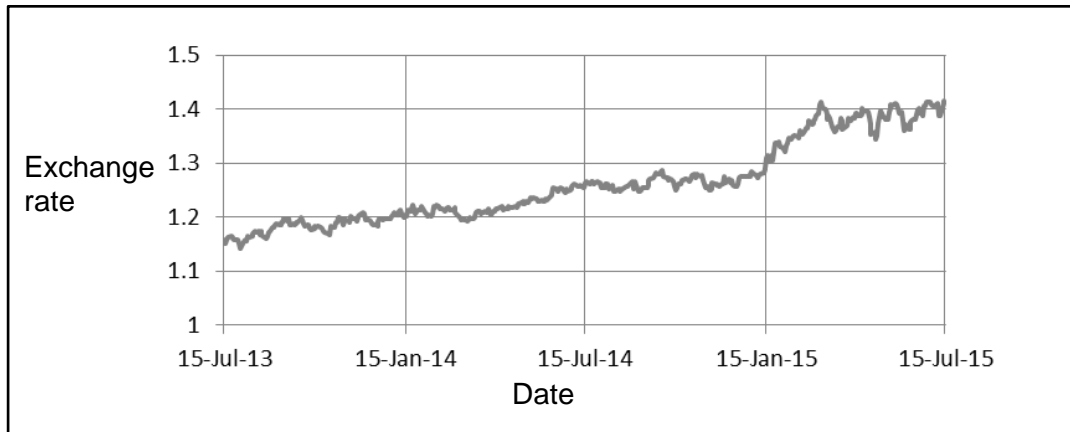
Figure 4

Most of the European Union countries (EU) use the Euro as their currency. As a result, changes in the value of the Euro compared to the Pound will affect the trade between the UK and the EU. Data relating to this is shown below.

Trade balance between UK and countries using the Euro: 2012 – 2015



Pound/Euro exchange rate: July 2013 – July 2015



2 0 . 1

Using **Figure 4**, explain the relationship between the Pound/Euro exchange rate and the UK's balance of trade with those countries using the Euro.

[3 marks]

In the UK since 1990, GDP has grown on average between 2 – 2.5% each year. One measure of how well individuals are doing in the economy is the Human Development Index. This is an index of a country's GDP per capita, life expectancy and education standards, with an index of 1 being the best in the world. The table below shows figures for the UK from 1990 to 2010.

Year	Index
1990	0.77
2000	0.87
2010	0.91

Economic growth often leads to more opportunities for investment. Towns and cities grow, attracting more residents from within the UK and from abroad. Factories have the investment required to increase production. However, most of these developments have resulted in negative externalities.

2	1	.	1
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[9 marks]

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Extra space _____

Section B

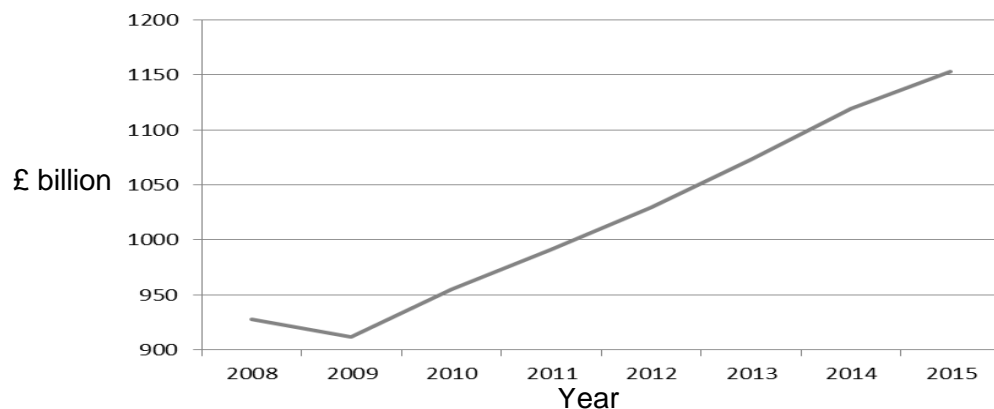
Answer **all** questions in the spaces provided

Item A – Supply-side policies, low interest rates and low inflation in the UK

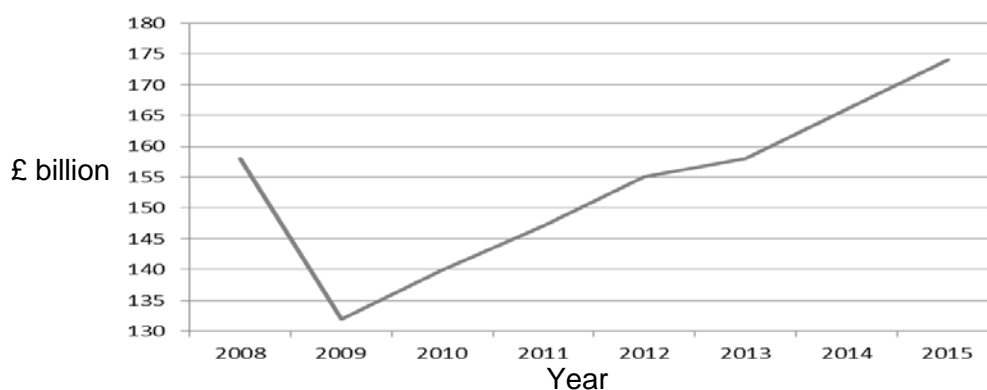
Figure 6

Governments have increasingly used supply-side policies to manage the economy. These policies are aimed at making the economy operate more efficiently by increasing productivity, reducing unemployment and stimulating economic activity as well as enabling the government to achieve its objectives. By March 2016, the interest rate set by the Bank of England had been at a record low of 0.5% for exactly 7 years. The Monetary Policy Committee (MPC) had reduced the interest rate to this low level to help the economy to recover following a relatively long and deep recession that had begun in 2008. By 2015 several economists, including members of the MPC, were calling for a rise in the interest rate as stronger signs of recovery became clear. Indeed, the UK had been referred to in 2014 as the fastest growing developed economy in the world. As a consequence of low interest rates, consumer and business confidence have grown.

Annual UK consumer spending from 2008 to 2015.



Annual UK business investment from 2008 to 2015.



Since 2011, annual business start-up rates have increased from 440 600 in 2011 to a record-breaking 581 173 in 2014. More than 600 000 new businesses were launched in 2015. Despite this, deep economic inequality exists between the different regions of the UK as has been revealed in the latest figures from the Office of National Statistics (ONS). The North-east of England has a 70.6 per cent employment rate against an average of 74.1 per cent across the UK. The region also has the lowest house prices in England and the highest rate of infant mortality.

Figure 7

One factor that members of the MPC have had to take into account was that inflation, measured by the consumer prices index (CPI), has remained very low. Because a key objective of the MPC is to meet the Government's target of 2.0% CPI inflation, low inflation gave less pressure for an increase in the Bank's interest rate. It is argued that low inflation creates benefits for an economy, both domestically and through international trade. Other economists felt that the low inflation was evidence that the UK economy had not recovered fully and therefore called for a delay in raising the interest rate. They argued that increasing interest rates too soon might lead to a contraction in spending which could harm the economy.

UK CPI inflation (%) from 2011 to 2015

Year	CPI (%)
2011	4.5
2012	2.8
2013	2.6
2014	1.5
2015	0.0

2	2
---	---

Give a definition of demand-pull inflation.

[2 marks]

2	3
---	---

Using **Figure 7**, calculate how much higher the average rate of CPI, between 2011 and 2015, was than the government target. Show your working.

[3 marks]

2	4
---	---

Using **Figure 6**, explain **two** ways that low interest rates have affected the level of consumer spending or business investment in the UK economy.

[6 marks]

Way 1 _____

Way 2 _____

2	5
---	---

Using **Figure 6 and 7**, analyse the impact that an increase in interest rates would have on employment in the UK.

[6 marks]

Turn over for the next question

Use **Figure 6 and 7** and your own economic knowledge to justify your view.

[illegible]

END OF QUESTIONS

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