

General Certificate of Education
January 2004
Advanced Subsidiary Examination



ECONOMICS **ECN2/2**
Unit 2 Part 2 Data Response: The National Economy

Friday 16 January 2004 Morning Session

In addition to this paper you will require:

- an 8-page answer book;
- the question paper for Part 1 (ECN2/1).

You may use a calculator.

Time allowed: 1 hour for papers ECN2/1 and ECN2/2 together

Instructions

- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN2/2.
- Answer **EITHER** Question 1 **OR** Question 2.

Information

- The maximum mark for this paper is 25.
- Mark allocations are shown in brackets.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary where appropriate. 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 at least 45 minutes on paper ECN2/2.

Answer **EITHER** Question 1 **OR** Question 2.

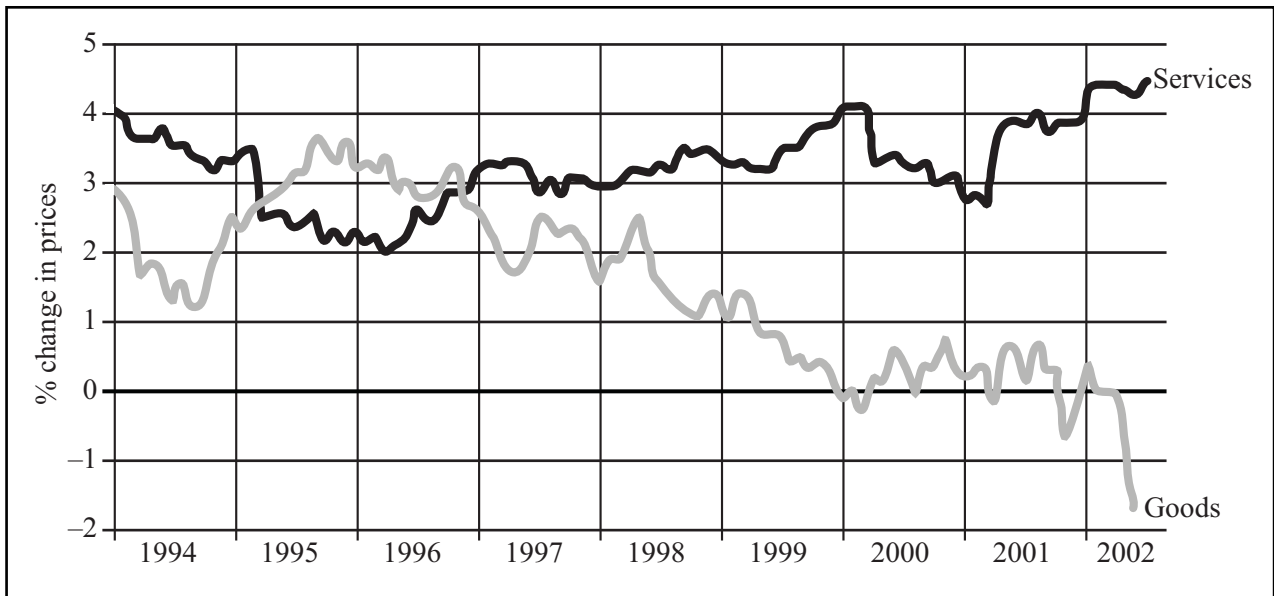
EITHER

1 INFLATION

Total for this question: 25 marks

Study **Extracts A and B**, and then answer **all** parts of Question 1 which follows.

Extract A: Mind the gap: goods and services – annual inflation



Source: *The Daily Telegraph*, 17 July 2002

Extract B: Inflation rates fall to record lows

In December 2001, headline inflation, as measured by the Retail Price Index (RPI), fell to a forty year low of 0.7%. 1

There are thought to be a number of reasons for the fall in inflation. One is that expectations of future inflation have been reduced. For example, if workers do not expect high inflation, they do not press for higher wages to cover expected price increases. 5

A second factor is increased international price competitiveness, mainly in goods, brought about by improved communications, falling transport costs and reductions in trade barriers. Firms in the UK cannot charge high prices when they are facing fierce price competition from low-cost producers around the world.

Third, advances in technology are raising world productivity levels and so lowering firms' costs. In addition to this, the recent economic slowdown in the world economy has put downward pressure on primary commodity prices. 10

Finally, central banks, such as the Bank of England, now have greater freedom to influence aggregate demand by setting interest rates to help to control inflation more effectively. The level of interest rates can influence those decisions of households (such as the purchase of houses or consumer durables) and businesses (such as borrowing funds to use for investment) which may ultimately help to determine the rate of inflation. 15

Source: adapted from SUSAN GRANT, *British Economy Survey Vol 31 (No.2)*, Spring 2002
(York Publishing Services and Statistics for Education)

Question 1

- (a) Using the data in **Extract A**, compare the main changes in the rates of inflation for goods and services for the period 1994 to 2002. (4 marks)
- (b) Explain how interest rates might “help to control inflation” (**Extract B**, line 14). (6 marks)
- (c) Using the data and your economic knowledge, evaluate the view that reductions in firms' production costs have been more significant than the control of aggregate demand in achieving low inflation in the UK economy. (15 marks)

TURN OVER FOR THE NEXT QUESTION

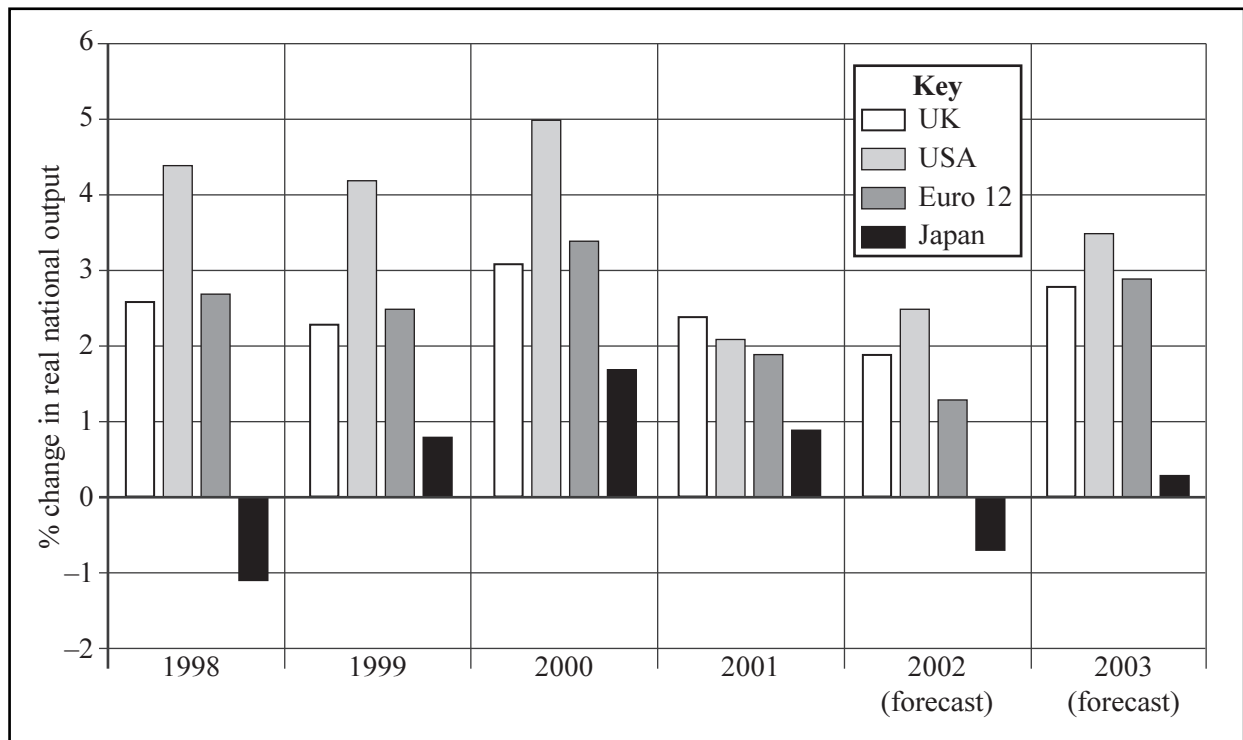
OR

2 ECONOMIC GROWTH

Total for this question: 25 marks

Study **Extracts C, D and E**, and then answer **all** parts of Question 2 which follows.

Extract C: Economic growth in the major economies of the world



Source: adapted from *Economics Today Vol 9(1) September 2001* (Economics Today Ltd) and *The OECD Economic Outlook 2002*, www.OECD.org, accessed on 5 August 2002

Extract D: The OECD's growth predictions

Extract D was an extract of text from *The OECD Economic Outlook 2002* giving the OECD's predictions for economic growth in the major economies of the world.

Extract E: A strong and stable economy

The UK grew faster in 2001 than other G7 countries (the major world economies) and is expected to grow by 2.0% to 2.5% this year, and by 3.0% to 3.5% in 2003, before returning to trend in 2004. Growth is also expected to become more balanced as stronger global demand provides impetus to investment and exports. 1

The UK Government agrees with a number of national and international bodies that trend growth will be raised to 2.75% per year from 2.5%. Emphasis has been given to continued supply-side reforms, including, for example, policies promoting enterprise, innovation and skills, in order to raise productivity. It is the Government's view that an entrepreneurial spirit must be encouraged and adequately rewarded. Equally, a highly skilled workforce promotes innovation, increases flexibility and helps to ensure that the benefits of new technology are realised. 5 10

Source: adapted from The Budget Report 2002, www.hm-treasury.gov.uk/Budget, accessed on 17 April 2002

Question 2

- (a) Using **Extract C**, compare economic growth in the major economies of the world for the period 1998 to 2003. (4 marks)
- (b) Explain the possible effects on the UK economy of “strengthening aggregate demand” (**Extract D**, line 6). (6 marks)
- (c) Using the data and your economic knowledge, evaluate the importance of supply-side policies to the achievement of higher economic growth in countries such as the UK. (15 marks)

END OF QUESTIONS

THERE ARE NO QUESTIONS PRINTED ON THIS PAGE

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