

General Certificate of Education
January 2008
Advanced Subsidiary Examination



ECONOMICS

ECN2/2

Unit 2 Part 2 Data Response: The National Economy

Thursday 17 January 2008 9.00 am to 10.00 am

For this paper you must have:

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

You may use a calculator.

Time allowed: the total time for papers ECN2/1 and ECN2/2 together is 1 hour

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.
- The marks for questions are shown in brackets.
- You will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

Advice

- You are advised to spend at least 45 minutes on paper ECN2/2.

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

EITHER

Total for this question: 25 marks

1 THE SUMMER OF 2006

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

Extract A: Quarterly percentage change in consumer sales: UK retail sector by volume

		Quarterly % change*		
		All retailing	Food retailing	Non-food retailing
2006	April	0.0	0.5	−0.3
	May	0.9	0.5	1.1
	June	1.9	0.9	2.6
	July	1.8	1.3	2.1
	August	1.5	1.5	1.4
* Quarterly changes. For example, the August figure for ‘All retailing’ sales of 1.5 % indicates that the volume of consumer sales has increased by 1.5 % between May and August.				

Source: www.statistics.gov.uk, accessed on 17 November 2006

Question 1

- www.theallpapers.com

OR

Total for this question: 25 marks

2 AN UNBALANCED WORLD ECONOMY

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

Extract C: Estimates for the balance of payments on current account, 2005–2007

	% of GDP		
Economy	2005	2006	2007
United States	−6.4	−7.2	−7.6
Japan	3.6	4.3	5.5
Euro area*	−0.2	−0.4	−0.3
OECD**	−1.9	−2.1	−2.1

* The euro area is made up of those countries which use the euro as a currency. This does not include the UK.

** The OECD is the Organisation for Economic Co-operation and Development, made up of the leading world economies.

Source: Economic Outlook No.79, © OECD, May 2006, www.oecd.org, accessed on 9 August 2006

Extract D: Imbalances persist

In recent years, comparisons between countries show that balance of payments current account imbalances have tended to widen. In 2006, the OECD (Organisation for Economic Co-operation and Development) predicted that the deficit for the euro area as a whole would be 0.3% of GDP by 2007, but with some big variations amongst its members. The prediction for Spain, for example, was a deficit as high as 10% of GDP; for Germany, a surplus of 4.5%. Beyond Europe, the US would have a deficit of 7.6% of GDP in 2007, while China and Japan would have surpluses of between 5.5% and 6%.	1 5
For any economy, deficits, rather than surpluses, have caused more concern and a greater likelihood of corrective action. Problems for the world economy could arise if both the US and members of the euro area tried simultaneously to correct their deficits. In the short term, the US and the euro area could attempt to reduce their deficits by controlling aggregate demand in order to reduce imports, and improve competitiveness by controlling inflation. A further policy would be to bring about a fall in exchange rates against other currencies.	10
In the longer term, deficits could be reduced by supply-side policies, such as the promotion of innovation and investment, in order to improve competitiveness.	15
The attempts to reduce deficits could pose a threat to growth and jobs in economies such as the UK, which lie outside the US and euro area. The markets of the US and the euro area account for about two-thirds of UK exports. In 2005, for example, the UK had a deficit of between 2% and 3% of GDP.	20
With such a high profile needing to be given to price competitiveness, it is vital that countries in deficit maintain control over inflation. In recent years, in fact, Japan has experienced deflation (a fall in prices) which has allowed exports to become an important driver for economic growth. However, the OECD identifies Japan, the euro area and the US as economies likely to grow above trend in the second half of this decade. This could bring inflationary pressure to these economies and hence further problems for the UK balance of payments on current account.	25

Question 2

- (a) Using **Extract C**, identify **two** main features in the balance of payments on current account in the economies shown for the period 2005 to 2007. (4 marks)
- (b) **Extract D** (lines 22–24) refers to deflation in the Japanese economy allowing exports to become ‘an important driver for economic growth’. Explain how falling prices might help to stimulate the economic growth of a country in this way. (6 marks)
- (c) Using the data and your economic knowledge, evaluate the possible consequences for UK macroeconomic performance if the euro area and the US seek to reduce their balance of payments deficits on current account. (15 marks)

There are no questions printed on this page

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