Please check the examination details below before entering your candidate information

Candidate surname	Other names

Centre Number | Candidate Number

Pearson Edexcel Level 3 GCE

Monday 22 May 2023

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 Between 2019 and 2020 the UK Government increased its expenditure on healthcare from £175.1 billion to £219.9 billion.

(a) Explain **one** likely impact of this interventionist supply-side policy on aggregate supply in the UK.

(3)

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

(1)

- ☒ **A** A decrease in the level of unemployment benefits
- ☒ **B** A decrease in the regulation of product markets
- ☒ **C** An increase in the provision of training programmes
- ☒ **D** An increase in the rate of corporation tax

(Total for Question 1 = 4 marks)

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2 The table below shows the UK's real GDP per capita, in US dollars, measured at Purchasing Power Parities, 2018 to 2020.

Year	GDP per capita, US$
2018	46 853
2019	47 369
2020	42 536

(Source: https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD?locations=GB)

(a) Define the term 'GDP per capita'.

(1)

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.....

(b) Which **one** of the following is the most likely effect of the change in real GDP per capita between 2019 and 2020?

(1)

- ☒ **A** Decrease in living standards
- ☒ **B** Decrease in unemployment
- ☒ **C** Higher consumer confidence
- ☒ **D** Higher price level

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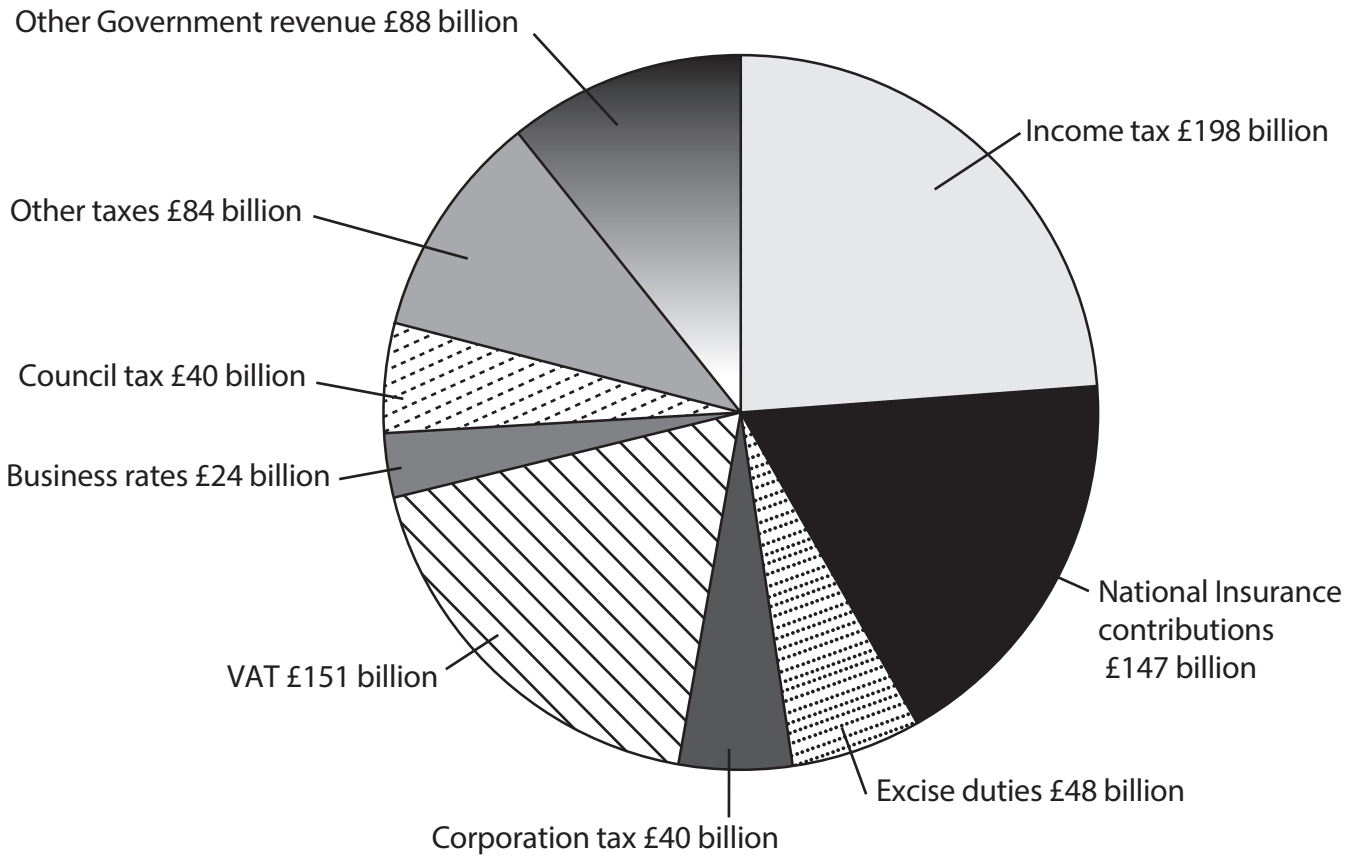
(c) Explain **one** reason why Purchasing Power Parities (PPPs) are used.

(2)

(Total for Question 2 = 4 marks)

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3 The chart below shows areas of UK Government tax revenues for 2021–22. The total tax revenue for the year was £820 billion.



(Source adapted from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966868/BUDGET_2021_-_web.pdf)

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

(1)

- ☒ **A** Corporation tax revenue is higher than excise duties
- ☒ **B** Income tax raises less revenue than Value Added Tax (VAT)
- ☒ **C** Tax revenue from business rates contributes to approximately 3% of the overall government tax revenue
- ☒ **D** Tax revenue from National Insurance contributions is five times greater than the tax revenue from council tax

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(b) Total UK Government tax revenue for 2021–22: £820 billion.
Total UK Government expenditure for 2021–22: £1 053 billion.

Using these figures, explain the likely impact of the above data on the UK Government's budget balance.

(3)

(Total for Question 3 = 4 marks)

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4 The table below shows the UK business investment, in £ billions, 2019 and 2020.

Year	Business investment (£ billions)
2019	226
2020	204

(a) Define the term 'investment'.

(1)

.....

.....

.....

.....

(b) Assume 2019 is the base year. Which **one** of the following represents the index number for 2020?

(1)

☒ **A** 9.7

☒ **B** 90.3

☒ **C** 109.7

☒ **D** 110.8

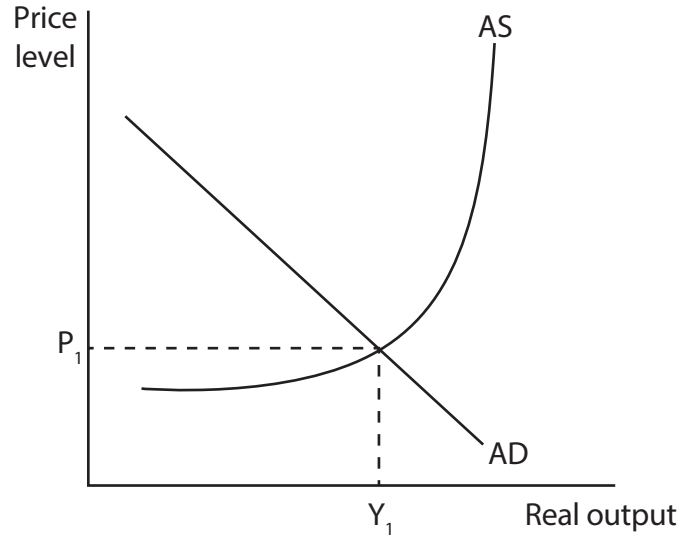
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(c) Annotate the aggregate demand (AD) and aggregate supply (AS) diagram below to show the likely impact of a fall in business investment on the equilibrium level of real output and the price level.

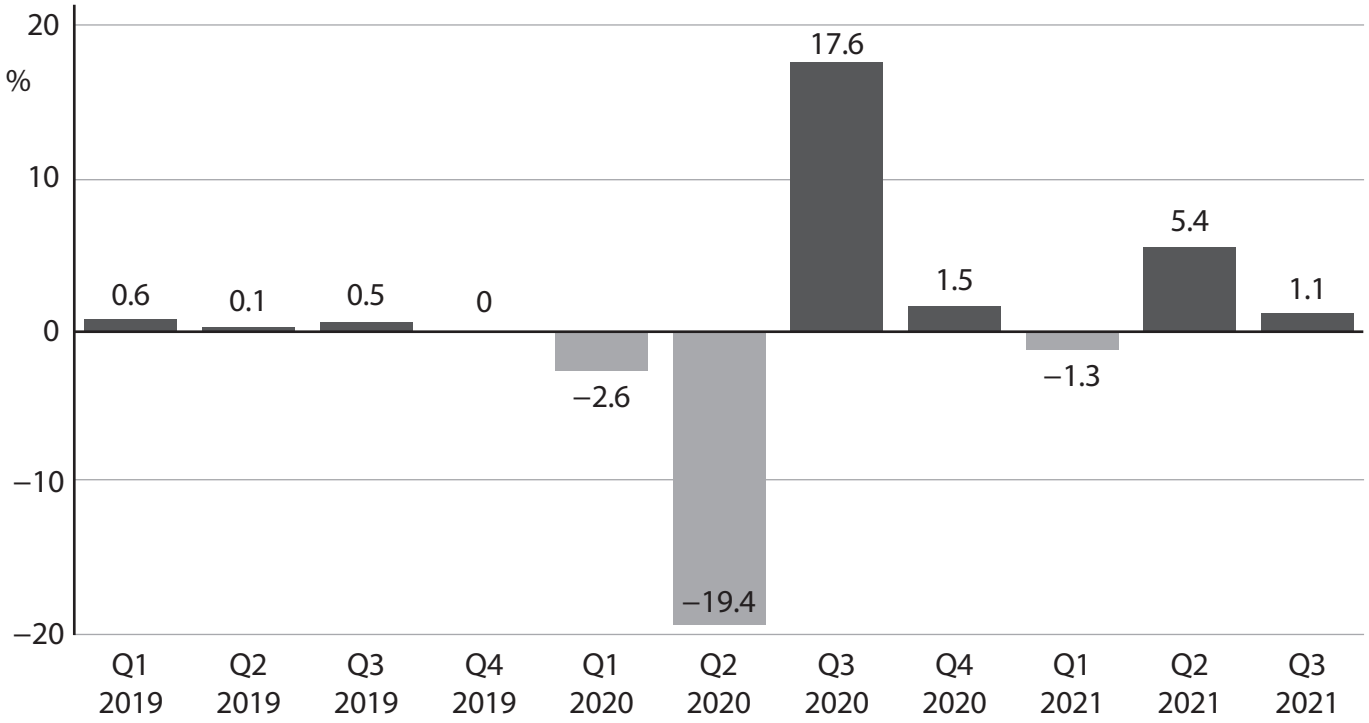
(2)



(Total for Question 4 = 4 marks)

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5 The chart below shows UK real GDP growth rate (%), Quarter 1 (Q1) 2019 to Quarter 3 (Q3) 2021.



(Source adapted from: https://tradingeconomics.com/united-kingdom/gdp-growth)

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

(1)

- ☒ **A** In Q4 2020 the level of real GDP fell by 16.1 percentage points
- ☒ **B** The price level was rising at a slower rate between Q1 2019 and Q2 2019
- ☒ **C** The UK economy experienced a boom between Q3 2019 and Q1 2020
- ☒ **D** The UK economy experienced a recession in the first six months of 2020

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(b) With reference to the chart, explain **one** likely benefit of economic growth to firms.

(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 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

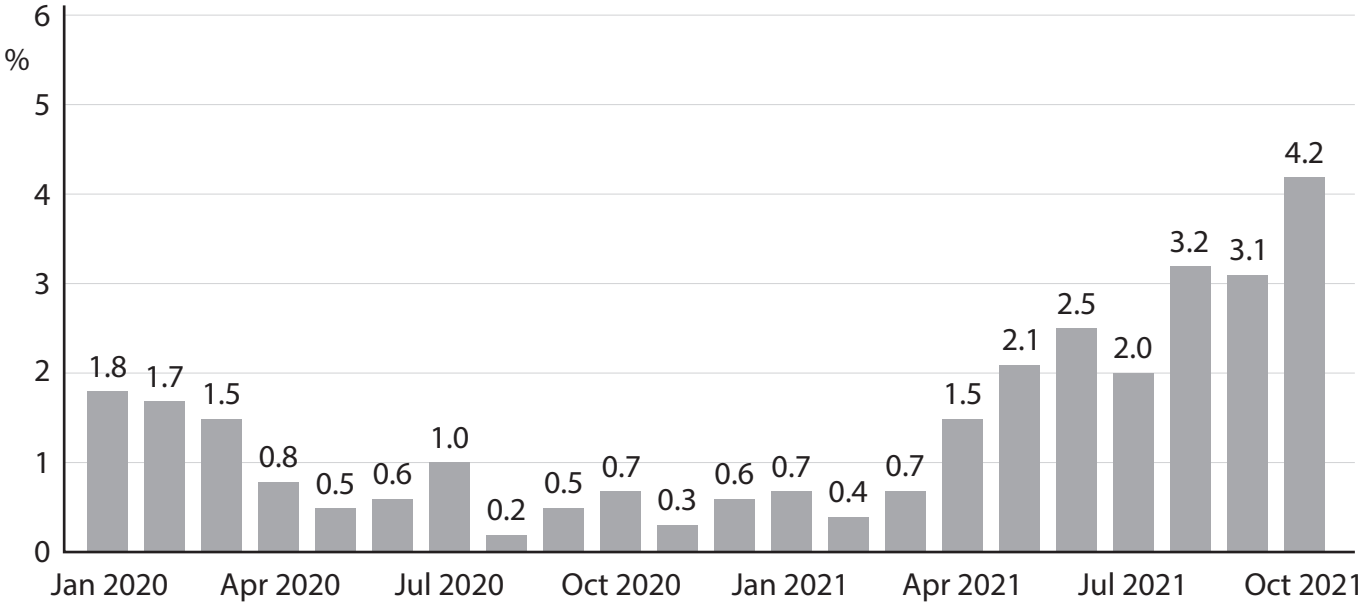
UK balance of trade and inflation

Figure 1: UK balance of trade in goods and services, January 2020 to October 2021



(Source adapted from: https://tradingeconomics.com/united-kingdom/balance-of-trade)

Figure 2: UK inflation rate as measured by annual percentage changes in the Consumer Prices Index (CPI), January 2020 to October 2021



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

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Extract A

Balance of trade in goods and services

Rising imports from non-EU countries have increased the UK's trade deficit in the third quarter of 2021. This was as a result of the UK strengthening its trading relationships with countries outside the EU. An 11.2% increase in imports from non-EU countries has increased the UK's trade deficit to nearly £7 billion. Moreover, exports to non-EU countries were £0.8 billion lower than exports to EU countries.

Despite the overall trade balance being in deficit, the UK services trade balance is in surplus, reflecting the economy's heavy reliance on services. The trade in services surplus increased by £2.2 billion to £35.6 billion. This was mostly as a result of an increase in the export of financial services.

(Source: adapted from https://www.cityam.com/swelling-non-eu-imports-widens-uk-trade-deficit)

Extract B

Inflation

In December 2021 the rate of inflation in the UK rose to 5.4%, its highest rate in 30 years. The speed of increase has taken economists by surprise. The Bank of England expected inflation to peak at this rate, but not until April 2022. The rate was more than two-and-a-half times its 2% inflation target.

Transport costs were the biggest contributor to rising inflation, with petrol prices increasing by over 5%. Moreover, supply chain bottlenecks constrained access to raw materials and limited the number of new products being sold in the market. At the same time, economists warned that the demand for goods and services in the UK economy was quickly increasing. This was a result of the easing of the restrictions associated with the global health crisis.

The high rate of inflation would normally be enough to prompt a significant increase in the base rate of interest by the Bank of England's Monetary Policy Committee (MPC). Despite the lower rates of economic growth, the MPC increased the base interest rate from 0.1% to 0.5% in February 2022.

(Source: adapted from 'UK inflation hits highest level in a decade', FT, https://www.ft.com/content/dd5edcd1-2e70-4910-b642-269574b4bcdd; 'What does the UK's soaring inflation rate mean for you?', The Guardian, https://www.theguardian.com/business/2021/dec/15/what-does-uk-soaring-inflation-rate-mean)

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(a) With reference to Figure 1, explain the term 'balance of trade in goods and services'.

(4)

(b) With reference to Figure 2, explain how the CPI inflation rate is measured. Refer to the concept of weights in your answer.

(5)

(c) With reference to Extract A, assess the likely impact of a rise in the value of exports on the UK economy.

(10)

(d) With reference to Extract B, explain **two** reasons for the increase in the rate of UK inflation.

(6)

(e) Discuss the likely economic effects of the high rate of UK inflation on consumers **and** workers.

(15)

EITHER

(f) Evaluate the main influences on the UK's net trade balance.

(20)

OR

(g) Evaluate how interest rates are used to control UK inflation.

(20)

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(a) With reference to Figure 1, explain the term 'balance of trade in goods and services'.

(4)

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(b) With reference to Figure 2, explain how the CPI inflation rate is measured. Refer to the concept of weights in your answer.

(5)

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(c) With reference to Extract A, assess the likely impact of a rise in the value of exports on the UK economy.

(10)

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(d) With reference to Extract B, explain **two** reasons for the increase in the rate of UK inflation.

(6)

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(e) Discuss the likely economic effects of the high rate of UK inflation on consumers **and** workers.

(15)

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EITHER

(f) Evaluate the main influences on the UK's net trade balance.

(20)

OR

(g) Evaluate how interest rates are used to control UK inflation.

(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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