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 19 May 2025

Morning (Time: 1 hour 30 minutes)

Paper reference **8EC0/02**

Economics A

Advanced Subsidiary

PAPER 2: The UK Economy – Performance and Policies

You must have:
Source Booklet (enclosed)

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.

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QUESTION 1 BEGINS ON THE NEXT PAGE

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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 January 2020 and December 2020, the rate of unemployment in the UK increased from 3.9% to 5.2%. This was as a result of the UK economy experiencing a recession.

(a) Which **one** of the following best describes this cause of unemployment?

(1)

☒ **A** Cyclical

☒ **B** Frictional

☒ **C** Seasonal

☒ **D** Structural

(b) With reference to the information above, explain **one** possible effect of the increase in the rate of unemployment on the UK government budget.

(3)

(Total for Question 1 = 4 marks)

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2 The table shows average UK house prices between January 2023 and March 2023.

Month and year	Average house price (£)
January 2023	286 321
February 2023	284 152
March 2023	281 555

(Source: adapted from https://landregistry.data.gov.uk/)

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

(1)

☒ **A** Between January 2023 and February 2023, average UK house prices fell by £2 597

☒ **B** The average UK house price in March 2023 is 16.65% higher than in January 2023

☒ **C** The index number of average UK house prices for March 2023 is 100

☒ **D** The ratio of the average UK house price in February 2023 to the average UK house price in March 2023 is 1 : 0.99

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(b) Explain **one** likely impact of the fall in average UK house prices on existing homeowners between January 2023 and March 2023. Refer to the table on **page 4** in your answer.

(3)

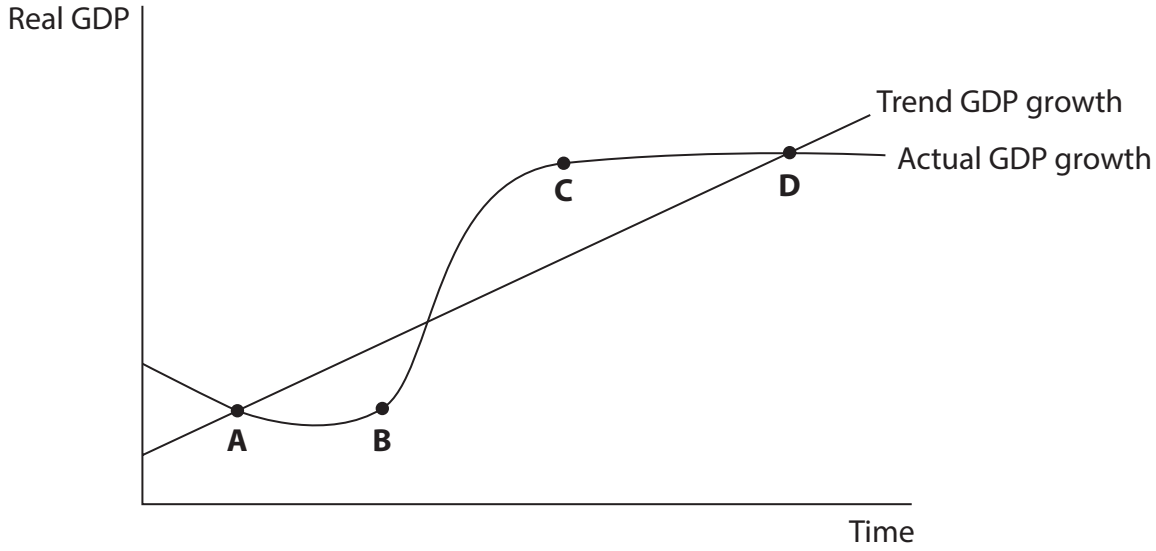
(Total for Question 2 = 4 marks)

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3 It was forecast that the UK will experience a positive output gap in 2024.

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

(1)



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

(b) Explain **one** reason why it is difficult to measure the size of an output gap in an economy.

(2)

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(c) Define the term 'trade cycle'.

(1)

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(Total for Question 3 = 4 marks)

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4 In 2023 the UK government reduced indirect tax on certain goods and services.

(a) Define the term 'indirect tax'.

(1)

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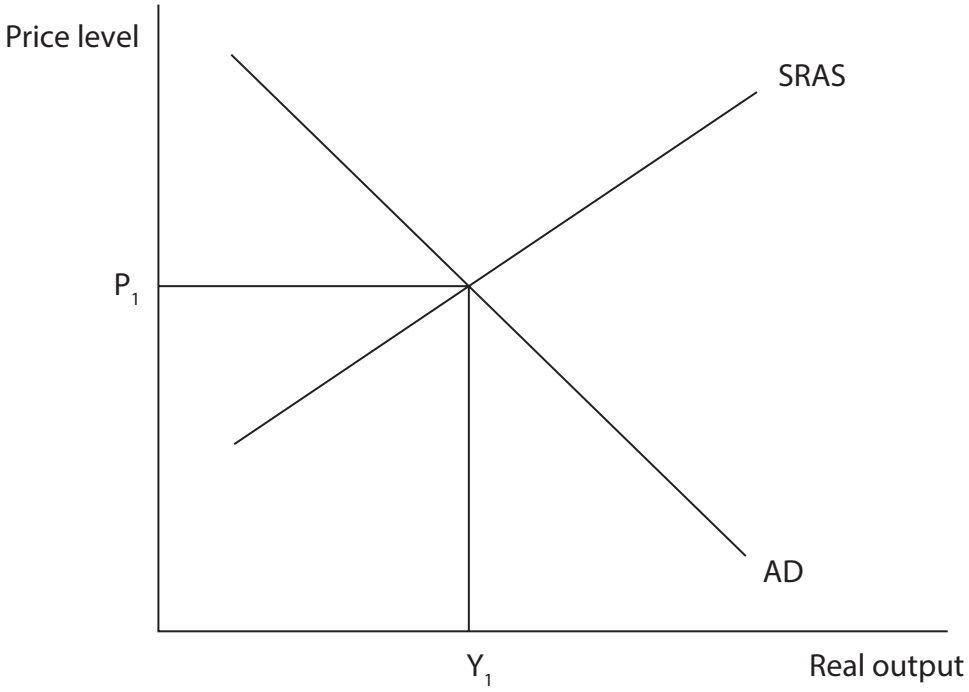
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(b) Annotate the aggregate demand (AD) and short-run aggregate supply (SRAS) diagram below to show the likely impact of a reduction in indirect tax on the equilibrium level of real output and the price level.

(2)



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(c) Which **one** of the following is an example of an indirect tax?

(1)

- ☒ **A** Corporation tax
- ☒ **B** Income tax
- ☒ **C** Inheritance tax
- ☒ **D** Value added tax

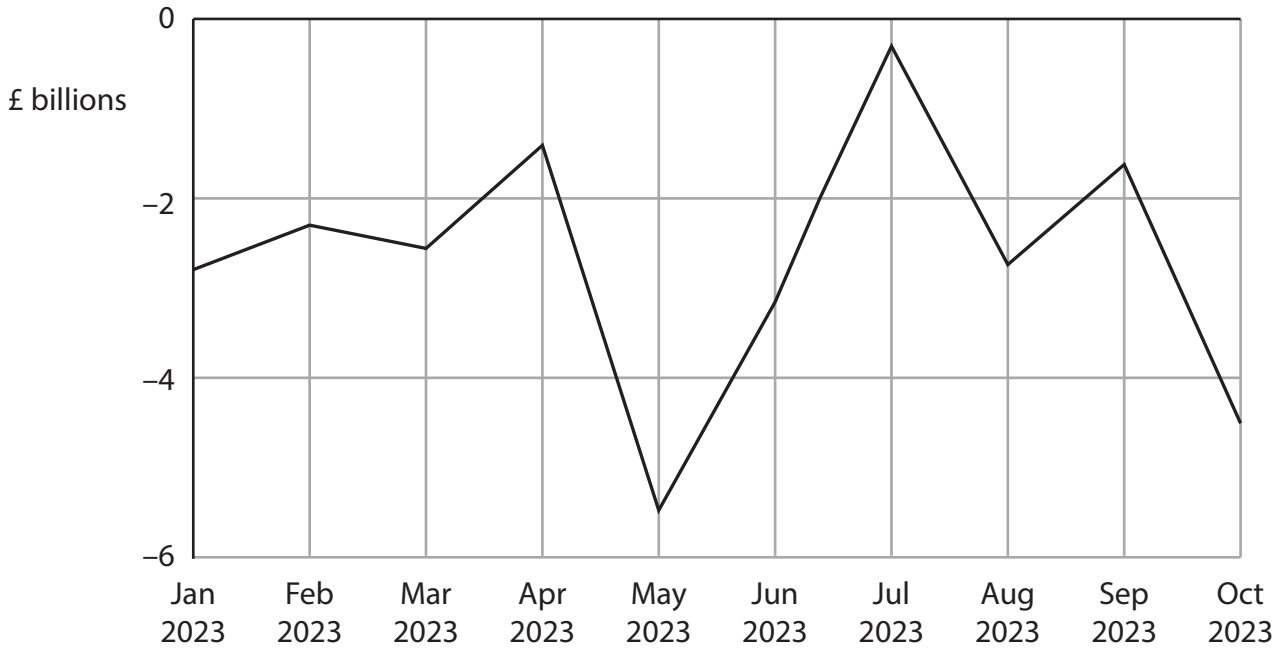
(Total for Question 4 = 4 marks)

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5 The UK net monthly balance of trade in goods and services, by value, January 2023 to October 2023, is shown in the chart below.



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

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

(1)

- ☒ **A** The government was spending less than it received in taxation
- ☒ **B** The government was spending more than it received in taxation
- ☒ **C** The value of imports was greater than the value of exports
- ☒ **D** The value of imports was smaller than the value of exports

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(b) Explain **one** likely reason for the deficit in the UK balance of trade in goods and services. Refer to the chart on **page 10** in your answer.

(3)

(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 in the Source Booklet 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.

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

(4)

(b) With reference to the first paragraph of Extract A, explain the likely relationship between real incomes and subjective happiness.

(5)

(c) With reference to Extract A and your own knowledge, assess the limitations of using GDP to compare living standards over time.

(10)

(d) With reference to the information provided, explain **two** factors that the Bank of England's Monetary Policy Committee may have considered when changing the base interest rate.

(6)

(e) Discuss the likely macroeconomic effects of a decrease in government expenditure on the UK economy. Use an aggregate demand and aggregate supply diagram to support your answer.

(15)

EITHER

(f) Evaluate the possible causes of inflation in the UK.

(20)

OR

(g) Evaluate the use of market-based supply-side policies to increase UK employment.

(20)

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

(4)

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(b) With reference to the first paragraph of Extract A, explain the likely relationship between real incomes and subjective happiness.

(5)

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(c) With reference to Extract A and your own knowledge, assess the limitations of using GDP to compare living standards over time.

(10)

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(d) With reference to the information provided, explain **two** factors that the Bank of England's Monetary Policy Committee may have considered when changing the base interest rate.

(6)

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(e) Discuss the likely macroeconomic effects of a decrease in government expenditure on the UK economy. Use an aggregate demand and aggregate supply diagram to support your answer.

(15)

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EITHER

(f) Evaluate the possible causes of inflation in the UK.

(20)

OR

(g) Evaluate the use of market-based supply-side policies to increase UK employment.

(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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Pearson Edexcel Level 3 GCE

Monday 19 May 2025

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Economics A

Advanced Subsidiary

PAPER 2: The UK Economy – Performance and Policies

Source Booklet

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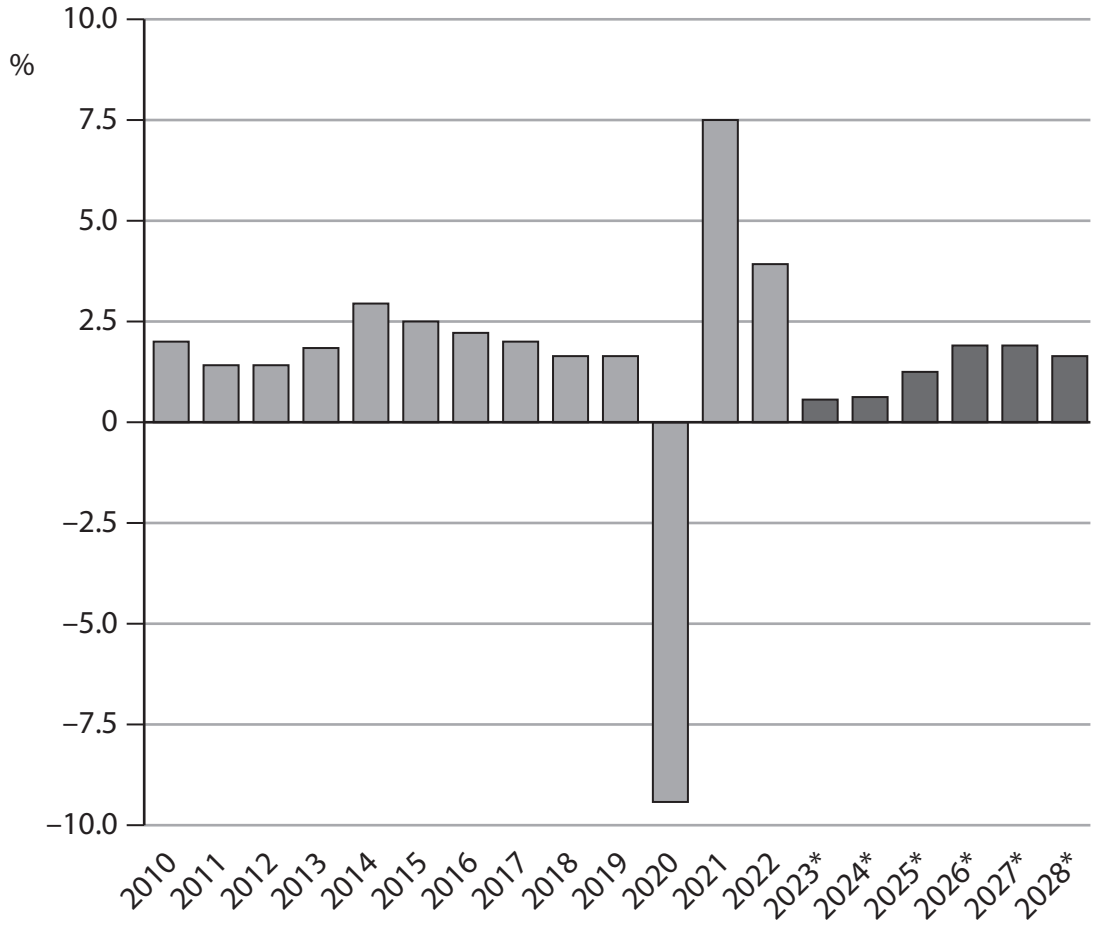
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Sources for use with SECTION B

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

UK living standards and supply-side policies

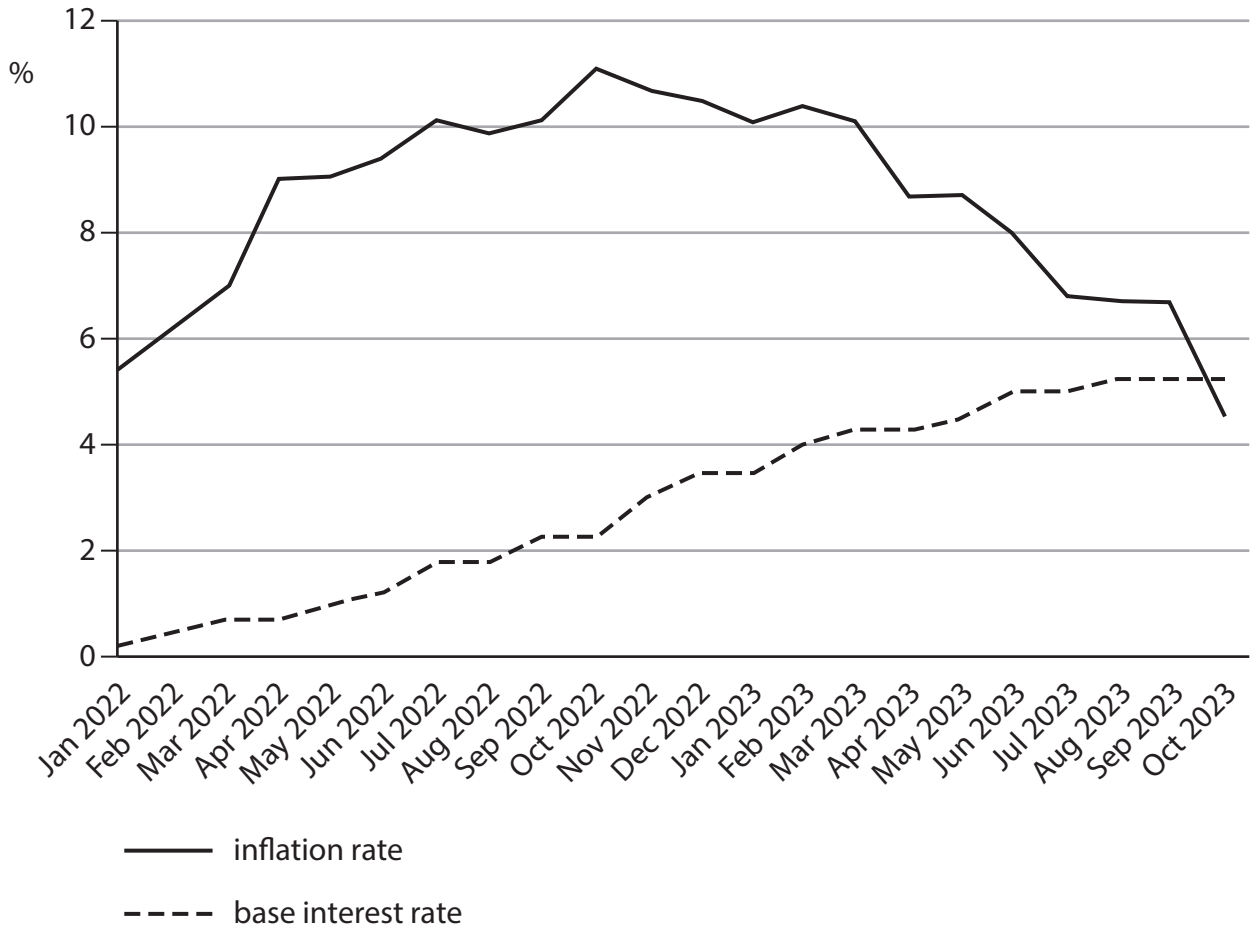
Figure 1: UK rate of economic growth, 2010 to 2028



* Data from 2023 to 2028 are forecast figures

(Source: adapted from https://www.statista.com/statistics/375195/gdp-growth-forecast-uk/)

Figure 2: UK inflation rate* and base interest rate, January 2022 to October 2023



* Measured by Consumer Prices Index (CPI). This is the year-on-year inflation rate calculated monthly.

(Source: adapted from www.statista.com and www.tradingeconomics.com)

Extract A

Economic reforms

Economists forecast that the UK will experience a slower rate of economic growth between 2024 and 2028. They also expect a high rate of inflation due to rising import prices of food, fuel and energy, and a strong demand for consumer goods. As a result, real income per household is estimated to decrease by around 0.9% in 2024. This decrease would be the largest reduction in living standards since the Office for National Statistics records began in the 1950s.

However, the UK government argues that there are some limitations of using GDP to compare living standards over time. One main reason is the fact that GDP figures are in nominal terms. The government questions the reliability of inflation data as it believes that the Monetary Policy Committee (MPC) of the Bank of England will keep a high base interest rate to control inflation. The government also claims that the forecast by economists fails to consider the market-based supply-side policies it introduced in November 2023 to improve living standards.

The government's £10.4 billion cut to National Insurance contributions for employees is the most significant policy, expected to increase employment and living standards. It is forecast to bring additional people into work and encourage more people to work longer hours. This is likely to result in an extra 94 000 full-time workers.

The government has also taken measures to encourage more out-of-work benefits claimants into jobs. It introduced stricter benefit rules for people who can work but do not take a job offered to them. This includes stopping people's benefits if they do not actively engage in seeking employment in six months. This is likely to result in a further increase in employment figures. But economists claim that its impact on GDP will be relatively insignificant. This is because most of those affected by this policy will take on work with limited hours and very low pay.

These market-based supply-side policies, combined with measures centred on childcare subsidies for working parents, are expected to increase total employment by 200 000 between 2024 and 2028. The government argues that the expected increase highlights that it is better to "unlock the potential we have at home", rather than encouraging migration. However, several economists suggest that a rise in net migration is contributing more to an increase in the UK's potential economic growth.

Furthermore, the UK government's decision to offer 100% tax relief on investment in capital machinery will increase overall investment by 0.5% by 2028. The benefits of this effective tax cut for firms are estimated to increase over time, as technology advances and productivity improves. However, this tax cut will not prevent business investment falling in the short term, as higher interest rates are making it more expensive for firms to borrow.

Economists suggest that this tax cut can only be funded by decreasing government expenditure on public services in the long run. Government expenditure will need to decrease by a third, as a proportion of GDP, between 2024 and 2028.

(Source: adapted from https://www.ft.com/content/5ff3538b-aed2-4898-b423-f0c61da728ff)