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 14 May 2020

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 October 2019 the annual rate of inflation in the UK was 1.5%, as measured by the Consumer Prices Index (CPI), and 2.1%, as measured by the Retail Prices Index (RPI).

(a) Define the term 'inflation'.

(1)

(b) Explain **one** likely cause of inflation.

(2)

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(c) From the above data, it can be deduced that the percentage point difference between CPI and RPI was:

(1)

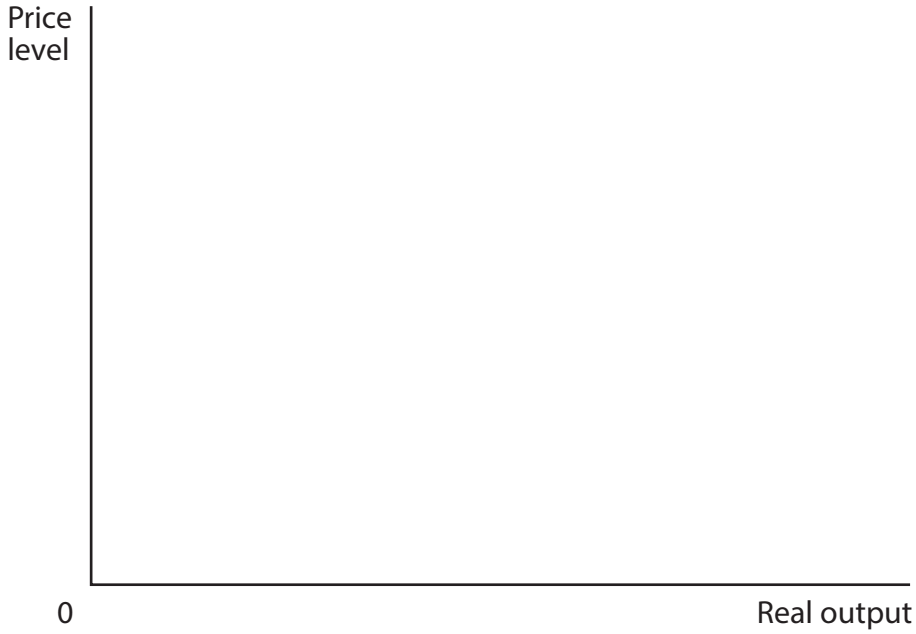
- ☒ **A** 0.0
- ☒ **B** 0.2
- ☒ **C** 0.4
- ☒ **D** 0.6

(Total for Question 1 = 4 marks)

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2 (a) Illustrate the shape of the **Classical** long-run aggregate supply (AS) curve on the diagram below.

(1)



(b) Explain the reason for the shape of the Classical long-run AS curve.

(2)

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(c) Which **one** of the following is an example of a market-based supply-side policy?

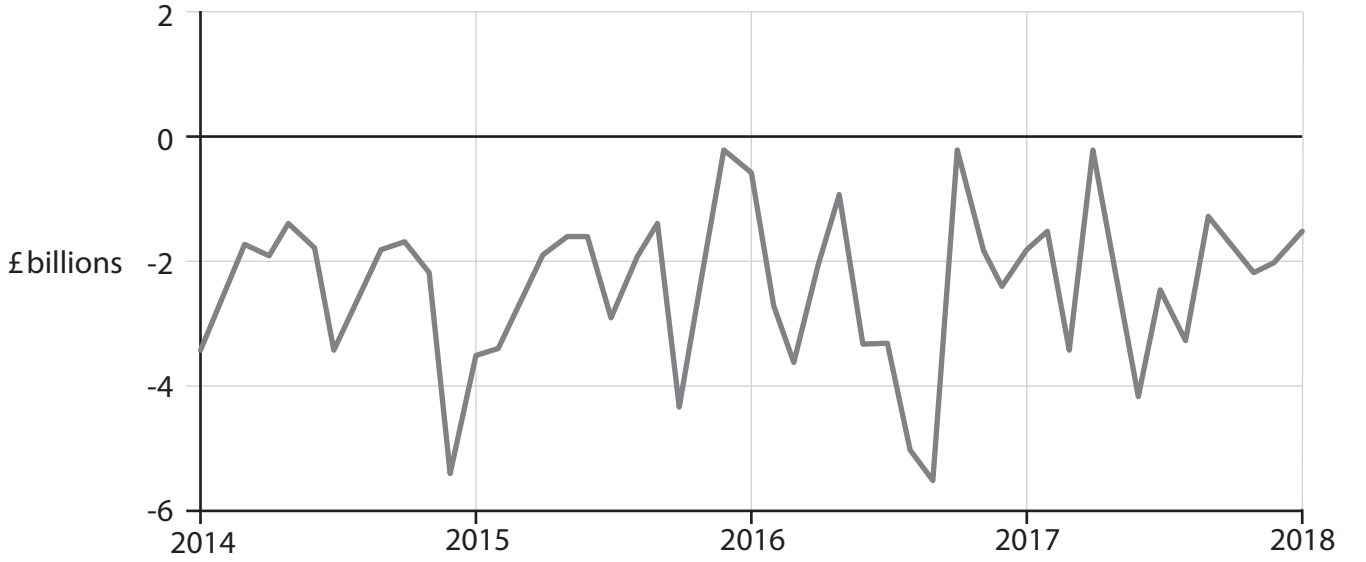
(1)

- ☒ **A** A reduction in unemployment benefits
- ☒ **B** Construction of new transportation links
- ☒ **C** Government-funded apprenticeship schemes
- ☒ **D** Increased government spending on healthcare

(Total for Question 2 = 4 marks)

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3 The UK's net monthly balance of trade in goods and services, by value, January 2014 to January 2018, 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 inferred from the above chart over the period shown?

(1)

- ☒ **A** The government was spending more than it received in taxation
- ☒ **B** The UK's balance of trade, by value, was always in equilibrium
- ☒ **C** The value of imports was greater than the value of exports
- ☒ **D** The value of inflows was greater than the value of outflows

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(b) Explain **one** likely reason for the UK's balance of trade in goods and services over the period shown. Refer to the chart on page 6 in your answer.

(3)

(Total for Question 3 = 4 marks)

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4 In August 2018 the Monetary Policy Committee of the Bank of England raised the UK's base interest rate from 0.5% to 0.75%.

(a) Define the term 'interest rate'.

(1)

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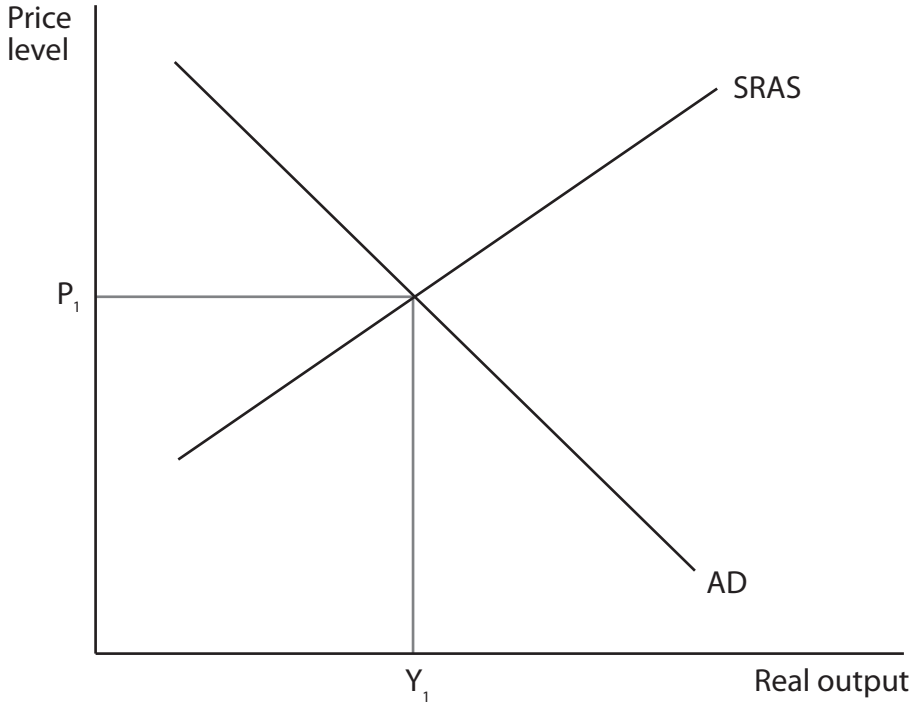
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(b) Annotate the aggregate demand (AD) and short-run aggregate supply (SRAS) diagram below to show the possible impact of a rise in the base interest rate on the equilibrium level of real output and the price level.

(2)



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(c) Which **one** of the following demand-side policies best explains a rise in the base interest rate?

(1)

- ☒ **A** Contractionary fiscal policy
- ☒ **B** Contractionary monetary policy
- ☒ **C** Expansionary fiscal policy
- ☒ **D** Expansionary monetary policy

(Total for Question 4 = 4 marks)

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5 The table below shows the UK's Gross National Income (GNI) between 2014 and 2017.

Year	Gross National Income (£ million)
2014	1 806 468
2015	1 852 845
2016	1 920 116
2017	2 008 593

(Source: adapted from www.ons.gov.uk/economy/ © Crown Copyright)

(a) Define the term 'Gross National Income'.

(1)

(b) Which **one** of the following represents the ratio of Gross National Income in 2015 to Gross National Income in 2017?

(1)

- ☒ **A** 1 : 1.03
- ☒ **B** 1 : 1.05
- ☒ **C** 1 : 1.08
- ☒ **D** 1 : 1.11

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(c) Using 2014 as the base year, calculate the index number for 2016. You are advised to show your working.

(2)

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

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SECTION B

Read Figures 1 and 2 and extracts (A and B) before answering Question 6.

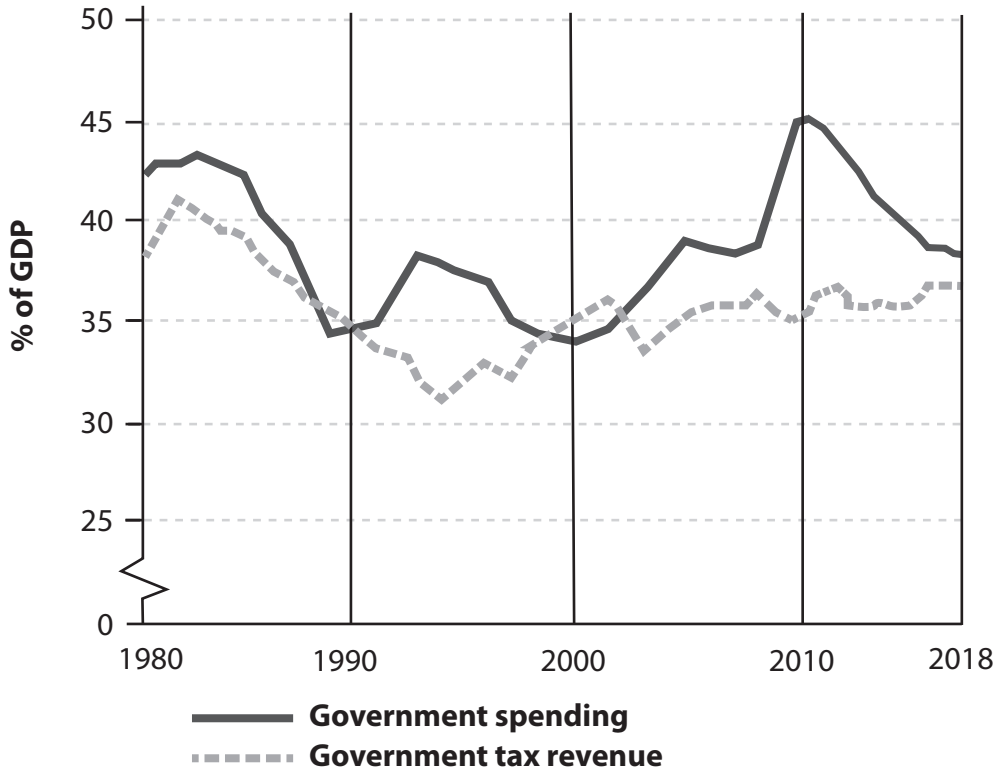
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

UK government budget and household consumption

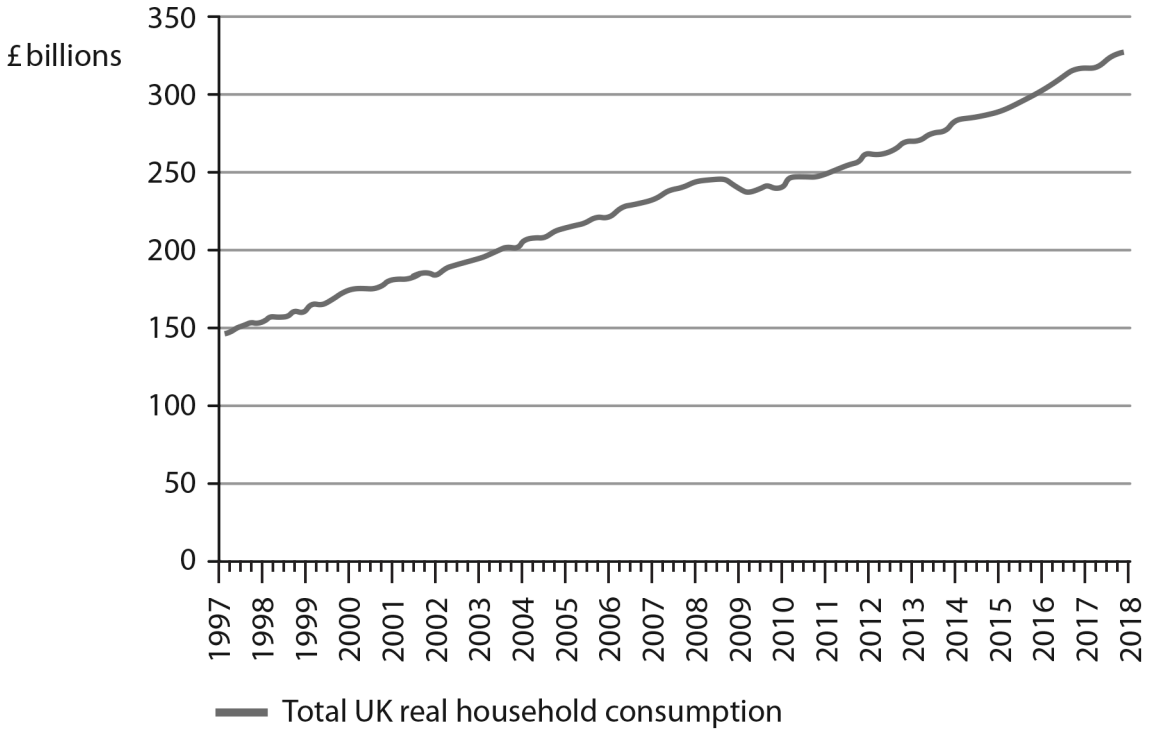
Figure 1: UK government spending and tax revenue as % of GDP, 1980–2018



(Source: adapted from Office for Budget Responsibility (OBR), http://cdn.obr.uk/EFO-MaRch_2018.pdf © Crown copyright 2018)

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Figure 2: UK real household consumption, quarterly, £ billions, 1997 to 2018



(Source: adapted from ONS, www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/bulletins/consumertrends/apriltojune2018)

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Extract A

UK household consumption

Despite the slow growth in real household disposable incomes, consumer spending rose in 2017. Annual spending per person increased by £589, when compared with 2016. This may have reflected UK households' delay in adjusting to the increase in inflation that was associated with the fall in the exchange rate of the British pound. The increase in consumption has also been driven by low interest rates. In 2017 UK house prices increased by an average of 5.1%.

UK consumers have financed most of their spending by borrowing on credit cards in order to maintain their living standards. In 2017 borrowing on credit cards rose by 9.6%, the second-highest level since before the financial crisis. This has increased the Bank of England's concerns about the sustainability of borrowing, given the slow growth in real incomes. The Bank has also indicated that the base interest rate was likely to rise faster than previously expected. More expensive credit could therefore constrain the ability of households to spend.

(Source: adapted from 'Consumer Trends UK', ONS, https://www.ons.gov.uk/economy/ nationalaccounts/ satelliteaccounts/bulletins/consumertrends/octobertodecember2017 and © Crown copyright 2018)

Extract B

Reduction of the UK's budget deficit

Since 2010 many economists have believed that the biggest problem facing the government was the rising budget deficit. In late 2017, the UK's Chancellor of the Exchequer announced that the government would continue with its plans to decrease its budget deficit. To address this issue, the government further reduced welfare payments and introduced extra spending cuts in the public sector.

The UK government had estimated that the fall in UK productivity since the financial crisis was only temporary. However, it has now accepted that this fall in the level of productivity is a long-term issue. Subsequently, the UK's forecast long-term trend rate of growth was reduced. Slower growth means lower tax receipts, higher spending and a bigger budget deficit.

Some economists have suggested that the government should not pursue additional reductions in the budget deficit. They have also claimed that the responsibility of the government is not to balance the budget but to balance the economy by moving it to full employment.

(Source: adapted from 'Philip Hammond must ditch deficit reduction and invest. But will he?', The Guardian, https:// www.theguardian.com/politics/2017/nov/19/philip-hammond-must-ditch-deficit-reduction-and-invest-but-will-he')

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6 (a) With reference to Figure 1, explain the term 'balanced government budget'.

(4)

(b) Explain the likely effect of a fall in the exchange rate of the British pound on aggregate demand. Refer to Extract A in your answer.

(5)

(c) With reference to Figure 2 and Extract A, explain **two** likely influences on the level of UK real household consumption.

(6)

(d) Assess the likely impact on the UK economy of an 'increase in consumption' (Extract A, lines 5–6). Use an aggregate demand and aggregate supply diagram in your answer.

(10)

(e) Discuss the factors that might explain why 'the UK's forecast long-term trend rate of growth was reduced' (Extract B lines 9–10).

(15)

EITHER

(f) Evaluate supply-side policies that could be used to increase the UK's rate of economic growth.

(20)

OR

(g) Evaluate the likely macroeconomic effects of the UK government pursuing a policy of reducing its budget deficit.

(20)

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6 (a) With reference to Figure 1, explain the term 'balanced government budget'.

(4)

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(b) Explain the likely effect of a fall in the exchange rate of the British pound on aggregate demand. Refer to Extract A in your answer.

(5)

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(c) With reference to Figure 2 and Extract A, explain **two** likely influences on the level of UK real household consumption.

(6)

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(d) Assess the likely impact on the UK economy of an 'increase in consumption' (Extract A, lines 5–6). Use an aggregate demand and aggregate supply diagram in your answer.

(10)

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(e) Discuss the factors that might explain why 'the UK's forecast long-term trend rate of growth was reduced' (Extract B lines 9–10).

(15)

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EITHER

(f) Evaluate supply-side policies that could be used to increase the UK's rate of economic growth.

(20)

OR

(g) Evaluate the likely macroeconomic effects of the UK government pursuing a policy of reducing its budget deficit.

(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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