

General Certificate of Education
June 2003
Advanced Subsidiary Examination



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

Friday 6 June 2003 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

Total for this question: 25 marks

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

Extract A: Household consumption

Annual growth in real household income has remained strong in recent years, but the proportion of current income that consumers save remains at a historically low level. The rise in house prices has helped to moderate the fall in household wealth caused by the fall in the price of shares. Table 1 below shows recent changes in household consumption expenditure. 1

One characteristic of the recent consumption data has been the unusual pattern of spending on consumer durables, including vehicles. The rise in expenditure on durables could be a result of the significant reduction in interest rates in 2001. The strength of expenditure on durables may also be a consequence of a continuing fall in the relative price of these goods. 5

Table 1: Real household consumption expenditure (percentage change from the previous year)

	1999	2000	2001	2001	2001
	%	%	Quarter 1	Quarter 2	Quarter 3
	%	%	%	%	%
Durable goods	8.6	7.3	12.4	13.4	13.1
Other goods	3.9	4.0	2.0	3.4	3.8
Services	3.5	3.3	1.8	1.2	1.4
Total consumption	4.3	4.1	3.3	3.7	4.0

Source: adapted from Inflation Report February 2002, The Bank of England

Extract B: Key economic developments in the fourth quarter of 2001

In 2001, as a whole, the level of real GDP* in the United Kingdom was 2.2% higher than in the previous year. However, GDP did not grow in the last quarter of 2001; this was the first quarter of zero growth since the last recession in the early 1990s. Other major economies, such as Germany, Japan and the United States, have also experienced low or negative growth during 2001. The slowdown in the United Kingdom economy continued to be driven by recession in the manufacturing sector, but the growth of output of services also slowed throughout 2001.

Since September 2001, the Bank of England has cut interest rates from 5.5% to 4% in response to the worsening outlook for the world economy. Inflationary pressures have remained subdued, RPIX inflation fell back to 2% in the last quarter of the year and producer prices fell. The 3.4% earnings growth is now lower than the 4.5% earnings growth that the Bank of England believes is consistent with their inflation target.

During the year there has been little change in the average value of sterling compared to other currencies, and the pound has remained strong against the euro. Exports and imports fell sharply during the second half of the year, and the United Kingdom continued to have a persistent current account deficit with the rest of the world.

Whilst employment is high and unemployment is lower than it has been since the 1970s, there is some evidence that the position is deteriorating. Both the ILO† unemployment rate and the claimant count measure of unemployment increased slightly in the fourth quarter of 2001.

* GDP = Gross Domestic Product, a measure of national income

† ILO = International Labour Organisation

Source: adapted from United Kingdom Economic Accounts Quarter 4 2001, The Office for National Statistics, © crown copyright, www.statistics.gov.uk

Question 1

- (a) Using the data in **Extract A, Table 1**, describe the main changes in total household consumption expenditure and its components that have taken place between 1999 and the third quarter of 2001. (4 marks)
- (b) Explain why the rate of growth of expenditure on consumer durables may have differed from the growth of other forms of consumption expenditure. (6 marks)
- (c) Using the data to help you, assess the likely effects of the growth in consumer expenditure on the performance of the United Kingdom economy during 2001. (15 marks)

TURN OVER FOR THE NEXT QUESTION

OR

2

Total for this question: 25 marks

Study **Extract C**, and then answer **all** parts of Question 2 which follows.

Extract C: France's balance of payments in 2000

In 2000, the current account of France's balance of payments showed a surplus of €22.7 billion (euros), equivalent to 1.6% of GDP. This was down from a surplus of €33.8 billion in 1999, equivalent to 2.5% of GDP. The decrease in the current account surplus reflects a rise in the volume of capital goods imported, resulting from an improvement in the economy. High investment is essential to the maintenance of a high non-inflationary growth rate in the medium and long term.

The reduction in the current account surplus is attributable to the dollar's rise against the euro, increasing oil prices and brisk domestic demand, which was supported by both an increase in investment and in the consumption of households. Household income increased in real terms by over 3% in 2000, as a result of the creation of over 500 000 jobs. Spending on imports increased by almost 20% in 2000, compared with less than 5% in 1999. Exports of goods and services, which climbed by 14%, were stimulated by buoyant global demand and by further gains in price competitiveness in relation to France's trading partners both inside and outside the euro area. Compared with other euro area countries, France's price competitiveness registered an annual average improvement of roughly 1%, due solely to better control of production costs and prices. After adjustments for exchange rate changes, gains in competitiveness, in relation to countries outside the euro area, exceeded 6%.

Other factors were also at work. For example, France's specialisation in business equipment limited the reduction in the trade balance; its status as a popular tourist destination raised the services' surplus; and investment abroad by French residents increased investment income inflows. France was the fifth-ranking exporter worldwide and third-ranking exporter in Europe of goods and services in 2000. The size of its current account surplus was the largest in the European Union, roughly a quarter of which resulted from transactions with other euro area countries.

Table 2: France's balance of payments on current account (€ millions)

	1998	1999	2000
Balance of trade in goods	22 371	17 603	1 722
Services (excluding travel)	5 828	5 167	6 697
Travel	9 769	12 000	14 074
Balance of trade in goods and services	37 968	34 770	22 493
Investment income and other income	7 826	11 431	15 110
Current transfers	-11 166	-12 380	-14 940
Current account balance	34 628	33 821	22 663

Note: On the 31st January 2002 £1 = €1.64

Source: adapted from *The main features of France's balance of payments and international investment position in 2000*,
www.banque-france.fr

Question 2

- (a) Using the data in **Extract C, Table 2**, describe the main changes in France's balance of payments on current account and its components between 1998 and 2000. *(4 marks)*

- (b) Explain the factors that contributed to the improvement in "price competitiveness in relation to France's trading partners both inside **and** outside the euro area" (**Extract C**, lines 13-14). *(6 marks)*

- (c) **Extract C, Table 2**, shows that there was a reduction in the surplus on the current account of the French balance of payments between 1998 and 2000. Using the data, assess whether this reflects a deterioration in the performance of the French economy. *(15 marks)*

END OF QUESTIONS