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 20 May 2024

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 In 2019 the average annual percentage increase in real Gross Domestic Product (GDP) was 1.7% in developed countries and it was 4.6% in developing countries.

(Source: adapted from IMF, World Economic Outlook 2019)

(a) Which **one** of the following best describes an increase in real GDP?

(1)

☒ **A** Actual economic growth

☒ **B** Negative output gap

☒ **C** Positive output gap

☒ **D** Potential economic growth

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(b) Explain **one** limitation of using GDP data to compare living standards between developed and developing countries.

(3)

(Total for Question 1 = 4 marks)

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2 In 2019 the marginal propensity to consume in the UK was estimated to be 0.8.

(a) Define the term 'marginal propensity to consume'.

(1)

(b) Explain **one** likely factor that could increase the level of consumption of UK households.

(2)

(c) Using the above data, which **one** of the following represents the value of the multiplier?

(1)

- ☒ **A** 0.2
- ☒ **B** 0.8
- ☒ **C** 1.3
- ☒ **D** 5.0

(Total for Question 2 = 4 marks)

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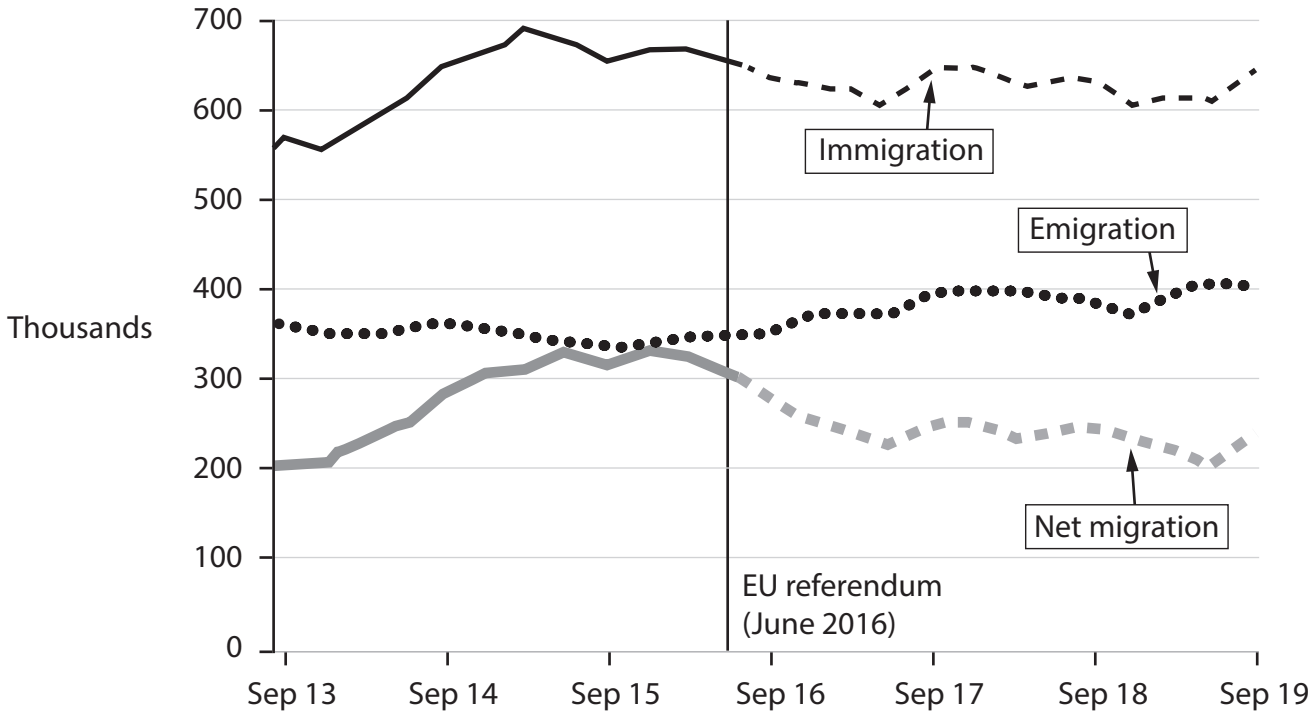
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3 The graph below shows UK long-term migration trends, September 2013 to September 2019. Immigration refers to the number of people entering the country to live there and emigration refers to the number of people leaving the country.



(Source: adapted from https://www.ons.gov.uk)

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

(1)

- ☒ **A** Between September 2013 and September 2016, there were nearly 100 000 more people leaving the UK than entering the UK
- ☒ **B** Immigration to the UK is likely to decrease the short-run AS curve
- ☒ **C** Since the EU referendum, net migration has fallen by around 80 000
- ☒ **D** There has been a significant decrease in emigration throughout the given period

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(b) With reference to the above chart, explain **one** likely effect of migration on employment in the UK.

(3)

(Total for Question 3 = 4 marks)

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4 Business investment fell by 0.5% between Quarter 3 2019 and Quarter 4 2019.

(Source: adapted from https://www.ons.gov.uk)

(a) Define the term 'investment'.

(1)

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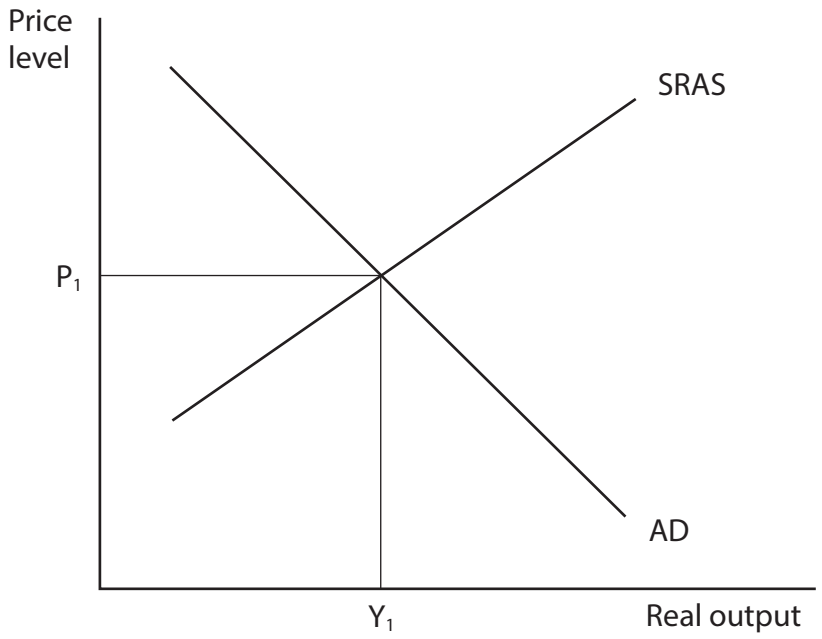
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(b) Annotate the aggregate demand (AD) and short-run aggregate supply (SRAS) diagram below to show the likely impact of a fall in business investment on the equilibrium level of real output and the price level.

(2)



(c) Which **one** of the following factors might have caused business investment in the UK to fall?

(1)

- ☒ **A** A decrease in business expectations
- ☒ **B** A decrease in government regulations
- ☒ **C** An increase in the demand for exports
- ☒ **D** An increase in the rate of economic growth

(Total for Question 4 = 4 marks)

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5 The table below shows the UK's budget deficit between March 2016 and March 2019.

Year	Budget deficit (£ billion)
2016	83.6
2017	56.3
2018	56.0
2019	38.7

(Source: adapted from https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/bulletins/ukgovernmentdebtanddeficitforeurostatmaast/september2019)

(a) Define the term 'budget deficit'.

(1)

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(b) Using the above table, calculate the percentage decrease in budget deficit between March 2016 and March 2019. You are advised to show your working.

(2)

(c) Which **one** of the following will most likely lead to a reduction in the budget deficit?

(1)

- ☒ **A** An increase in government spending and a decrease in taxation
- ☒ **B** An increase in taxation and a decrease in government spending
- ☒ **C** An increase in the value of exports and a decrease in the value of imports
- ☒ **D** An increase in the value of imports and a decrease in the value of exports

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

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SECTION B

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

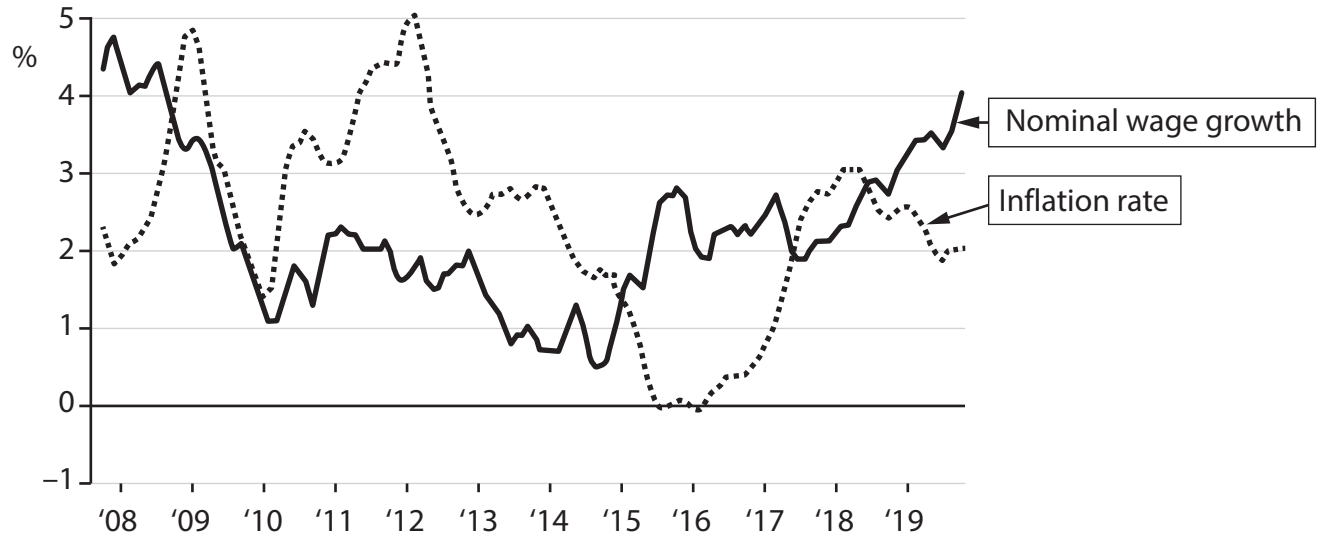
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

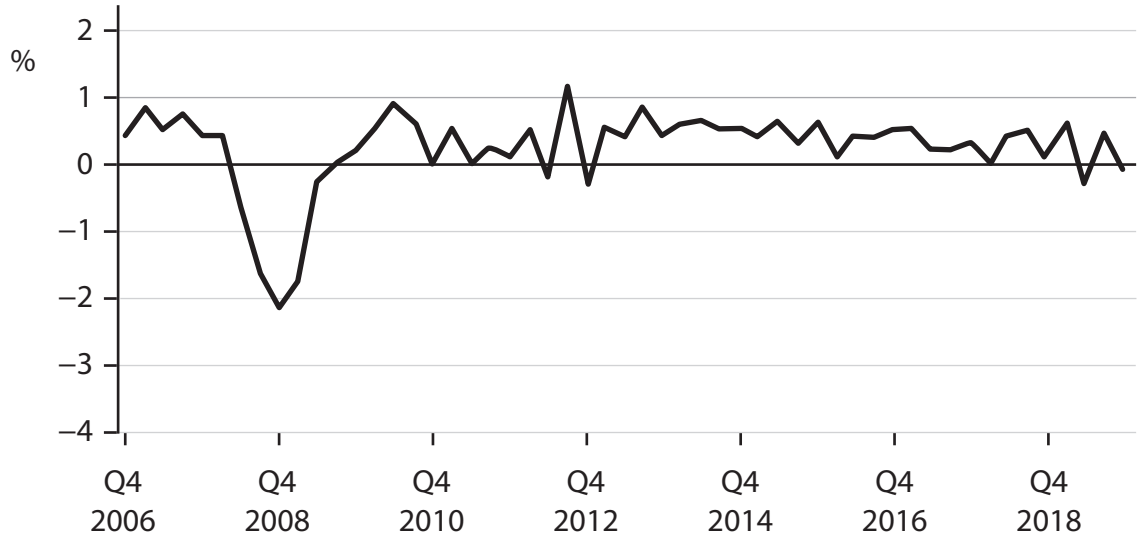
UK monetary policy since the Global Financial Crisis of 2008

Figure 1: UK inflation rate (as measured by the Consumer Prices Index) and UK nominal wage growth, annual percentage change, 2008 to 2019



(Source: adapted from ONS)

Figure 2: UK real GDP, annual percentage change, Q4 2006 to Q4 2019



(Source: adapted from https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyq/qna)

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Extract A

Has monetary policy worked?

Between 2008 and 2009, financial markets around the world were crashing and many UK banks were adversely affected by the collapse of the housing market. This reduced access to credit for UK households and businesses.

Faced with these large risks, the Monetary Policy Committee (MPC) of the Bank of England reduced the base interest rate from 5.25% in February 2008 to 0.5% in March 2009.

The MPC had known that reducing the base interest rate was not enough alone. It drafted the use of a new idea: quantitative easing (QE). It had bought assets worth £200 billion by November 2009. This QE was later implemented by the USA's Federal Reserve, and was claimed to be a success. In July 2012 the total spent on QE in the UK amounted to £375 billion.

This decision has been credited with preventing the recession, caused by the Global Financial Crisis of 2008, turning into another Great Depression. The UK's unemployment rate peaked at 8.5% in 2009 but had fallen to 4% in 2019, the lowest since the mid-1970s.

In 2016 the MPC further expanded its QE programme by £60 billion and reduced the base interest rate to 0.25%. Households with mortgages benefitted from the low interest rate, enabling them to continue consumption and therefore helping economic recovery. Nevertheless, this has resulted in a rise in household debts. Borrowing on credit cards and personal loans has increased above the levels seen before 2008.

Inflation caused by the fall in the exchange rate of the British pound, higher employment levels and nominal wage growth has since directed the MPC to increase base interest rates. It increased the base interest rate to 0.5% in November 2017, and then to 0.75% in March 2018. However, the uncertainty around the UK's future trade relationship with the EU has meant that increases in the base interest rate were only marginal.

Many economists believe that if the UK and the EU are unable to form a trade agreement, base interest rates would need to be decreased again and QE expanded. Conversely, a few economists have argued that QE is no longer effective as a monetary policy instrument. They indicated that the base interest rate was usually reduced by as much as 5% during previous recessions. This is more than the UK can currently manage. Therefore it would also require the government to implement a fiscal policy to deal with any future economic downturn.

The Bank of England is, nonetheless, preparing for the worst-case scenario of a recession deeper than the downturn after the Global Financial Crisis of 2008.

(Source: adapted from 'The verdict on 10 years of quantitative easing', Richard Partington, The Guardian, https://www.theguardian.com/business/2019/mar/08/the-verdict-on-10-years-of-quantitative-easing)

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6 (a) With reference to Figure 1, explain the term 'inflation rate'.

(4)

(b) Assess the likely impact of an increase in real wages on the UK economy.

Use an aggregate demand and aggregate supply diagram in your answer.

(10)

(c) With reference to the information provided, explain **two** characteristics of a recession.

(6)

(d) Explain **one** reason why 'the fall in the exchange rate of the British pound' (Extract A, line 21) is likely to increase inflation.

(5)

(e) Discuss factors, **apart from** changes in real wages, which the MPC may have considered when changing the base interest rate.

(15)

EITHER

(f) Evaluate whether expansionary demand-side policies lead to conflicts between macroeconomic objectives.

(20)

OR

(g) Evaluate whether the MPC has been successful in meeting the UK's macroeconomic objectives between 2008 and 2019.

(20)

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(20)

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(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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