

General Certificate of Education
June 2004
Advanced Subsidiary Examination



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

Monday 14 June 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.

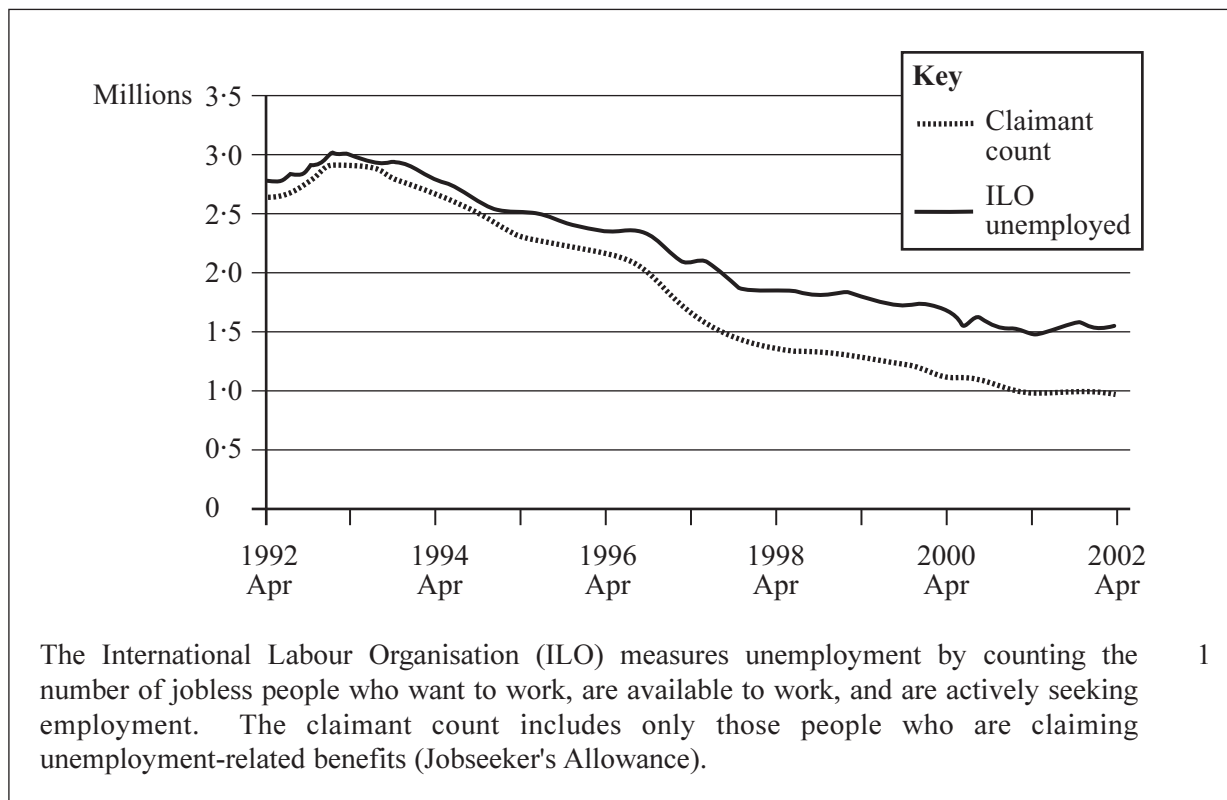
EITHER

1 UNEMPLOYMENT

Total for this question: 25 marks

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

Extract A: Measuring the jobless in the UK economy: ILO unemployment and the claimant count 1992 - 2002



Source: www.statistics.gov.uk, accessed 22 December 2002

Extract B: Aggregate demand in the UK economy

This was an extract of text. It has not been reproduced here due to third-party copyright constraints.

Extract C: Good news on employment and unemployment

This was an extract of text. It has not been reproduced here due to third-party copyright constraints.

Question 1

- (a) The chart in **Extract A** provides data for UK unemployment using two different methods of measurement. Compare the trends in the two sets of data for the period April 1992 to April 2002.
(4 marks)
- (b) Explain how a “slowdown in the growth of aggregate demand ... could see unemployment start to rise” (**Extract B**, lines 3–4).
(6 marks)
- (c) Using the data and your economic knowledge, evaluate the possible contribution of supply-side policies to the reduction of unemployment in the UK.
(15 marks)

TURN OVER FOR THE NEXT QUESTION

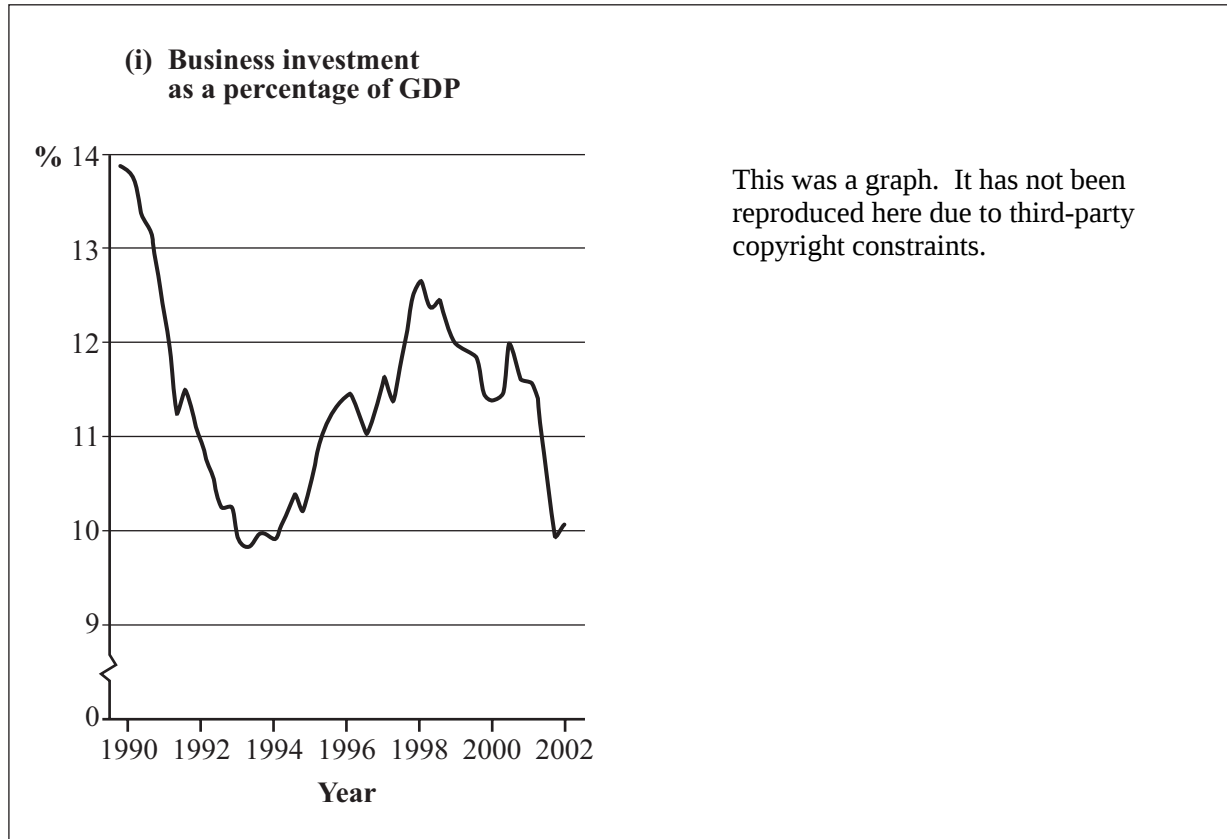
OR

2 INVESTMENT

Total for this question: 25 marks

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

Extract D: Business investment and economic growth in the UK economy



Source: adapted from (i) *Economics Today*, Vol 10 (No 2), November 2002

Extract E: Weakening business confidence

The climate for business investment has deteriorated. Weakening business confidence has led many firms to postpone investment. Investment in additional productive capacity by larger manufacturing companies has often been directed overseas to economies with lower labour costs. Projects often involving increased automation to increase productivity and reduce labour costs have gone ahead, however. It is hoped that this will improve competitiveness at a time when the value of sterling remains strong against other currencies.

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Source: adapted from *Agents's Summary of Business Conditions*, Bank of England, November 2002

Extract F: The UK in a fragile world economy

In the United Kingdom, quarterly output growth has picked up to around trend and this is expected to be maintained over the next two years. Consumer spending continues to be the primary engine of growth. On the supply-side, business investment is around 11% lower than a year earlier; sufficient productive capacity to meet current demand, as well as low profits, help explain the disappointing levels of investment. Growth in productivity has also been unusually weak. 1 5

There is also concern that US consumer spending might falter, while growth in the euro area is expected to remain sluggish, thus threatening global recovery. Here, a slowdown in the growth of house prices might affect consumer spending, while, for industry, input costs are set to rise; the prospect of military action in Iraq, for example, has already brought increases in oil prices this year. 10

Source: adapted from Inflation Report, Bank of England, November 2002

Question 2

- (a) Using **Extract D**, compare the trends in business investment and GDP growth in the UK economy for the period 1990 to 2002. (4 marks)
- (b) Explain **two** factors which might cause “disappointing levels of investment” in the UK economy (**Extract F**, line 5). (6 marks)
- (c) Using the data and your economic knowledge, evaluate the importance of investment in achieving an increase in the growth rate of the UK economy. (15 marks)

END OF QUESTIONS

THERE ARE NO QUESTIONS PRINTED ON THIS PAGE

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Extract D (i): Economics Today Ltd, acknowledging Thomson Datastream