Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel Level 3 GCE

Centre Number	Candidate Number

Thursday 16 May 2019

Morning (Time: 1 hour 30 minutes) | Paper Reference **8EC0/02**

Economics A

Advanced Subsidiary

Paper 2: The UK Economy – Performance and Policies

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 It is estimated that building a second runway at Gatwick airport will require an investment of £9.3 billion.

The total increase in UK GDP as a result of this injection is expected to be around £44.1 billion.

(Source: adapted from www.gov.uk/government/uploads/system/uploads/attachment_data/file/ 452267/AC01_tagged_amend_25_11.pdf © Crown Copyright)

(a) Define the term 'injection' in this context.

(1)

(b) Calculate the value of the multiplier based on the data given. You are advised to show your working.

(2)

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(c) Which **one** of the following is a likely cause of a decrease in the value of the UK's multiplier?

(1)

- ☒ **A** A decrease in the marginal propensity to save
- ☒ **B** A decrease in the marginal propensity to tax
- ☒ **C** An increase in the marginal propensity to consume
- ☒ **D** An increase in the marginal propensity to import

(Total for Question 1 = 4 marks)

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2 (a) Illustrate the shape of the Keynesian long-run AS curve on the diagram below.

(1)



(b) Explain what is meant by spare capacity in an economy.

(2)

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(c) Which **one** of the following is most likely to cause a movement along the AS curve?

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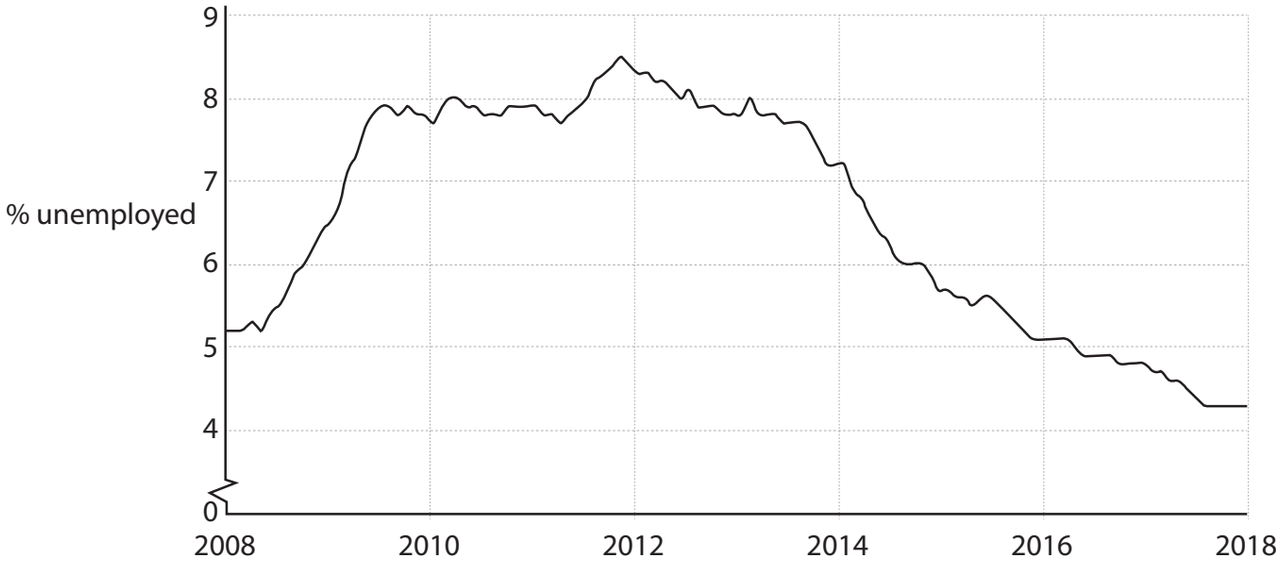
(1)

- ☒ **A** competition policy
- ☒ **B** relative productivity
- ☒ **C** the cost of raw materials
- ☒ **D** the level of aggregate demand

(Total for Question 2 = 4 marks)

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3 UK unemployment rate as a % of all those economically active, seasonally adjusted, from 2008 to 2018



(Source: adapted from https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/ unemployment/timeseries/mgsx Crown Copyright)

(a) With reference to the chart above, explain **one** likely economic effect of the change in the UK unemployment rate between 2012 and 2018.

(3)

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(b) Which **one** of the following policies is most likely to reduce the unemployment rate in the UK?

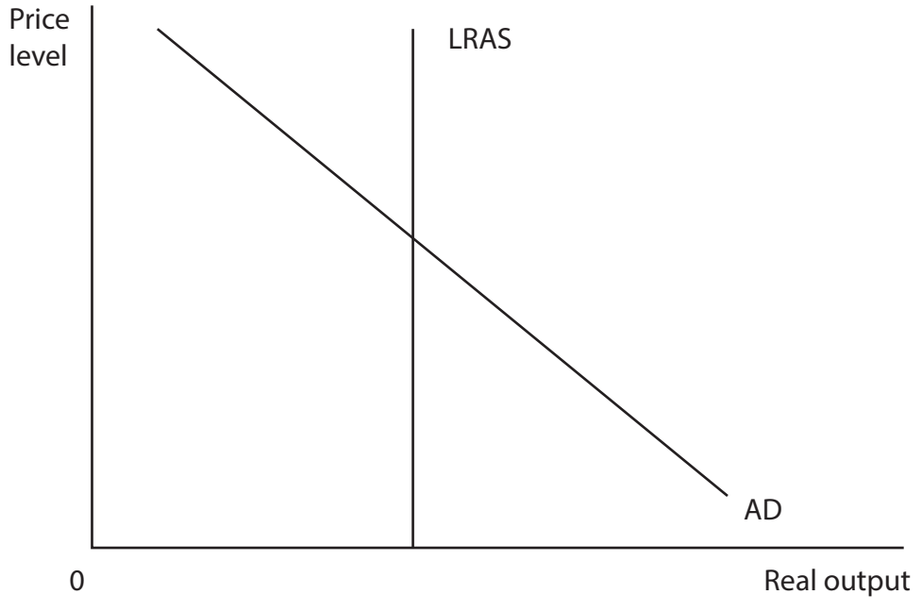
(1)

- ☒ **A** A decrease in direct taxes on company profits
- ☒ **B** A decrease in quantitative easing
- ☒ **C** An increase in government payments to the unemployed
- ☒ **D** An increase in the UK base interest rate

(Total for Question 3 = 4 marks)

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4 The diagram below shows the aggregate demand (AD) and a possible long-run aggregate supply (LRAS) for the UK.



(a) Define the term 'price level'.

(1)

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(b) Annotate the diagram above to show the likely impact of government policy to promote business competition on the equilibrium level of real output and price level.

(2)

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(c) Which **one** of the following is an interventionist supply-side policy?

(1)

- ☒ **A** An improvement in infrastructure
- ☒ **B** An increase in indirect taxation
- ☒ **C** An increase in interest rates
- ☒ **D** An increase in the regulation of markets

(Total for Question 4 = 4 marks)

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5 The table below shows average UK house prices between July 2014 and July 2017.

Year	Average house prices (£)	Index numbers of average UK house prices (2014 is the base year)
2014	189 709	100
2015	200 141	
2016	215 127	
2017	226 185	119.2

(Source: adapted from http://landregistry.data.gov.uk/app/ukhpi/explore - Crown Copyright)

(a) Which **one** of the following is the most likely impact of an increase in average UK house prices on existing homeowners?

(1)

- ☒ **A** Greater confidence
- ☒ **B** Higher income
- ☒ **C** Lower consumption
- ☒ **D** Negative wealth effect

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(b) Using 2014 as the base year, calculate the index number for

(2)

(i) 2015

(ii) 2016.

(c) Define the term 'index number'.

(1)

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

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SECTION B

Read Figures 1 to 4 and extracts (A and B) before answering Question 6.

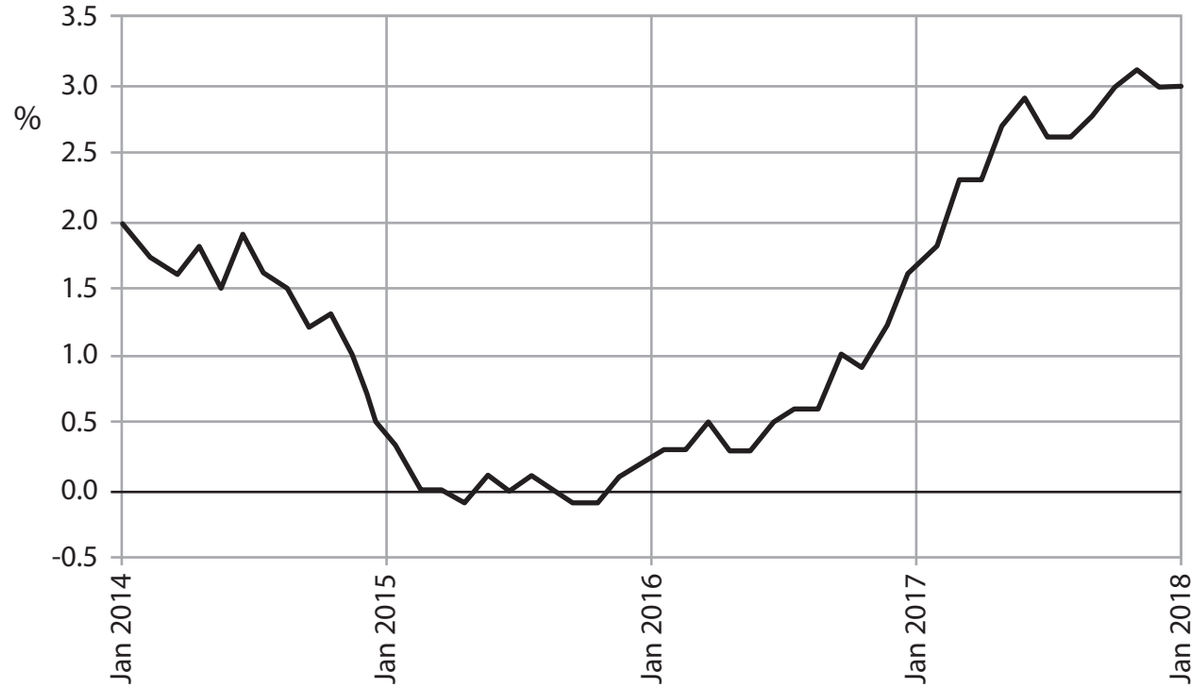
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

UK inflation and economic growth

Figure 1: UK inflation rate as measured by annual percentage changes in the Consumer Price Index (CPI), January 2014 to January 2018



(Source: www.bankofengland.co.uk/publications/Pages/inflationreport/2017/aug.aspx)

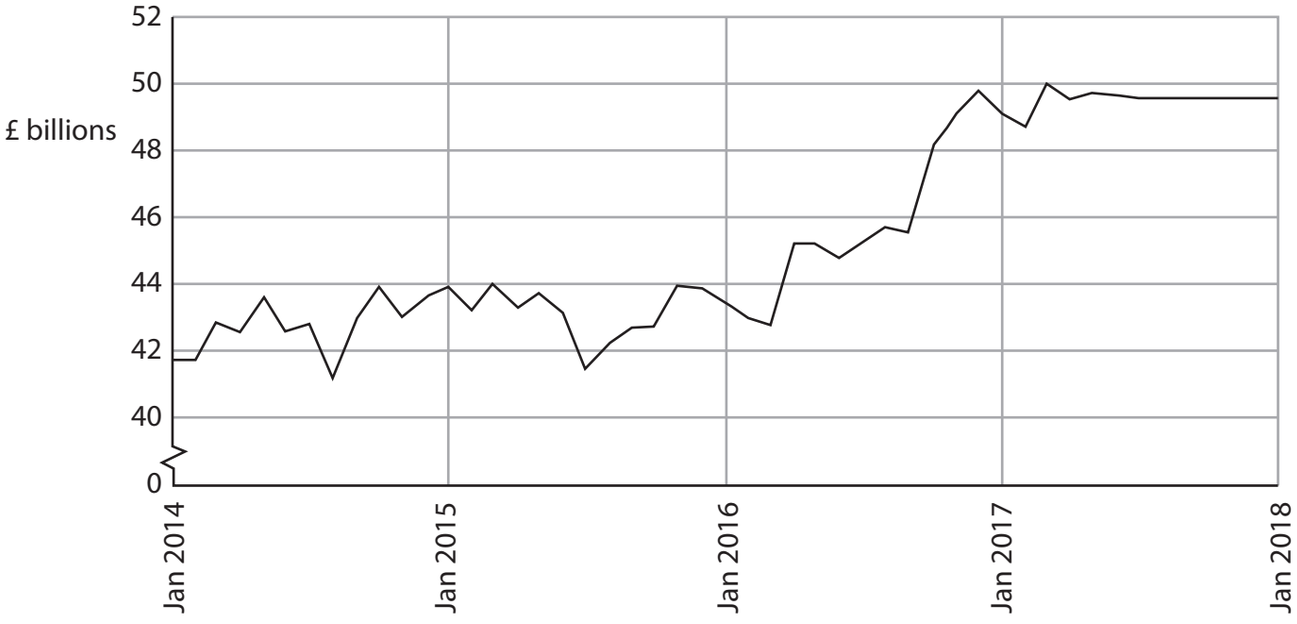
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Figure 2: Selected changes to the CPI basket of goods and services, 2017

IN	OUT
Non-dairy milk	Apple cider
Jigsaw puzzles	Menthol cigarettes
Child scooters	Child swings
Cycling helmets	Basic mobile phones

(Source: www.theguardian.com/business/2017/mar/14/uk-inflation-ons-basket-goods-gin-cycling-helmets)

Figure 3: UK exports, £ billions per month, January 2014 to January 2018



(Source: Trading Economics, ONS - https://tradingeconomics.com/united-kingdom/exports)

Figure 4: Annual percentage change in real Gross Domestic Product (GDP), 2014-2017

	2014	2015	2016	2017
United Kingdom	3.1	2.2	1.8	2.0
Developing countries (average)	4.7	4.2	4.1	4.5

(Source: IMF, World Economic Outlook 2017)

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Extract A

Rising inflation

After January 2017, the inflation rate, as measured by the Consumer Price Index (CPI), in the UK has exceeded the Bank of England's 2% target. Sharp increases in food prices as a result of the fall in the exchange rate of the pound have contributed to rising inflation. Between January and September 2017, food prices have increased by 3.5 percentage points.

The Office for National Statistics (ONS) has identified that the rapid increase in food prices affected people on low fixed incomes the most. It leaves them with very little money to spend on relatively more expensive items. Moreover, the Bank of England has observed a rise in the size of personal debt relative to income. In order to maintain their standard of living, many consumers on low fixed incomes are using their credit cards and taking out short-term loans to fund their spending.

Inflation rose to over 3% at the end of 2017 leading to the Monetary Policy Committee increasing the base rate of interest by 0.25 percentage points to 0.5% in November 2017. Wage growth has been lagging behind price rises and this is expected to continue. Basic wage increases are expected to be only around 1%. This has heaped considerable pressure on households.

The ONS has updated the shopping basket that is used in the measurement of UK inflation, to reflect the lifestyle of households in the country. Technological advancements, changes in consumer tastes and a move towards health, fitness and gluten-free products have made it essential to revise the 2017 basket.

(Source: adapted from 'UK inflation tipped to rise again with wages forecast to stagnate', The Guardian, https://www.theguardian.com/business/2017/aug/13/uk-inflation-tipped-to-rise-again-with-wages-forecast-to-stagnate#img-1)

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Extract B

Economic growth and living standards

Economic growth is expected to accelerate again as foreign demand for UK exports increases due to the global economic recovery. According to some economists, consumer spending is no longer the engine of growth for the UK. The increase in exports, which is largely due to the fall in the exchange rate of the pound, is expected to be the most significant driver of the UK's economic growth.

Some economists have proposed that the quality of economic growth needs to be measured and not just the quantity. This will allow governments to understand how GDP growth affects the living standards of its citizens. They want governments to publish data on the quality of life alongside GDP data as economic growth varies across the country with jobs and wages distributed unevenly. Economic growth figures also hide differences that are not considered in GDP calculations. In 2017, it was estimated that the relative size of the informal economy of developing countries was nearly five times greater than that of the UK.

(Source: adapted from 'Growth to accelerate as UK economy bounces back', The Telegraph, http://www.telegraph.co.uk /business/2017/08/01/growth-accelerate-uk-economy-bounces-back/; 'GDP is not enough: economists and businesses demand new measure of inclusive growth', The Telegraph, http://www.telegraph.co.uk/business/2017/03/07/gdp-not-enough-economists-businesses-demand-new-measure-inclusive/)

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6 (a) With reference to the first paragraph of Extract A and Figure 1, explain how the change in the exchange rate of the pound has 'contributed to rising inflation' (Extract A, line 4).

(4)

(b) With reference to Extract A, explain **two** likely economic effects of the higher rate of UK inflation.

(6)

(c) With reference to the last paragraph of Extract A and Figure 2, explain **one** reason why it is necessary to regularly update the CPI basket of goods and services.

(5)

(d) With reference to Figure 3, assess the likely impact of the change in the value of exports, since mid-2016, on the economic growth of the UK. Use an aggregate demand and aggregate supply diagram in your answer.

(10)

(e) With reference to Figure 4, Extract B and your own knowledge, discuss the limitations of using GDP data to compare living standards between the UK and developing countries.

(15)

EITHER

(f) Evaluate the use of interest rate changes as a means of controlling UK inflation.

(20)

OR

(g) Evaluate the potential conflicts between the objective of economic growth and **two** other UK macroeconomic objectives.

(20)

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6 (a) With reference to the first paragraph of Extract A and Figure 1, explain how the change in the exchange rate of the pound has 'contributed to rising inflation' (Extract A, line 4).

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(b) With reference to Extract A, explain **two** likely economic effects of the higher rate of UK inflation.

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(e) With reference to Figure 4, Extract B and your own knowledge, discuss the limitations of using GDP data to compare living standards between the UK and developing countries.

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EITHER

(f) Evaluate the use of interest rate changes as a means of controlling UK inflation.

(20)

OR

(g) Evaluate the potential conflicts between the objective of economic growth and **two** other UK 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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