OCR
RECOGNISING ACHIEVEMENT

GENERAL CERTIFICATE OF SECONDARY EDUCATION

ECONOMICS

A592

How the Economy Works

Candidates answer on the question paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Monday 6 June 2011
Morning

Duration: 1 hour

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Answer **all** the questions.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- You will be awarded marks for the quality of written communication on the question marked by an asterisk (*).
- This document consists of **16** pages. Any blank pages are indicated.

A calculator may be used for this paper

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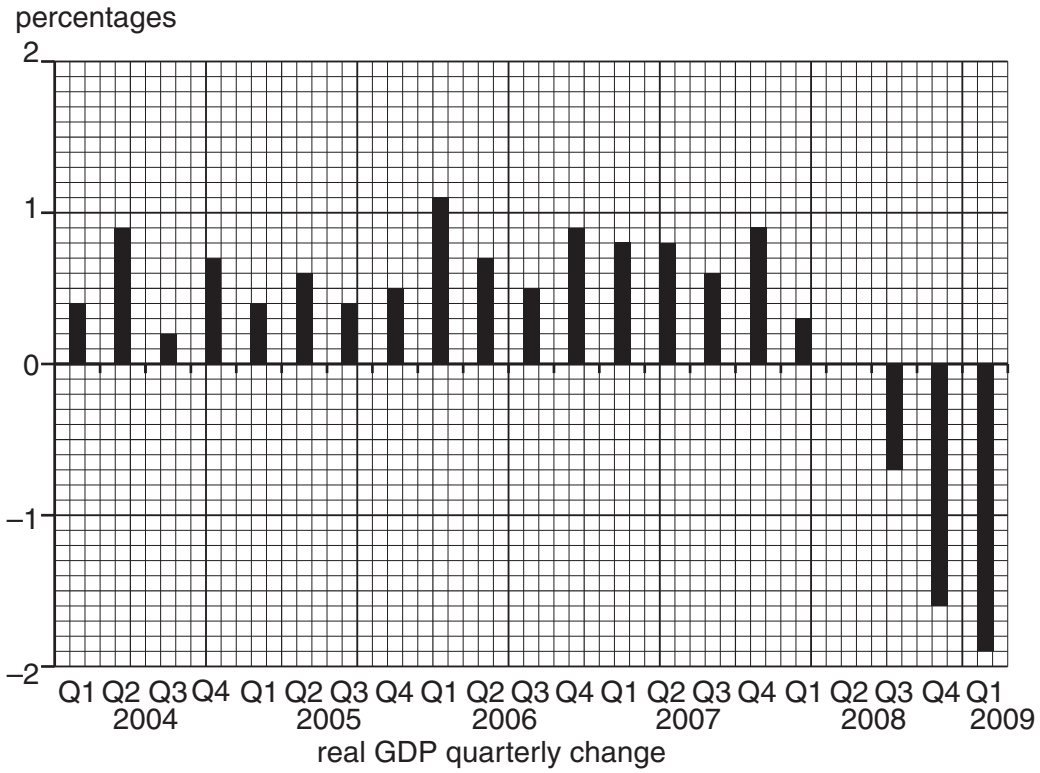
Answer **all** questions.

1 Fig. 1 shows the quarterly change in UK real Gross Domestic Product (GDP) between the first quarter (Q1) of 2004 and the first quarter (Q1) of 2009.

Fig. 1 Quarterly Change in UK Gross Domestic Product



There was no change in UK GDP in the second quarter [Q2] of 2008.

(a) For the period shown, which quarter had

- greatest rise in real GDP?

Quarter ..... Year .....

- greatest fall in real GDP?

Quarter ..... Year ..... **[2]**

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(b) **(i)** Explain what is meant by economic growth.

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(ii) To what extent does Fig. 1 show evidence of economic growth in the UK economy?

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(c) Explain how **both** inflation and unemployment could be affected by the trend shown in Fig. 1.

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(d) Other than changing interest rates, explain **two** policies which the UK government could use to achieve both economic growth and more employment. Discuss how effective each policy is likely to be.

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Policy 2 .....

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[Total: 20]

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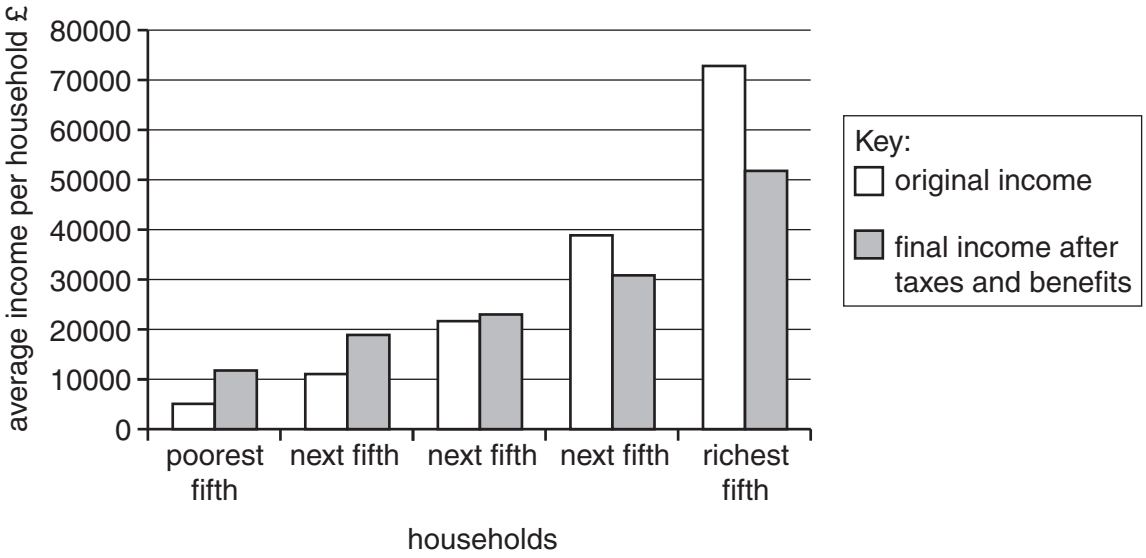
2 Fig. 2 shows how incomes are distributed between households in the UK. The original income is what households receive before any taxes are taken from them and any benefits paid to them. The final income is the income households have after taxes and benefits.

Fig. 2 Income Distribution by Households in the UK



(a) Tick **one** box in **each** column to show the original incomes of the poorest and the richest households.

Income	Original income of poorest fifth of households	Original income of richest fifth of households
Below £10 000		
£10 000–£40 000		
£40 001–£70 000		
Above £70 000		

[2]

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(b) Explain, with an example of each, the difference between a direct tax and an indirect tax.

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(c) Explain how the UK tax and benefit system is used to redistribute incomes.

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(d)* Should the UK government use taxes and government spending to redistribute incomes? Give reasons for your answer.

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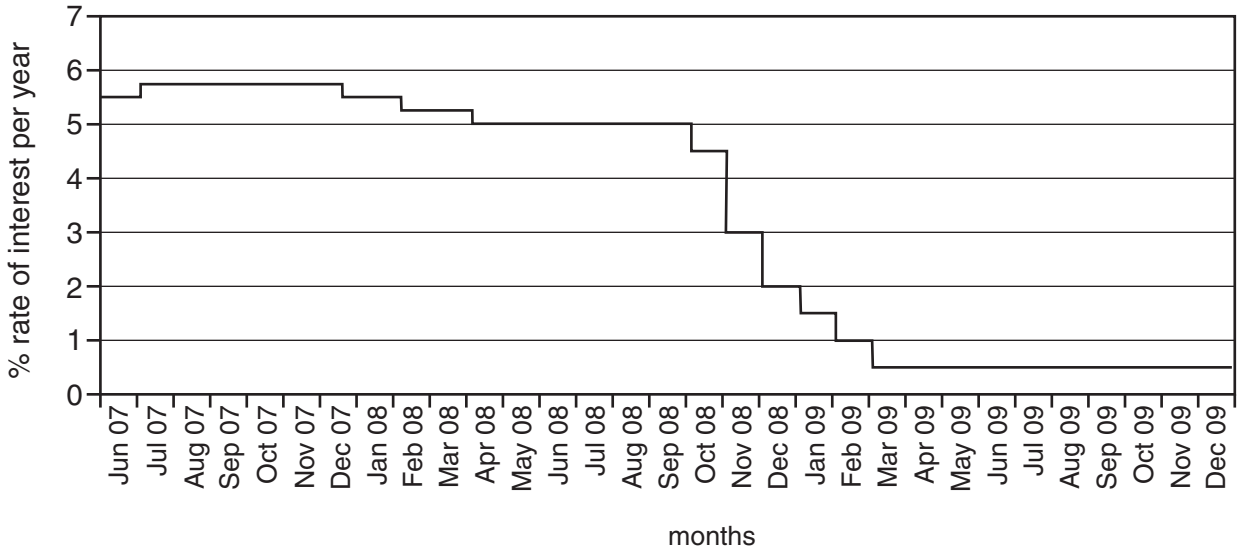
3 Fig. 3 shows the Bank Rate between June 2007 and December 2009. The Bank Rate is the rate of interest set by the Bank of England.

Fig. 3 UK Bank Rate



(a) Calculate the change in the Bank Rate between August 2008 and May 2009. Show your working.

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(b) Fig. 3 shows that the Bank Rate in February 2009 was 1% per year, but at this time there were many different rates of interest in the UK economy. For example, high street banks were paying 0.5% per year on some savings accounts, while some credit card companies were charging borrowers 18% per year.

Explain **two** reasons why there are different rates of interest at any one time.

Reason 1 .....

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Reason 2 .....

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(c) Explain how a fall in interest rates can affect total spending in the economy.

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(d) To what extent will lower rates of interest benefit the macro-economic objectives of the UK government? Give reasons for your answer.

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[Total: 20]

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Additional answer space. If you use this space, please make sure you number your answers carefully.

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