



Rewarding Learning
ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2022

Economics

Assessment Unit AS 2
assessing
Managing the National Economy



SEC21

[SEC21]
THURSDAY 26 MAY, AFTERNOON

TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **all** questions in Sections **A** and **B** and **one** question in Section **C**.
You are permitted to use a calculator in this paper.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

- Section A: 25 Marks
- Section B: 35 Marks
- Section C: 20 Marks

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time. In questions involving calculations, you are advised to show your workings. Quality of written communication will be assessed in Questions **5(b)**, **6(b)**, **(c)** and **(d)**, **7** and **8**. Quantitative skills will be assessed where appropriate.

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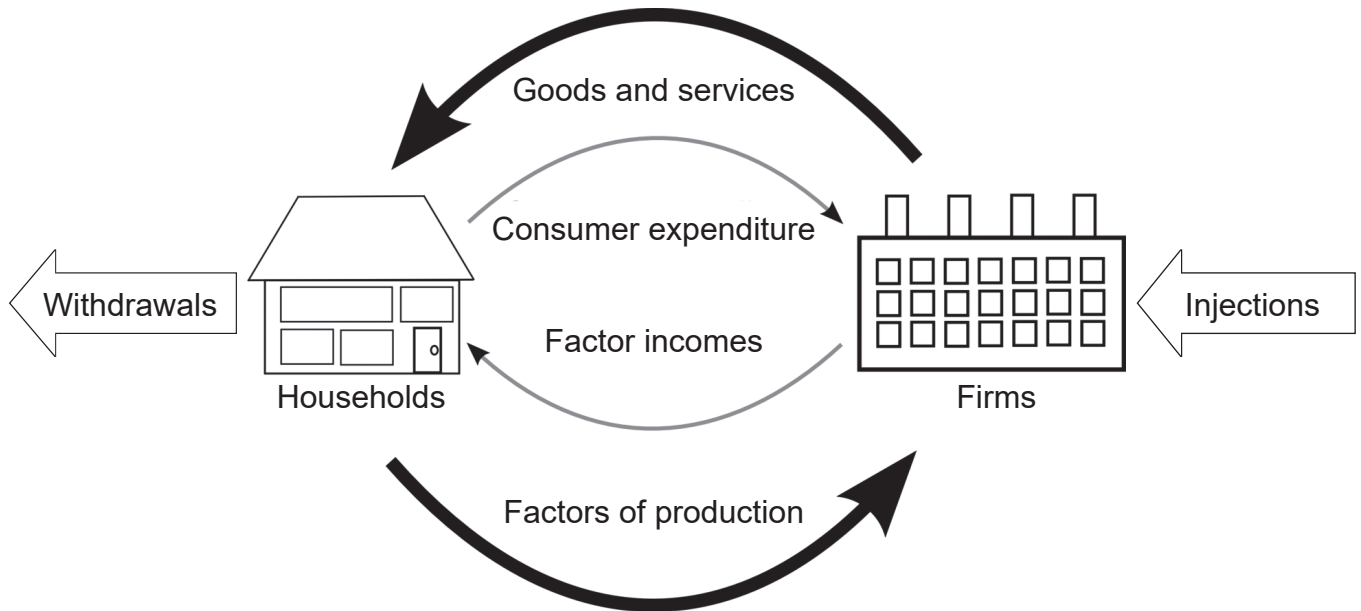
Section A (25 marks)

Answer all questions

- 1 The diagram below represents a simple circular flow of income model for an economy.

With the aid of appropriate examples, explain the difference between withdrawals and injections.

[4]



- 2 A recent report on income inequality in the UK showed the impact of taxes and benefits on income distribution. The table below shows the impact of direct and indirect taxes on income inequality in the UK as measured by the Gini coefficient.

Measure	Gross income	Disposable income	After-tax income
Description	personal income plus benefits	gross income after direct taxes	disposable income adjusted for indirect taxation
Gini coefficient	0.35	0.32	0.36

Using the information in the table above, explain the impact of indirect taxation on the distribution of household income in the UK.

[4]

- 3** Figures published by the Central Statistical Office of the Republic of Ireland show that in 2018 GDP at market prices was €324,038 bn, and GNP at market prices was €253,050 bn.

When converted into index number form, GDP at market prices in 2018 was 108.2 with 2017 being the base year.

Using this information, calculate:

- (a)** Net factor income from abroad (Primary Income) for the Republic of Ireland economy in 2018. [2]

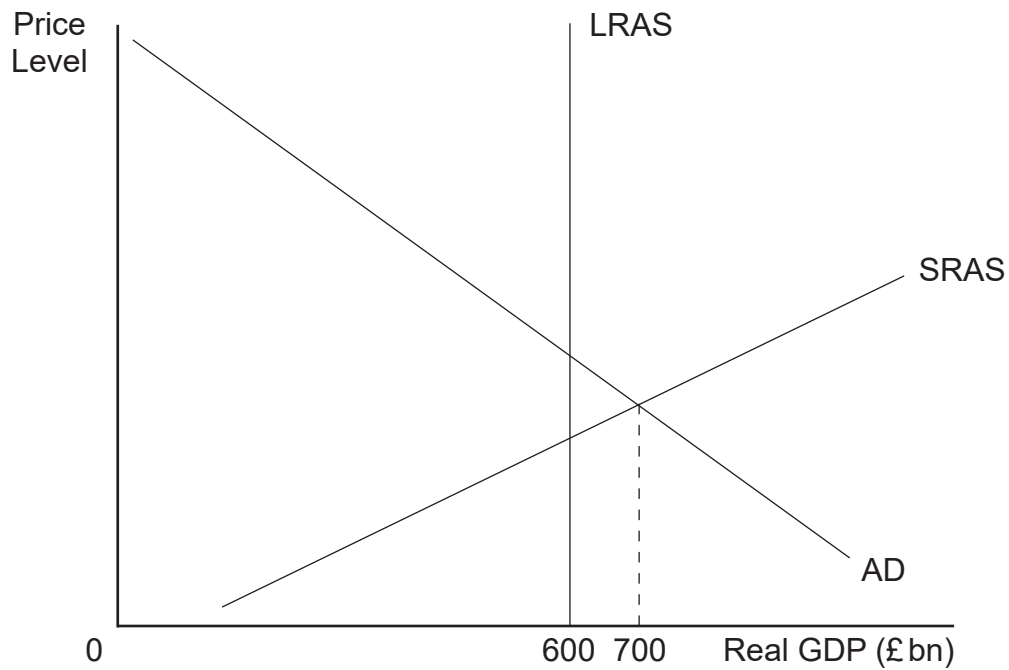
- (b)** GDP at market prices for the Republic of Ireland economy in 2017. [2]

- 4** The table below shows estimates of quarterly economic growth rates for an unnamed economy during 2018 and 2019.

Date	% Change in real GDP
Q1 2018	0.7
Q2 2018	−0.2
Q3 2018	−0.4
Q4 2018	0.2
Q1 2019	0.5
Q2 2019	−0.6
Q3 2019	0.1
Q4 2019	0.2

With reference to the information in the table above, explain the term economic recession. [4]

- 5 The diagram below shows the short-run and long-run aggregate supply curves and the aggregate demand curve of an economy.



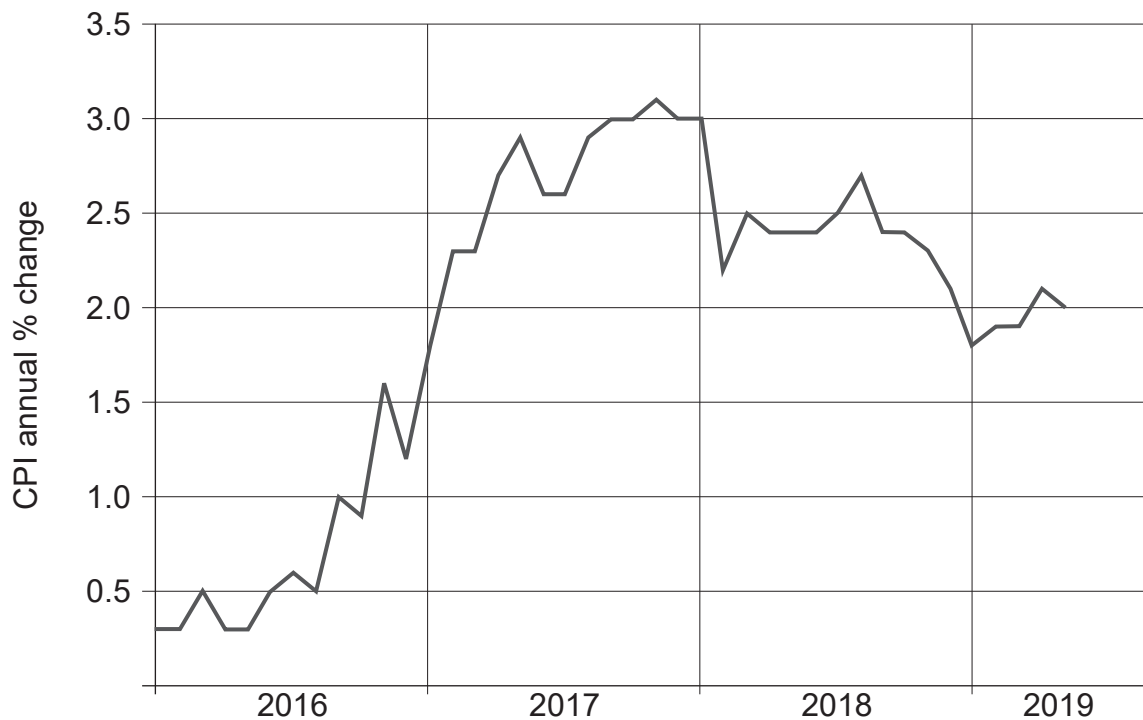
- (a) With reference to the diagram above, explain what is meant by a positive output gap. [3]
- (b) With the aid of an appropriate diagram, analyse how the government could use fiscal policy to deal with this positive output gap. [6]

Section B (35 marks)

Answer all questions

The following article was written in August 2019. Read it carefully and answer the questions which follow.

6 UK inflation rate slows



Source: ONS

Fig. 1: UK Consumer Price Index (CPI) inflation, January 2016 to May 2019

A fall in transport costs and cheaper clothing brought an end to the recent rise in the rate of inflation that had been threatening to force the Bank of England to increase interest rates. Falling energy costs and a price war in the car industry, following a slump in sales over the last year, also helped to bring down inflation from 2.4% in May 2018 to bang-on the inflation target of 2.0% in May 2019, as shown in **Fig. 1** above. This fall in the rate of inflation, while modest, is expected to be enough to persuade all nine members of the Monetary Policy Committee that there is very little price pressure building in the economy, and hence makes the prospect of a further increase in interest rates very unlikely.

1

While the fall in the official inflation rate is widely regarded to be a good thing for UK consumers, internet blogger Nigel Waltz claimed that the news was not as positive as most people believed. "UK consumers do not really understand what inflation is or how it is measured, and hence they associate falling inflation with falling prices, which is clearly not the case."

2

Many economists are now predicting that inflation will remain subdued or even fall further over the next nine to twelve months. Howard Caston, economic advisor to a number of investment funds, stated that “recent reductions in growth forecasts as a result of domestic political uncertainties and difficult global trading conditions are likely to reduce inflationary pressures from the demand side. At the same time, the recent falls in oil and energy prices are likely to reduce inflationary pressures from the supply side. Combined, these factors mean that we expect to see inflation remain flat for the next three to four quarters at the very least”.

3

With growth and inflation expectations so low, a number of economists are suggesting that the Bank of England will need to consider cutting interest rates in an attempt to provide a much needed stimulus to the UK economy. Howard Caston even went as far as calling on the Bank of England to “immediately implement an expansionary monetary policy in an attempt to save the UK economy from falling into a deep and prolonged period of low or even negative growth”.

4

- (a) Using the information in **Fig. 1**, describe the trend in the UK inflation rate between January 2016 and May 2019. [5]
- (b) Explain the difference between falling inflation and falling prices (paragraph 2). [6]
- (c) Analyse why many economists are predicting that inflation is likely to “remain flat for the next three to four quarters” (paragraph 3). [9]
- (d) Critically examine the proposal in paragraph 4 that the Bank of England should “immediately implement an expansionary monetary policy”. [15]

Source: Fig.1....© Office for National Statistics. Contains public sector information licensed under the Open Government Licence v3.0...

Section C (20 marks)

Answer one question

- 7** In recent years, a growing number of economists have been calling on national governments to adopt a policy of zero economic growth amid concerns that the relatively high rates of economic growth experienced in the last 50 years had done nothing but damage the environment and widen inequality.

Critically examine the view that the UK government should adopt a policy of targeting zero economic growth. [20]

- 8** A report published by the ONS has claimed that UK productivity, as measured by output per worker hour, is approximately 25% behind our main EU competitors such as France and Germany. This has led to calls for the UK government to implement strategies to improve the UK's productivity.

Critically examine the range of policies the UK government could implement in order to reduce the gap in productivity with our main competitors. [20]

THIS IS THE END OF THE QUESTION PAPER

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will be happy to rectify any omissions of acknowledgement in future if notified.