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Surname	Other names

Pearson Edexcel Level 3 GCE

Centre Number | | | | | |

Candidate Number | | | | |

Economics A

Advanced Subsidiary
Paper 2: The UK Economy – Performance and Policies

Thursday 17 May 2018 – Morning
Time: 1 hour 30 minutes

Paper Reference
8EC0/02

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 two sections in this question paper.
- Answer **all** questions in Section A.
- In Section B, answer **all** of questions 6(a) to 6(e) and **one** question from 6(f) or 6(g).
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- 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 25 minutes on this section.

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

1 The table below shows the UK Gross Domestic Product (GDP) and population, 2013 to 2015.

Year	GDP (£ millions)	Population (millions)
2013	1 739 563	64.1
2014	1 822 480	64.6
2015	1 872 714	65.1

(Source: ONS, https://www.ons.gov.uk/)

(a) Define the term 'Gross Domestic Product'.

(1)

(b) Calculate the UK's GDP per capita in 2015. You are advised to show your working.

(2)

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(c) Which **one** of the following is the most likely effect of an increase in real GDP per capita?

(1)

- ☒ **A** Increase in living standards
- ☒ **B** Increase in unemployment
- ☒ **C** Lower consumer confidence
- ☒ **D** Lower purchasing power

(Total for Question 1 = 4 marks)

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2 (a) Define the term 'recession'.

(1)

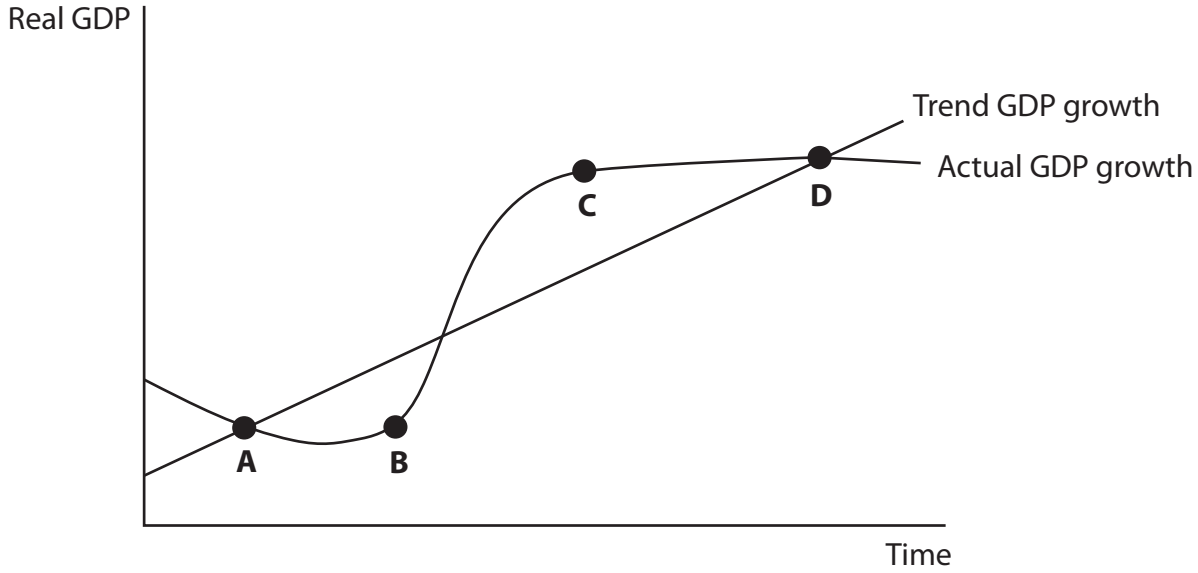
(b) Explain **one** characteristic of a recession.

(2)

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(c) Which point on the trade cycle diagram illustrates a negative output gap?

(1)

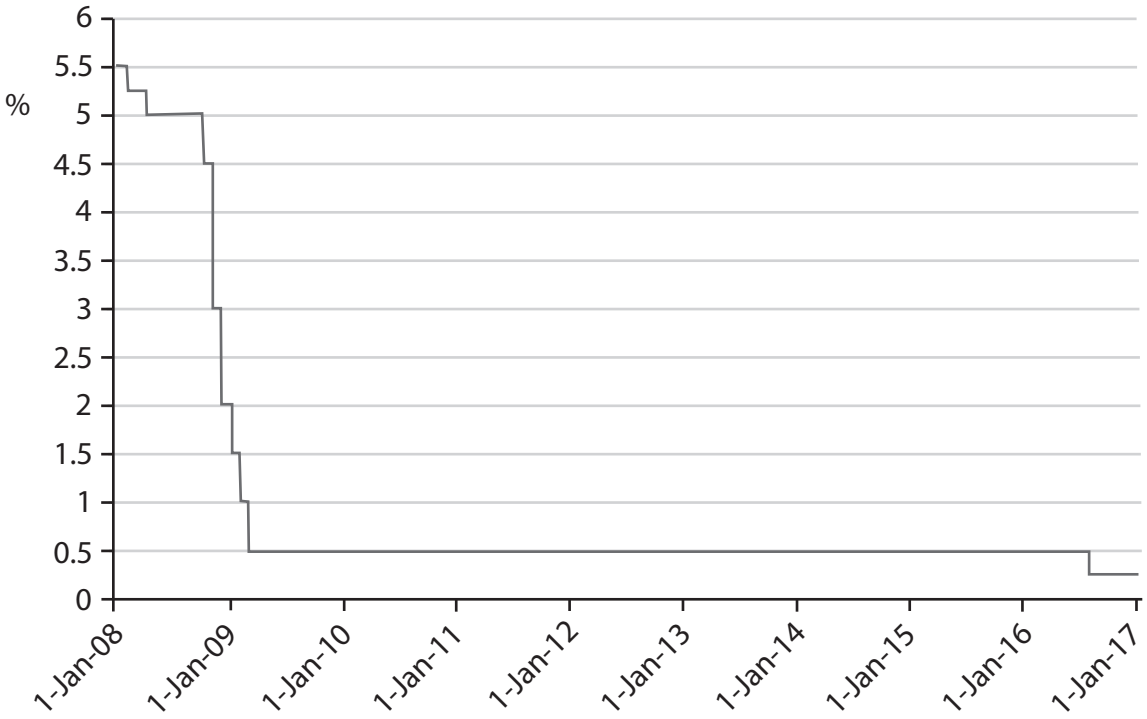


- ☒ **A**
- ☒ **B**
- ☒ **C**
- ☒ **D**

(Total for Question 2 = 4 marks)

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3 UK base interest rate, January 2008 to January 2017



(Source: Bank of England, http://www.bankofengland.co.uk/boeapps/iadb/Repo.asp)

(a) With reference to the chart above, explain **one** factor that the Monetary Policy Committee (MPC) of the Bank of England may have considered when reducing the base interest rate.

(3)

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In August 2016 the Bank of England extended its existing asset purchases (quantitative easing) programme, from a total of £375 billion to £435 billion.

(b) Which **one** of the following is the most likely effect of the Bank of England's quantitative easing?

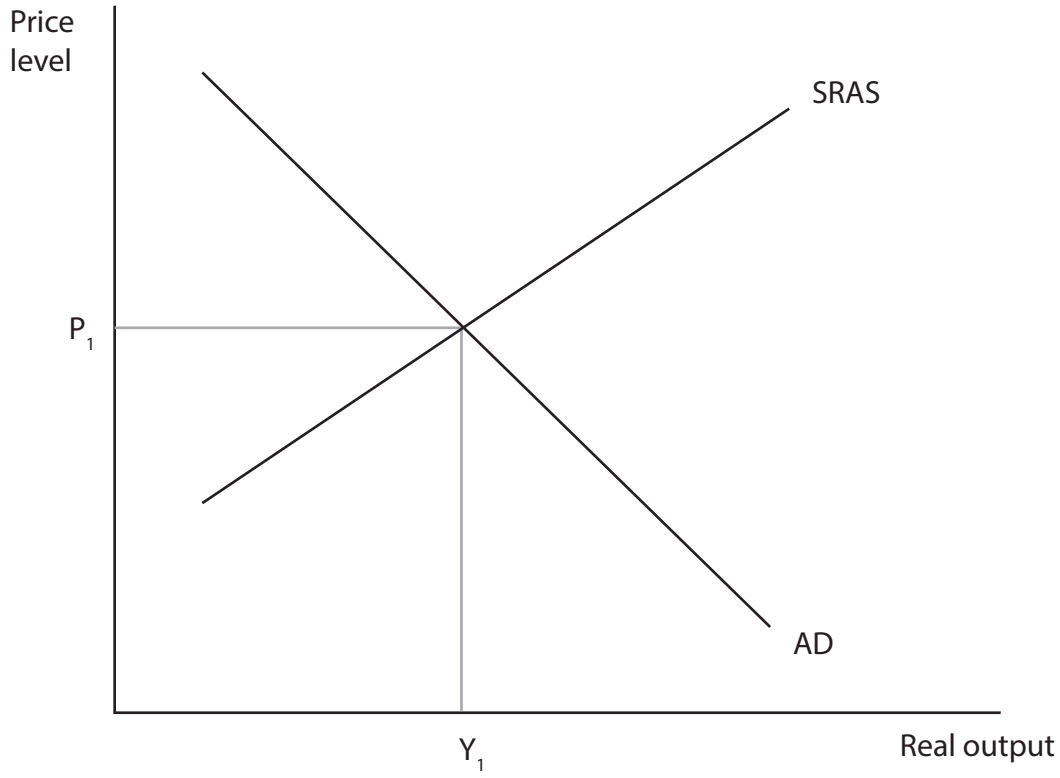
(1)

- ☒ **A** A fall in economic growth
- ☒ **B** A fall in the money supply
- ☒ **C** An increase in the rate of inflation
- ☒ **D** An increase in unemployment

(Total for Question 3 = 4 marks)

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4 The diagram below shows the aggregate demand (AD) and short-run aggregate supply (SRAS) for the UK.



(a) Define the term 'aggregate demand'.

(1)

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.....

.....

(b) Annotate the diagram above to show the likely impact of a rise in the cost of raw materials on the UK's equilibrium level of real output and price level.

(2)

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(c) Which **one** of the following factors is most likely to cause an increase in the long-run aggregate supply?

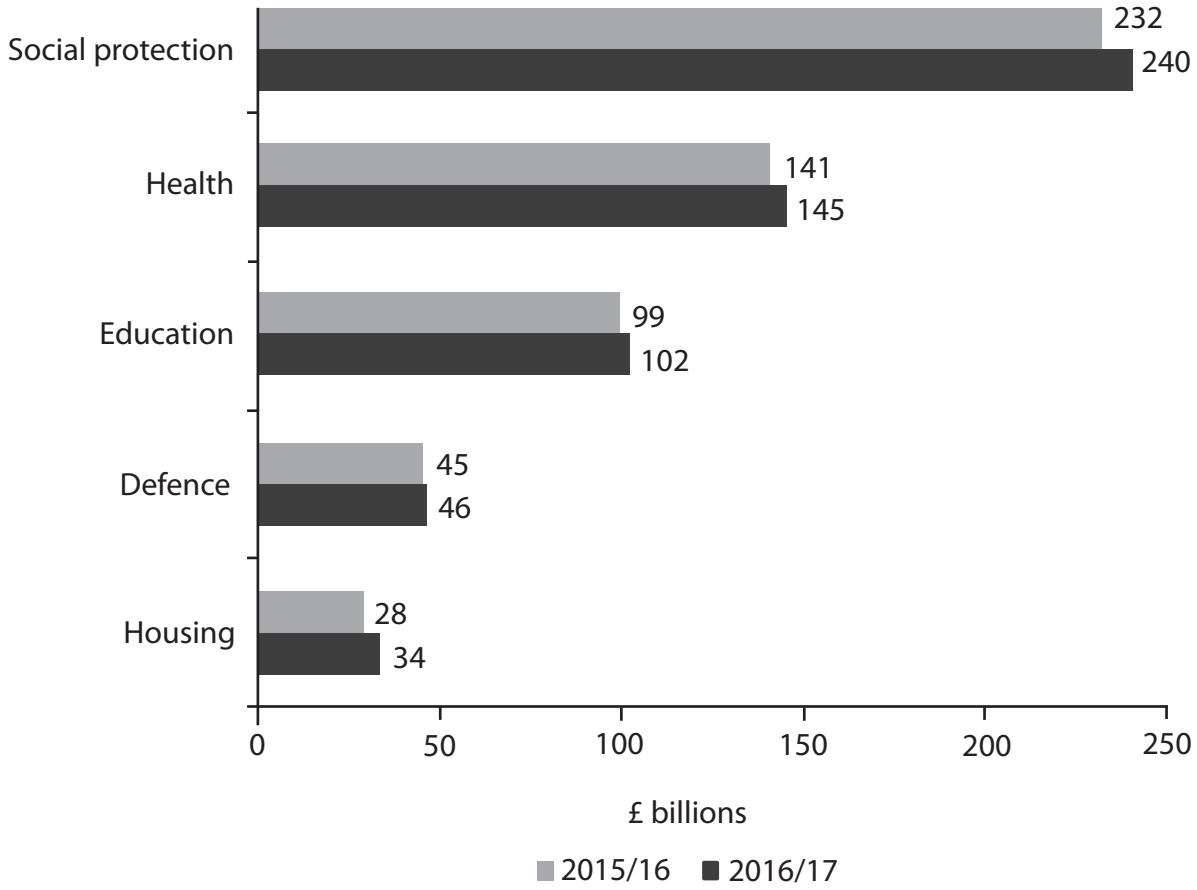
(1)

- ☒ **A** Decrease in investment
- ☒ **B** Increase in relative productivity
- ☒ **C** Increase in the level of unemployment benefits
- ☒ **D** Reduced access to credit for consumers and businesses

(Total for Question 4 = 4 marks)

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5 The chart below shows selected areas of forecast UK government spending for 2015/16 and 2016/17.



(Source: Budget 2015, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416330/47881_Budget_2015_Web_Accessible.pdf; Budget 2016, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508193/HMT_Budget_2016_Web_Accessible.pdf)

(a) Which **one** of the following can be inferred from the chart?

In 2016/17:

(1)

- ☒ **A** the change in forecast UK government spending is highest on education
- ☒ **B** the forecast UK government spending in all areas has fallen from 2015/16
- ☒ **C** the forecast UK government spending on defence is twice as much as the forecast spending on housing
- ☒ **D** the percentage change in forecast UK government spending on health, from 2015/16, is 2.84%

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(b) In 2016/17 total forecast UK government spending amounted to £772 billion and total forecast tax receipts amounted to £716 billion.

Calculate forecast UK government spending on social protection as a percentage of total forecast UK government spending in 2016/17. You are advised to show your working.

(2)

(c) Define the term 'budget deficit'.

(1)

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

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SECTION B

Read Figures 1 to 3 and the following extracts (A and B) before answering Question 6.

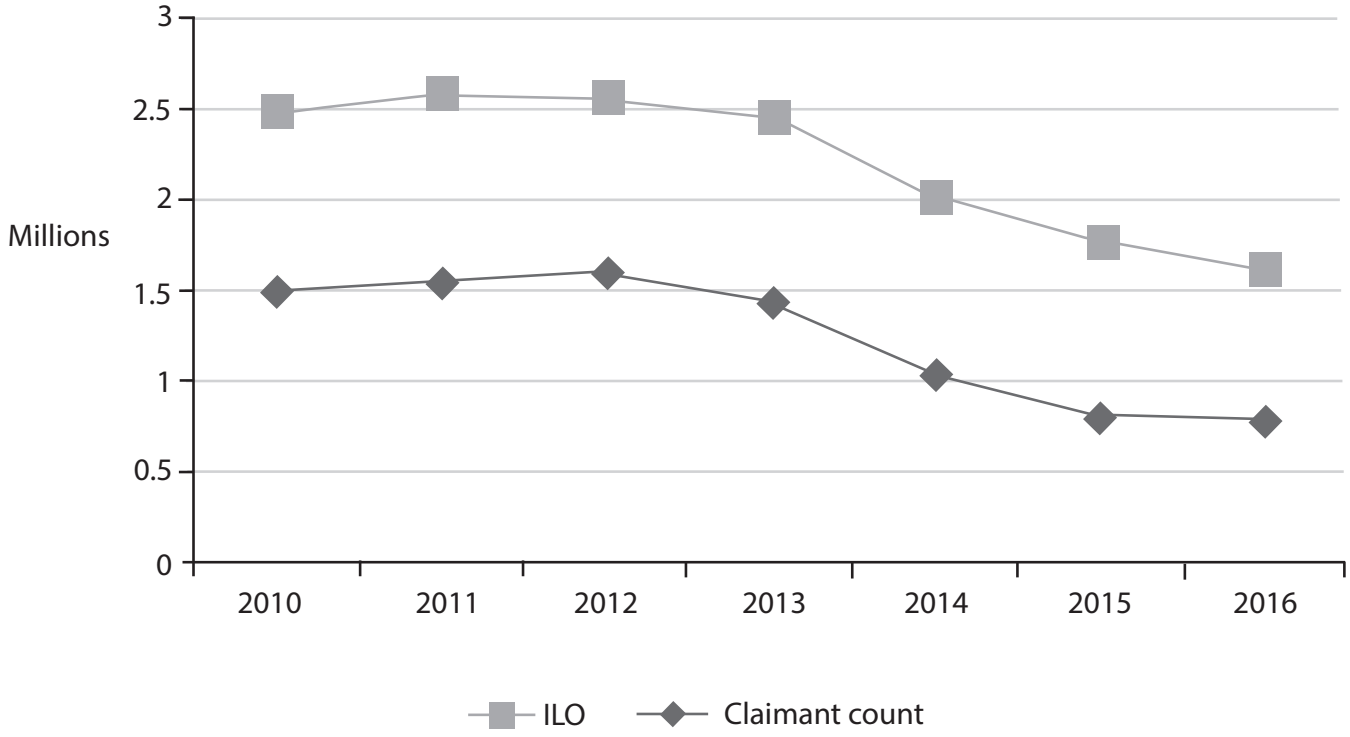
Answer ALL Questions 6(a) to 6(e), and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

The UK economy

Figure 1: Unemployment – International Labour Organisation (ILO) and the claimant count, millions, 2010-2016

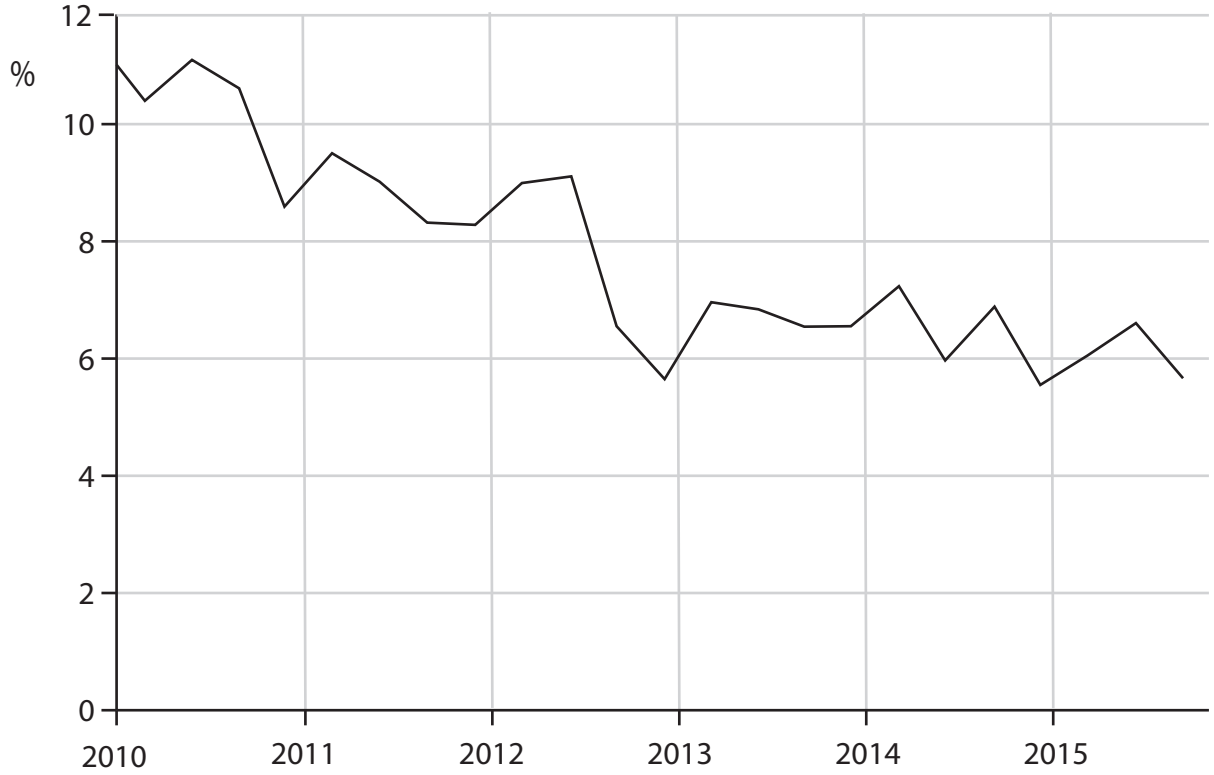


(Source: ONS Datasets, https://www.ons.gov.uk/)

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Figure 2: Household savings*, 2010-2015



* Savings as a percentage of household disposable income

(Source: http://www.tradingeconomics.com/united-kingdom/personal-savings)

Figure 3: UK average house prices, 2005–2016



(Source: http://www.telegraph.co.uk/property/house-prices/the-state-of-the-uk-housing-market-in-five-charts/)

Extract A

Soaring house prices

House prices are still rising rapidly. The average UK house price was £214 000 in June 2016, according to the Office for National Statistics (ONS). This is £24 000 more than it was at its peak in September 2007, just before the economic downturn. First-time buyers have experienced the largest rise in house prices.

Even the loss of consumer confidence over Britain's vote to leave the EU did not stop house prices from rising – annual growth increased from 5.2% in July 2016 to 5.6% in August 2016. House price growth was the strongest in London, with annual average prices rising by 9.6%. However, in Wales average house prices actually fell by 0.5% during the same period. In its first post-Brexit referendum forecast, estate agency Countrywide said that house prices will fall by 1% across the UK in 2017, before rising by 2% in 2018.

Real household income in the UK fell by 10.4% in the years following the financial crisis. This increased the difference between real income and house prices. In 1997, a house cost little more than twice the average income. By early 2015, the average price of a house was five times the average annual income.

The rate of home ownership for 25 to 34-year-olds has fallen to 35.8% over the last twenty-five years as houses became less affordable. First-time buyers have to wait longer to save up for a house deposit. Conversely, home ownership has risen to 78.6% among those aged 65 to 74.

(Source: adapted from 'The state of the UK housing market in five charts', The Telegraph, http://www.telegraph.co.uk/property/house-prices/the-state-of-the-uk-housing-market-in-five-charts/; 'UK house price growth slows as demand cools after Brexit vote', The Guardian, https://www.theguardian.com/business/2016/sep/30/uk-house-price-growth-slows-demand-cools-brexit-vote-nationwide)

Extract B

UK migration trends in the year ending June 2016

Inward migration levels are among the highest ever recorded with an estimated 650 000 people moving to the UK. This is an increase of around 11 000 from the previous year.

Employment remains the most common reason for long-term migration (312 000) to the UK, with around 182 000 of these coming with a definite job and 130 000 looking for work.

Long-term migration to the UK for study was estimated to be 163 000. In addition, 80 000 long-term migrants arrived in the UK to accompany their families. There were 41 280 refugees applying for asylum, including dependants, of which 10 547 people were granted asylum. Asylum applicants cannot usually accept offers of employment while their case is being processed.

(Source: adapted from 'Migration Statistics Quarterly Report: December 2016', ONS, https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/dec2016)

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6 (a) With reference to Figure 1, explain **one** reason why the claimant count and the ILO measure of unemployment differ.

(4)

(b) With reference to Extract A, assess the likely macroeconomic effects of an increase in house prices. Use an aggregate demand and aggregate supply diagram in your answer.

(10)

(c) With reference to the information provided, explain **one** likely factor, other than changes in house prices, that could influence the level of savings of UK households.

(5)

(d) Explain **two** factors that might cause a rise in the value of the multiplier.

(6)

(e) With reference to Extract B and Figure 1, discuss the likely impact of migration on employment **and** unemployment in the UK.

(15)

EITHER

(f) Evaluate government policies, apart from migration policies, that could be used to increase the employment rate in the UK.

(20)

OR

(g) Evaluate the likely impact of high inflation on the UK government's macroeconomic objectives.

(20)

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6 (a) With reference to Figure 1, explain **one** reason why the claimant count and the ILO measure of unemployment differ.

(4)

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(b) With reference to Extract A, assess the likely macroeconomic effects of an increase in house prices. Use an aggregate demand and aggregate supply diagram in your answer.

(10)

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(c) With reference to the information provided, explain **one** likely factor, other than changes in house prices, that could influence the level of savings of UK households.

(5)

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(d) Explain **two** factors that might cause a rise in the value of the multiplier.

(6)

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(e) With reference to Extract B and Figure 1, discuss the likely impact of migration on employment **and** unemployment in the UK.

(15)

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(20)

OR

(g) Evaluate the likely impact of high inflation on the UK government's macroeconomic objectives.

(20)

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 6(f)** ☒ **Question 6(g)** ☒

Write your answer here:

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(Total for Question 6 = 60 marks)

TOTAL FOR SECTION B = 60 MARKS
TOTAL FOR PAPER = 80 MARKS

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