General Certificate of Education
June 2007
Advanced Level Examination

ECONOMICS **ECN6**
Unit 6 Government Policy, the National and International Economy

Tuesday 19 June 2007 1.30 pm to 3.00 pm

For this paper you must have: • an 8-page answer book. You may use a calculator.

Time allowed: 1 hour 30 minutes

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 ECN6.
- In **Section A**, answer **all** parts of the question.
- In **Section B**, answer **one** question.

Information
- The maximum mark for this paper is 100.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- 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 approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

SECTION A

Answer **all** parts of this question.

Total for this question: 50 marks

1 NATURAL DISASTERS

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

Extract A: The estimated economic impact on advanced countries of a supply-side shock to oil supplies, 2006-2009*

Extract A is a table of figures.

It has not been reproduced here due to third-party copyright constraints.

Extract B: Will Hurricane Katrina cast a long shadow?

Hurricane Katrina hit the Gulf Coast of the USA in August 2005, causing severe damage and devastating the city of New Orleans. Hurricanes tend to have a fleeting economic impact. In the short run, the disruption caused by a big storm can depress output; over the long term, economic growth is boosted by reconstruction and the consequent multiplier effect. For all their devastating force, natural disasters tend to be economic weaklings.

The potential supply-side shock of Katrina, however, may cast a longer shadow, having an international, rather than just a national, impact. One view is that the shock to oil supplies, for example, could push the US economy into recession. Certainly, the hurricane pounded an area vital to the US oil and gas industry. At the same time, there continues to be soaring global demand for oil. Some nations are showing themselves to be energy-hungry. Stronger speculative activity, as war and acts of terrorism become more prevalent, also helps explain this surge in demand. These pressures have inevitably affected international oil and petrol prices.

Source: adapted from *The Economist*, 3-9 September 2005

Extract C: Hurricane Katrina: a costly disaster?

Extract C is an extract of text.

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Question 1

(a) Using **Extract A**, compare the estimated impact of the supply-side shock on GDP with that on the rate of inflation in advanced countries for the period 2006 to 2009. *(4 marks)*

(b) **Extract B** (lines 8-11) refers to a 'shock to oil supplies' and 'soaring global demand for oil'. With the help of a supply and demand diagram, explain the possible impact of these changes in the oil market on the world price of oil. *(6 marks)*

(c) **Extract C** (lines 8-10) points to possible changes in interest rates in the US economy. Analyse **two** reasons for a reduction in interest rates following a natural disaster such as Hurricane Katrina. *(10 marks)*

(d) **Extract B** (line 7) refers to a 'potential supply-side shock' caused by Hurricane Katrina. Using the data and your economic knowledge, evaluate the possible macroeconomic consequences for advanced countries of shocks of this nature. *(30 marks)*

Turn over for the next question

SECTION B

Answer **one** question from this section.

Each question carries 50 marks.

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2 (a) Explain why economic growth is regarded as a major macroeconomic objective by governments. *(20 marks)*

(b) Evaluate the view that, in the long run in the UK, the macroeconomic objectives of economic growth, price stability, full employment and a strong balance of payments can be achieved without conflicting with each other. *(30 marks)*

3 (a) Explain how fiscal policy could be used to influence aggregate demand. *(20 marks)*

(b) The UK government decides to bring about a significant shift in the sources of tax revenue from direct taxes, such as income tax, to indirect taxes, such as Value Added Tax (VAT).

Evaluate the potential economic consequences of such a shift in the sources of tax revenue. *(30 marks)*

4 (a) Explain the various determinants of the exchange rate of one currency against other currencies. *(20 marks)*

(b)

Evaluate the possible economic consequences for UK macroeconomic performance of changes in the external value of the pound. *(30 marks)*

END OF QUESTIONS

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