Please check the examination details below before entering your candidate information

| Candidate surname | Other names |
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**Pearson Edexcel Level 3 GCE**

| Centre Number | Candidate Number |
|---|---|
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**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.
- Good luck with your examination.

*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** In March 2020 the Monetary Policy Committee (MPC) of the Bank of England reintroduced its quantitative easing programme.

(a) Which **one** of the following is the most likely effect of this quantitative easing?

**(1)**

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

The MPC of the Bank of England also cut the UK's base interest rate from 0.75% to 0.1% in March 2020.

(b) Explain **one** likely impact of a decrease in the base interest rate on inflation.

**(3)**

**(Total for Question 1 = 4 marks)**

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**2** The table below shows the UK's nominal Gross Domestic Product (GDP) and population, 2016 to 2018.

| Year | GDP (£ millions) | Population (millions) |
|---|---|---|
| 2016 | 1 995 478 | 65.6 |
| 2017 | 2 033 234 | 66.0 |
| 2018 | 2 061 408 | 66.4 |

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

(a) Define the term 'nominal'.

**(1)**

(b) Using the above GDP data, which **one** of the following represents the index number for 2016, if 2017 is the base year?

**(1)**

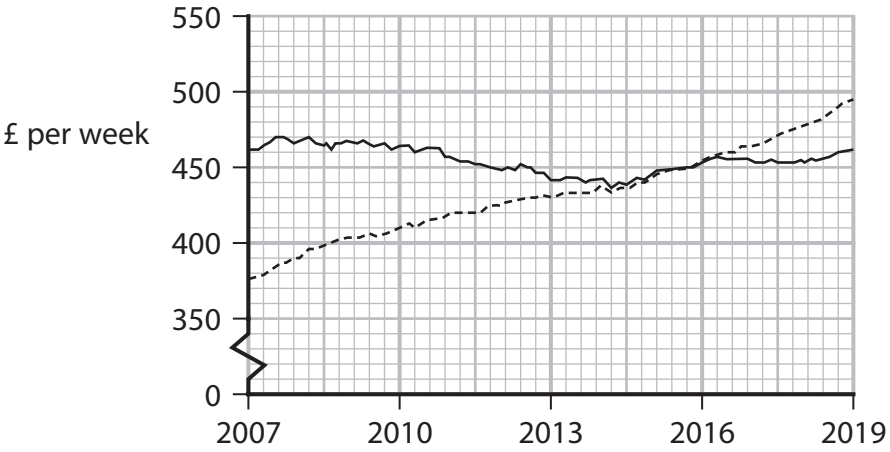
- ☒ **A** 96.8
- ☒ **B** 98.1
- ☒ **C** 101.9
- ☒ **D** 103.3

(c) Calculate the UK's nominal GDP per capita in 2018. You are advised to show your working.

**(2)**

**(Total for Question 2 = 4 marks)**

**3 UK average weekly earnings, January 2007 to January 2019**




(Source adapted from: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/march2019)

(a) Which **one** of the following can be inferred from the above chart?
Between 2007 and 2019,

**(1)**

☒ **A** earnings adjusted for interest rates were lower than earnings not adjusted for interest rates

☒ **B** nominal earnings increased by nearly 125 percentage points

☒ **C** the increase in earnings not adjusted for inflation was greater than earnings adjusted for inflation

☒ **D** there were significant increases in real earnings each year

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(b) With reference to the chart, explain the likely relationship between real incomes and subjective happiness.

**(3)**

**(Total for Question 3 = 4 marks)**

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**4** The UK exchange rate changed from £1 = $1.53 in January 2015 to £1 = $1.22 in October 2019.

(a) Define the term 'exchange rate'.

**(1)**

.....

.....

.....

.....

(b) Which **one** of the following represents the percentage change in the £ sterling and US$ exchange rate?

**(1)**

☒ **A** 0.31%

☒ **B** 20.26%

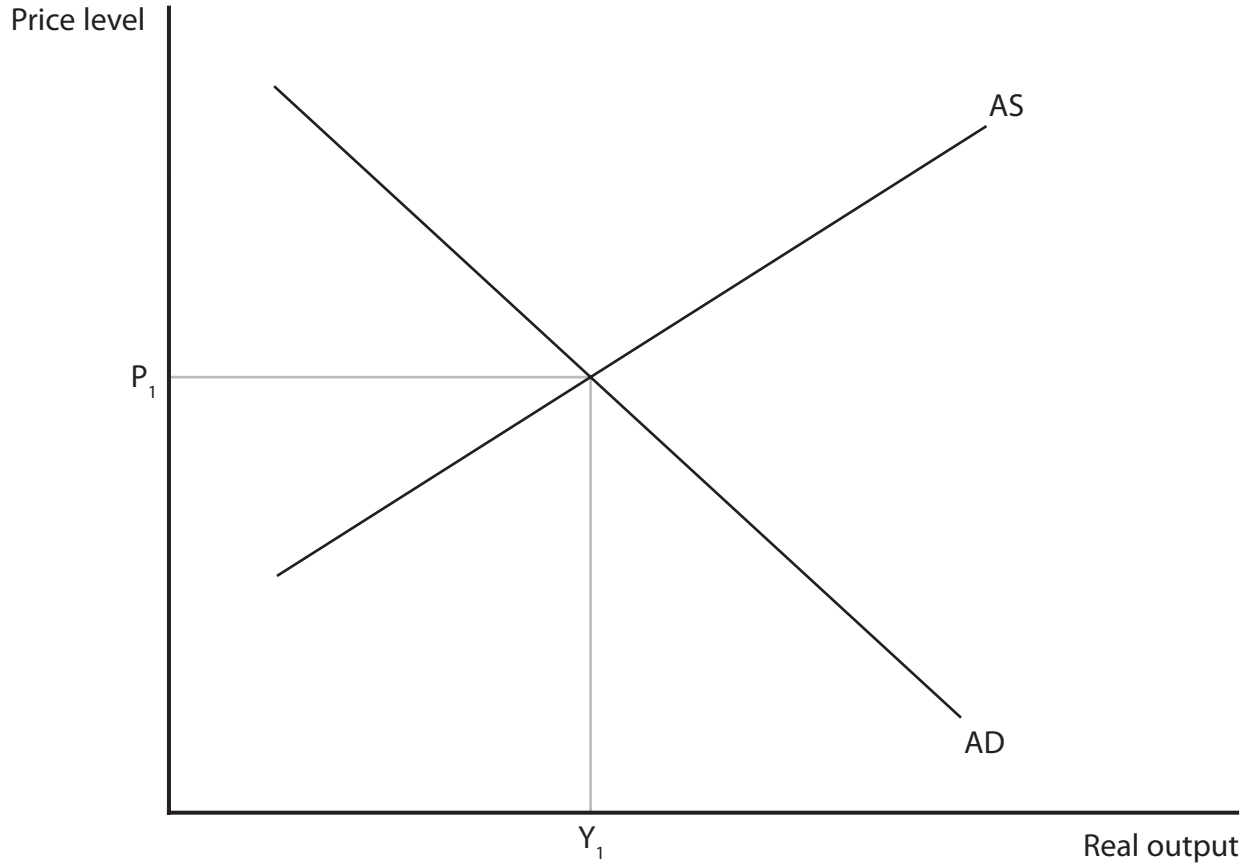
☒ **C** 25.41%

☒ **D** 79.74%

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(c) Annotate the aggregate demand (AD) and aggregate supply (AS) diagram below to show the likely impact of an improvement in net trade on the equilibrium level of real output and the price level.

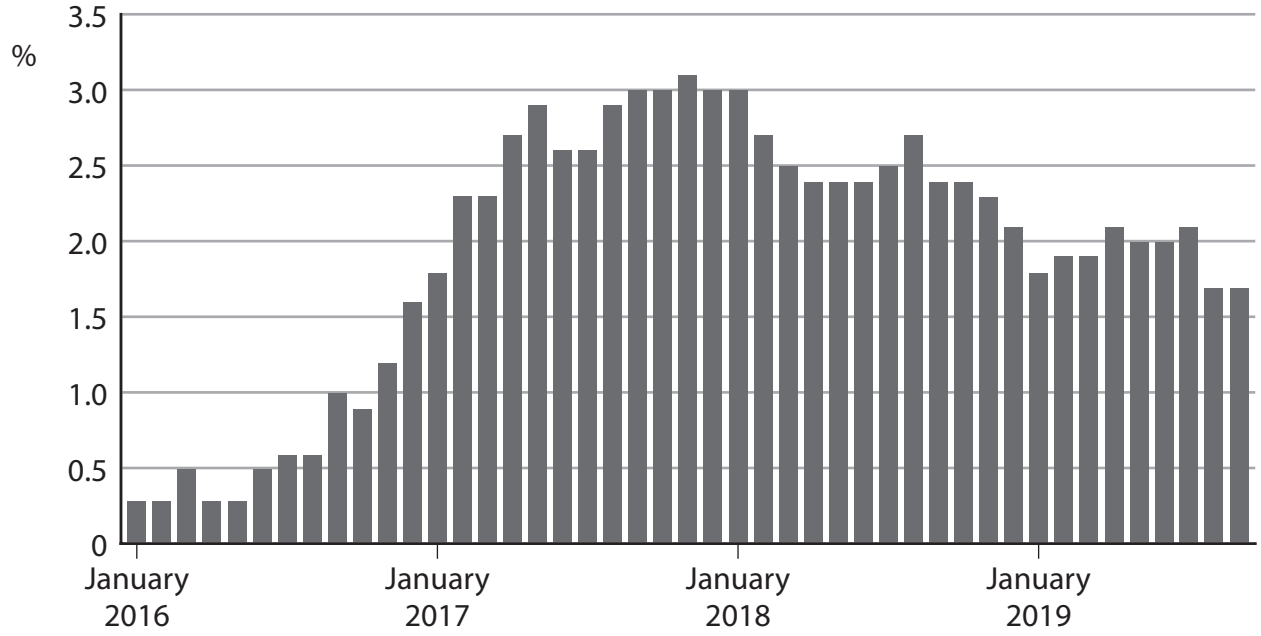
**(2)**




**(Total for Question 4 = 4 marks)**

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**5** Annual rate of UK inflation, as measured by the Consumer Prices Index (CPI), January 2016 to September 2019.




(Source adapted from: https://tradingeconomics.com/united-kingdom/inflation-cpi)

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

**(1)**

- ☒ **A** The average price level was lower in January 2018 than in January 2019
- ☒ **B** The average price level was unchanged between January 2017 and January 2019
- ☒ **C** There was deflation from January 2018 to January 2019
- ☒ **D** There was disinflation from January 2016 to January 2017

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(b) Explain **one** limitation of CPI in measuring the rate of inflation.

**(3)**

**(Total for Question 5 = 4 marks)**

**TOTAL FOR SECTION A = 20 MARKS**

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## SECTION B

**Read Figures 1 and 2 below and Extract A before answering Question 6.**

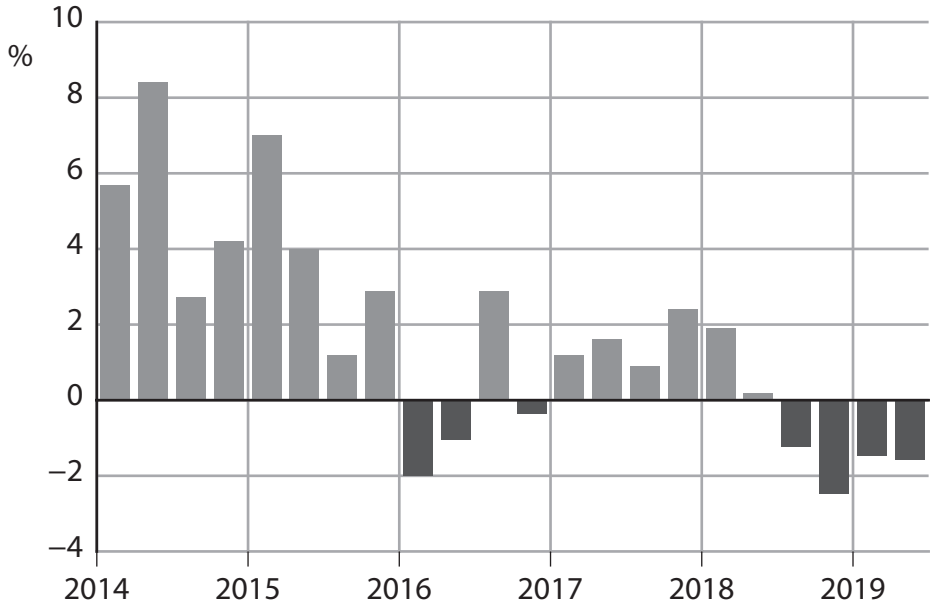
**Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).**

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

**Question 6**

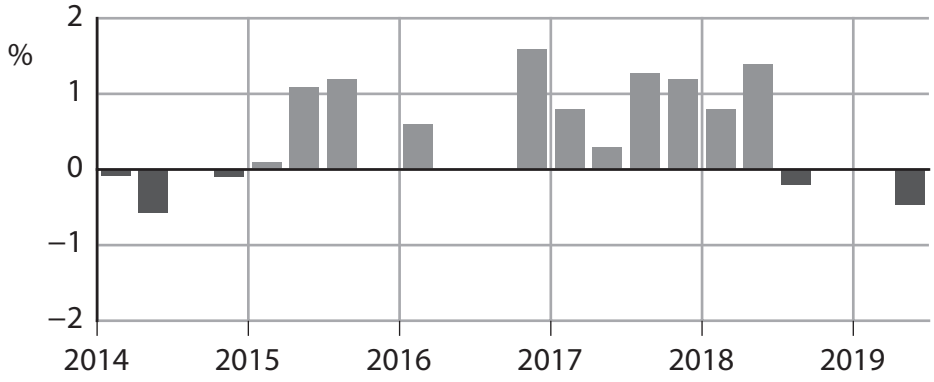
**UK investment and productivity**

**Figure 1: UK investment, annual percentage change, 2014 to 2019**




(Source adapted from: https://www.ft.com/content/5e12351e-baaf-11e9-96bd-8e884d3ea203)

**Figure 2: UK labour productivity, annual percentage change, 2014 to 2019**




(Source adapted from: https://www.theguardian.com/business/2019/oct/08/uk-productivity-brexit-boris-johnson-labour)

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**Extract A**

**Another recession?**

For the first time in nearly seven years, the UK economy contracted by 0.2% in the second quarter of 2019. This was as a result of a significantly weaker than expected performance in almost every part of the UK economy.

Business investment has been weak across the world, but it is particularly low in the UK. Firms are reluctant to commit to capital spending while there is economic uncertainty. Growth in investment, in areas such as transport and machinery, has slowed. Global trade tensions are also affecting investment decisions.

Labour productivity decreased by 0.5% in the second quarter of 2019, the worst performance since mid-2014. Declining productivity is a concern especially as it comes at a time when the unemployment rate has been one of the lowest. The rate of unemployment decreased from 6% in July 2014 to 3.8% in July 2019.

The UK's economic growth has been held back by low investment and productivity since the Global Financial Crisis of 2008. Moreover, the uncertainty over the UK's future trade relationship with the EU has discouraged companies from investing in productivity-boosting technology. This has decreased the prospects for increases in workers' pay. Without business investment and improvements in productivity, short-term growth in real GDP is likely to slow further and reduce living standards.

However, the UK Government expects the UK economy to perform better than Germany and Italy. These export-focused countries are highly exposed to the slowdown in world trade and the fall in average global incomes.

The UK economy is seeing continued strength in consumer spending. Consumption will support growth, provided there is no sudden shock to the UK labour market. Household incomes are strong, primarily due to high employment. Government expenditure has also been rising since the end of 2018. The UK Government has promised more money for schools and infrastructure improvements.

Despite this, some economists believe that the UK economy is likely to experience another recession. They claim that low income households cannot cope with a new downturn. The overall picture for the UK economy does not look promising because most businesses are reluctant to invest, productivity is low and economic growth relies on continued consumption.

(Source adapted from: 'On the brink: Britain's economy braced for Brexit shock', FT, https://www.ft.com/ content/40c604d2-c01c-11e9-89e2-41e555e96722; 'Recession threat hangs over UK economy ahead of Brexit, FT, https://www.ft.com/content/5e12351e-baaf-11e9-96bd-8e884d3ea203; 'UK productivity falls at fastest pace in five years as Brexit dents investment, The Guardian, https://www.theguardian.com/ business/2019/oct/08/uk-productivity-brexit-boris-johnson-labour)

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**6** (a) With reference to Figure 1, explain the term 'investment'.

**(4)**

(b) With reference to Extract A, explain **two** influences on the level of UK investment.

**(6)**

(c) With reference to the fourth paragraph of Extract A, assess the limitations of using GDP to compare living standards over time.

**(10)**

(d) Explain **one** likely reason why 'the UK Government expects the UK economy to perform better than Germany and Italy' (Extract A, lines 19–20).

**(5)**

(e) With reference to the information provided, discuss the likely impact of a recession on the UK economy.

**(15)**

**EITHER**

(f) Evaluate the fiscal policies the UK Government could use if it believes that 'the UK economy is likely to experience another recession' (Extract A, lines 27–28).

**(20)**

**OR**

(g) Evaluate the supply-side policies the UK Government could use to increase the UK's productivity.

**(20)**

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(a) With reference to Figure 1, explain the term 'investment'.

**(4)**

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(b) With reference to Extract A, explain **two** influences on the level of UK investment.

**(6)**

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(c) With reference to the fourth paragraph of Extract A, assess the limitations of using GDP to compare living standards over time.

**(10)**

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**EITHER**

(f) Evaluate the fiscal policies the UK Government could use if it believes that 'the UK economy is likely to experience another recession' (Extract A, lines 27–28).

**(20)**

**OR**

(g) Evaluate the supply-side policies the UK Government could use to increase the UK's productivity.

**(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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