Please check the examination details below before entering your candidate information

Candidate surname	Other names

Centre Number | Candidate Number

Pearson Edexcel Level 3 GCE

Time 2 hours

Paper reference **9EC0/02**

Economics A

Advanced
PAPER 2: The National and Global Economy

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- There are three sections in this question paper. Answer **all** questions from Section A and Section B. Answer **one** question from Section C.
- Answer the questions in the spaces provided – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

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SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 According to the Bank of England, the UK's marginal propensity to consume is estimated to be 0.64.

(Source: adapted from https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2017/the-consumption-response-to-positive-and-negative-income-changes.pdf?)

(a) Using the information above, calculate the total reduction in the UK's GDP from a fall in government spending of £20 million.

(4)

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(b) Which **one** of the following is an injection into the circular flow of income?

(1)

- ☒ **A** Imports
- ☒ **B** Investment
- ☒ **C** Savings
- ☒ **D** Taxation

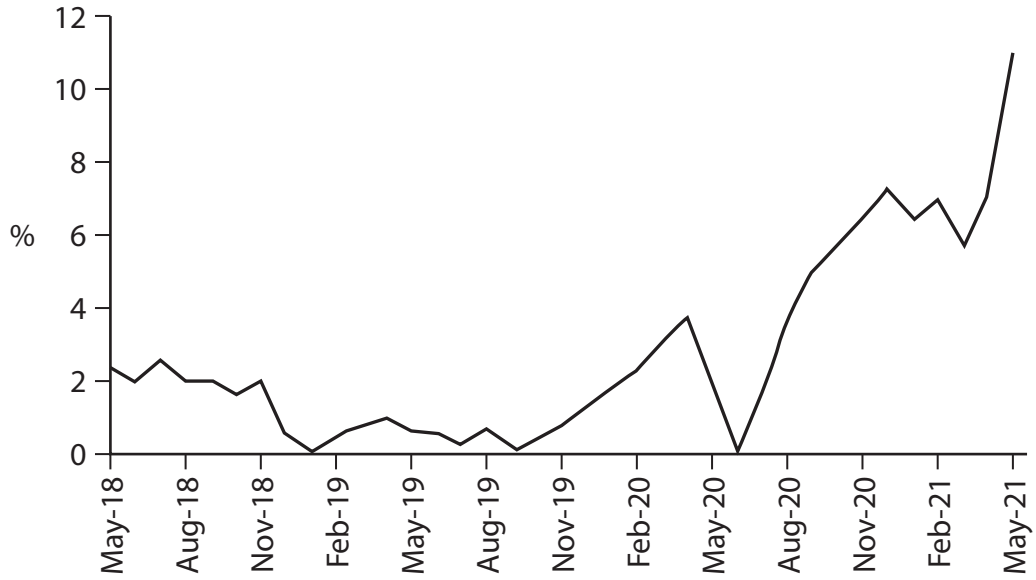
(Total for Question 1 = 5 marks)

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2 Annual percentage change in average UK house prices



(Source: adapted from https://www.nationwide.co.uk/-/media/MainSite/documents/about/house-price-index/2021/May_2021.pdf)

(a) With reference to the chart, which **one** of the following is true?

Average UK house prices:

(1)

- ☒ **A** fell in August 2020
- ☒ **B** fell in November 2018
- ☒ **C** rose the fastest in May 2021
- ☒ **D** stayed constant in 2018

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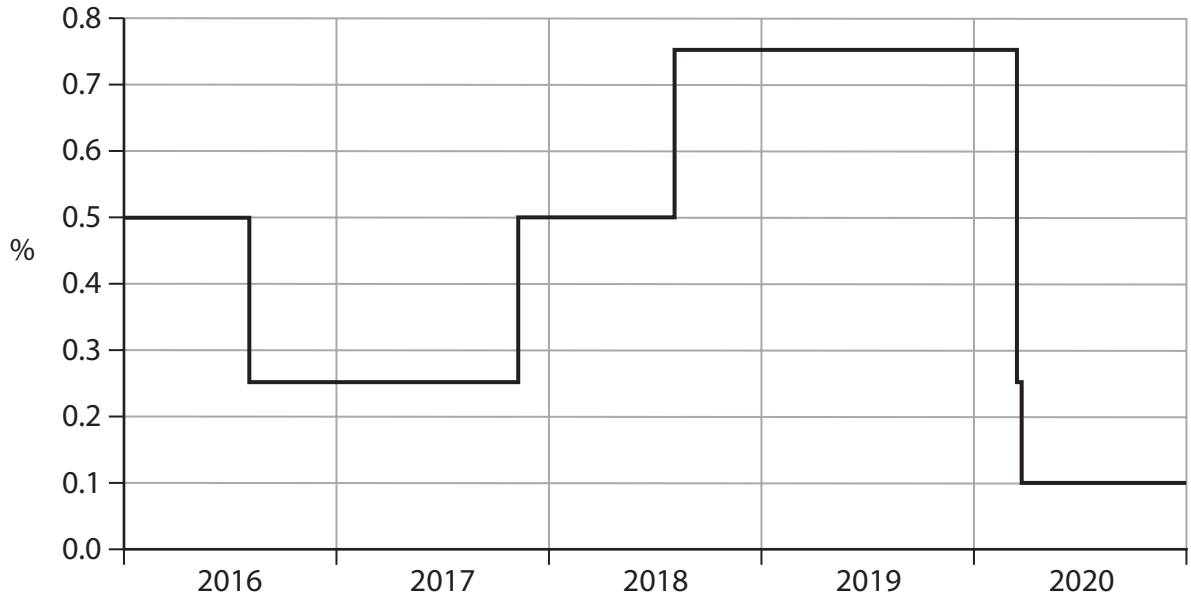
(b) With reference to the chart on the previous page, explain the likely impact of an increase in average house prices on UK consumption.

(4)

(Total for Question 2 = 5 marks)

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3 Bank of England base interest rate, 2016–2020



(Source: adapted from https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate)

(a) With reference to the chart above, explain the likely impact of a reduction in the base interest rate on UK investment.

(4)

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(b) Which **one** of the following would be most likely to result from lower base interest rates?

A fall in:

(1)

- ☒ **A** the average price of houses
- ☒ **B** the external value of the pound
- ☒ **C** the level of employment
- ☒ **D** the rate of economic growth

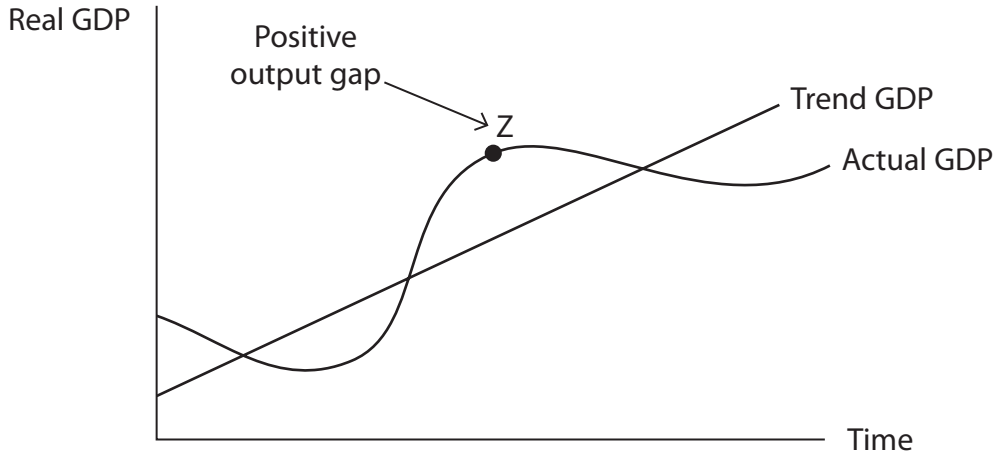
(Total for Question 3 = 5 marks)

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4 The trade cycle



(a) At point Z on the diagram, which **one** of the following is likely to occur?

An increase in:

(1)

- ☒ **A** absolute poverty
- ☒ **B** budget deficit
- ☒ **C** cyclical unemployment
- ☒ **D** inflation

(b) With reference to the graph, explain the difference between automatic stabilisers and discretionary fiscal policy.

(4)

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(Total for Question 4 = 5 marks)

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5 In May 2020, the UK government introduced a loan scheme to help small businesses survive the downturn in the economy. Small businesses could borrow up to £50 000 at an interest rate of 2.5% for up to 6 years from a bank. The government guaranteed 100% of the loans, to enable banks to issue them quickly, and only minimal checks were made on borrowers.

(Source: adapted from https://www.ft.com/content/1ca15db2-93e4-4e34-877d-110309cd9716)

(a) With reference to the information above, explain **one** role of financial markets.

(4)

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(b) Which **one** of the following would be a risk if 'only minimal checks were made on borrowers' in this loan scheme?

(1)

- ☒ **A** Asymmetric information
- ☒ **B** Crowding out
- ☒ **C** Market rigging
- ☒ **D** Speculation

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

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SECTION B

Read Figures 1 and 2 and the following extracts (A to C) before answering Question 6.

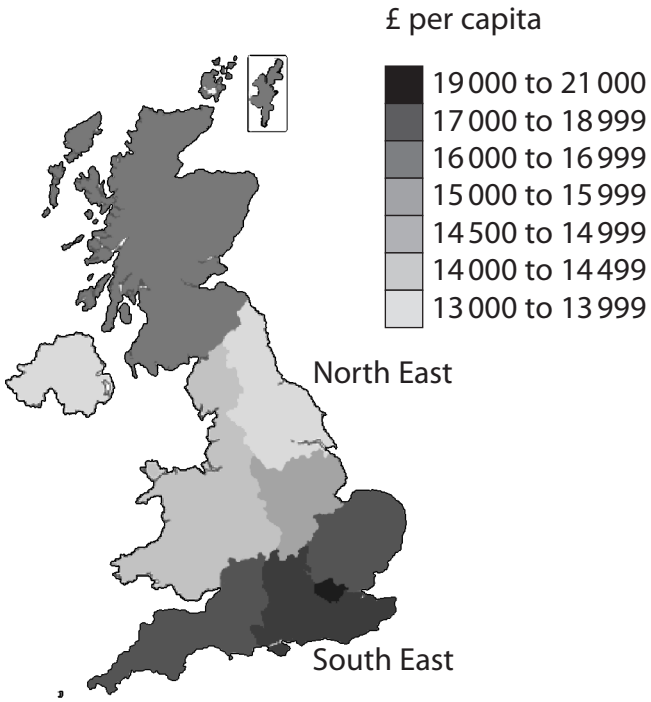
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

UK Government spending and inequality

Figure 1: UK regional gross disposable household income per capita, 2018



(Source: adapted from University of Sheffield/Office for National Statistics: https://www.sheffield.ac.uk/news/nr/uk-higher-regional-inequality-large-wealthy-country-1.862262)

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Figure 2: UK subjective happiness by income, April 2021

Answer to the question: 'On a scale of 1–10, how happy did you feel after yesterday?' (0 = not at all, 10 = completely)

Less than £10 000	£10 000–£20 000	£20 000–£40 000	More than £40 000
7.31	7.02	7.13	7.29

(Source: adapted from https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/datasets/incomegroupsplitestimatesonpersonalandeconomicwellbeingacrosstime)

Extract A

Regional inequality in the UK

Geographically, the UK is highly unequal in incomes. According to research from the University of Sheffield, the estimate of the Gini coefficient is 0.34. There are a number of different reasons for this. First, labour in poor places tend to develop too few skills, with a lack of education holding people back. In Rotherham in the north of England, for example, 21% of disadvantaged 18-year-olds from state schools and colleges go on to higher education compared to 41% in London. Secondly, there is a lack of infrastructure spending in northern cities compared to London. In 2017–18, 28% of public expenditure on transport – and 46% of capital expenditure on railways – was spent in London. The argument for this is that London gets a lot of public money because a lot of people take public transport. This has angered many people in the North.

These problems cannot be solved quickly. They compound each other. Just as people are rarely poor for one reason, regions do not fall behind only because they have poor transport, poor schools or poor policy making, but for all those reasons and more. Ideally, the UK would develop a bold plan for regional development that could be followed by future governments, as Germany did for its eastern part. Tera Allas of McKinsey, a consultancy firm, argues that improving education is crucial, even if the returns are not immediately obvious. It is easier to improve schools than to persuade businesses to move to a poorer part of the country.

(Source: adapted from https://www.economist.com/britain/2020/07/30/why-britain-is-more-geographically-unequal-than-any-other-rich-country)

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Extract B

Public sector spending on infrastructure

Economic differences across the UK are large and have grown. The government is looking at reducing this inequality partly through spending on transport infrastructure. Public sector capital spending is due to rise from just over 2% of GDP to 3%. That amounts to around £20 billion of additional spending per year on new capital projects. The government is looking to take advantage of current low interest rates to finance the expansion without worsening its fiscal position.

The government is determined to focus this spending on the north of England, Wales and the Midlands. Planned schemes include a new Trafford Park tram line in Manchester and reopening train lines and stations closed back in the 1960s, including stations in Haxby in Yorkshire and Blyth in Northumberland. Progress has already been made in Wales with the reopening of Bow Street station near Aberystwyth. This project has taken 11 years to become a reality and cost £8m. It is estimated that it will generate a boost to the economy of £24m through boosting local trade, creating new jobs in the local area, and easing pressure on congested roads heading into Aberystwyth.

(Source: adapted from https://www.economist.com/britain/2020/01/09/the-coming-splurge-on-northern-infrastructure and https://www.wales247.co.uk/transport-for-wales-delivers-new-bow-street-station)

Extract C

Options for UK tax rises in the future

There are a number of options for raising additional tax revenue in the future. These include:

- increasing council tax on houses: this annual charge paid to local government is currently based on estimated house prices in 1991 and so is very out of date. This would negatively affect areas where house prices have risen the most since 1991
- a one-off wealth tax: a 5% tax on property and pension wealth of more than £500 000 would raise £260 billion to help pay for the global health crisis in five years, according to proposals from the Wealth Commission
- increasing corporation tax: at the 2021 Budget the Chancellor announced that the top rate of UK corporation tax would be increased to 25% by 2023. This will remain the lowest rate in the G7 group of the world's largest advanced countries, but will raise £17.2 billion in 2025–26.

(Source: adapted from https://www.telegraph.co.uk/tax/income-tax/five-tax-rises-rishi-sunak-considering-chances-happening-budget/, and https://home.kpmg/uk/en/home/insights/2021/03/tmd-corporation-tax-rate-to-increase-to-25-percent.html)

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6 (a) Using a Lorenz curve diagram, explain how income inequality is measured using the Gini coefficient. Refer to Extract A in your answer.

(5)

(b) With reference to Figure 1 and Extract A, examine **two** likely causes of income inequality within the UK.

(8)

(c) With reference to Figure 2, assess whether an increase in real income improves subjective happiness within the UK.

(10)

(d) With reference to Extract C and your own knowledge, discuss methods the UK government could use to increase tax revenue.

(12)

(e) With reference to Extract B, discuss the benefits of an increase in infrastructure spending on the UK economy. Use an aggregate demand and aggregate supply diagram to support your answer.

(15)

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6 (a) Using a Lorenz curve diagram, explain how income inequality is measured using the Gini coefficient. Refer to Extract A in your answer.

(5)

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(b) With reference to Figure 1 and Extract A, examine **two** likely causes of income inequality within the UK.

(8)

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(c) With reference to Figure 2, assess whether an increase in real income improves subjective happiness within the UK.

(10)

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(d) With reference to Extract C and your own knowledge, discuss methods the UK government could use to increase tax revenue.

(12)

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(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

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SECTION C

Answer ONE question from this section.

Write your answer in the space provided.

You are advised to spend 30 minutes on this section.

EITHER

7 Both China and the United States have been gradually increasing the tariffs imposed on each other's exports as their trade dispute continues. The IMF estimated that the trade dispute between China and the United States would reduce global GDP growth by 0.8 percentage points by the end of 2020.

(Source: adapted from https://www.theguardian.com/business/2019/oct/15/imf-recession-world-growth-forecast-central-banks)

Evaluate the likely impact of an increase in protectionism on the global economy.

(Total for Question 7 = 25 marks)

OR

8 With global economic growth slowing and inequality rising, the case against globalisation is strengthening. But there are also many benefits to globalisation. Global trade and international trade agreements allow countries to focus on their strengths and share expertise, as well as reducing risk through diversification.

(Source: adapted from https://www.ft.com/content/7b365844-9b75-11ea-adb1-529f96d8a00b)

Evaluate the likely impact of globalisation on the global economy.

(Total for Question 8 = 25 marks)

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Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 7** ☒ **Question 8** ☒

Write your answer here:

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TOTAL FOR SECTION C = 25 MARKS
TOTAL FOR PAPER = 100 MARKS

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