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Edexcel GCE

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Economics

Advanced Subsidiary

Unit 2: Managing the Economy

Monday 23 May 2016 – Morning

Time: 1 hour 30 minutes

Paper Reference

6EC02/01

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.
- Answer **EITHER** Question 1 or Question 2.
- 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.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
– *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- 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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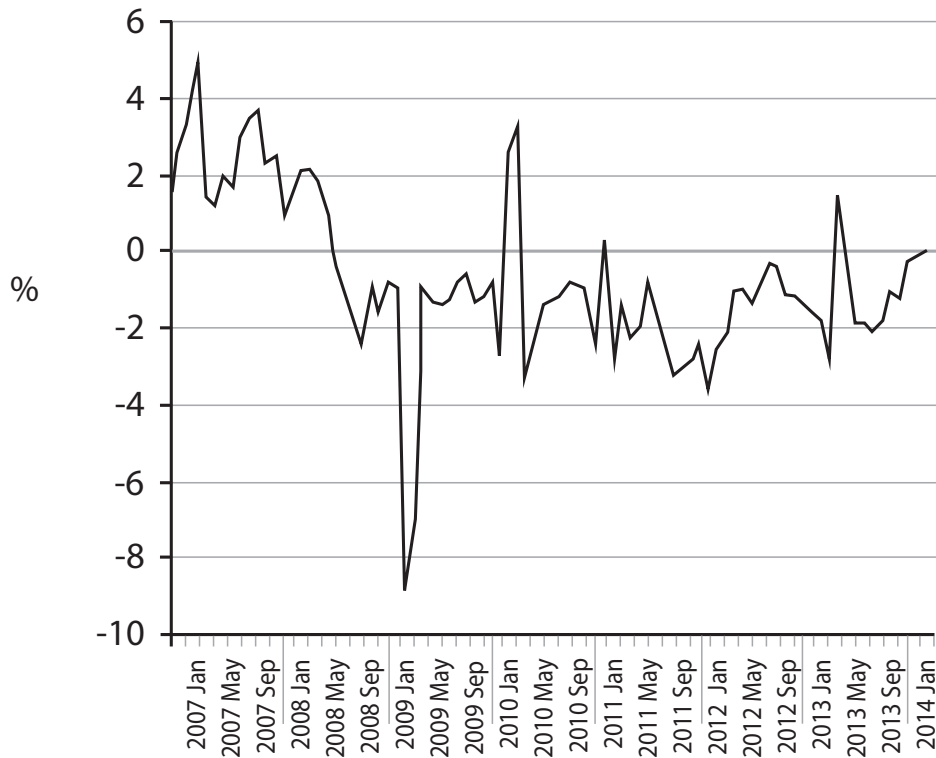
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Answer EITHER Question 1 OR Question 2.

If you answer Question 1 put a cross in this box .

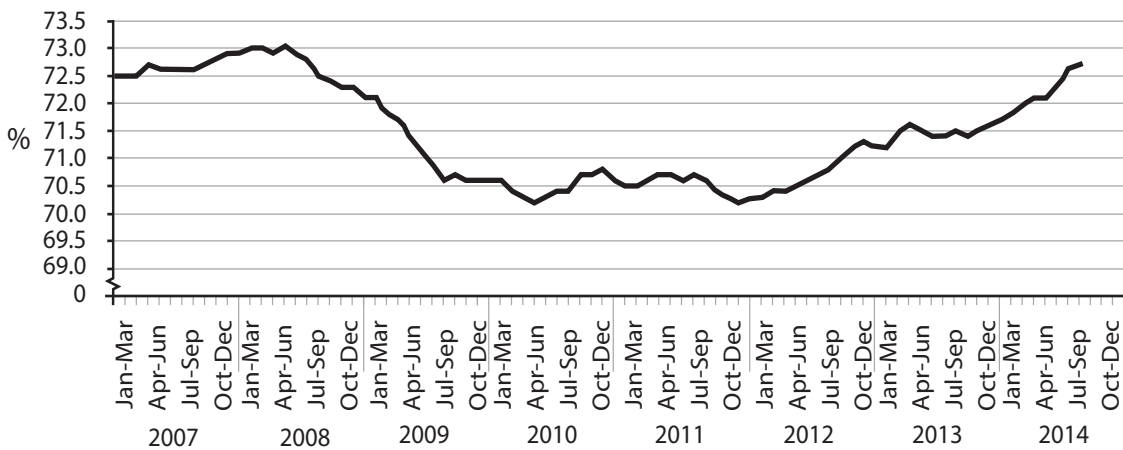
1 UK wages, employment, migration and the trade deficit

Figure 1 Real wage growth, per cent change on the same month a year ago



(Source: © ONS Economic Review June 2014, http://www.ons.gov.uk/ons/dcp171766_365818.pdf)

Figure 2 UK employment rate, % of 16–64 age group



(Source: © ONS Economic Review June 2014, http://www.ons.gov.uk/ons/dcp171766_365818.pdf)

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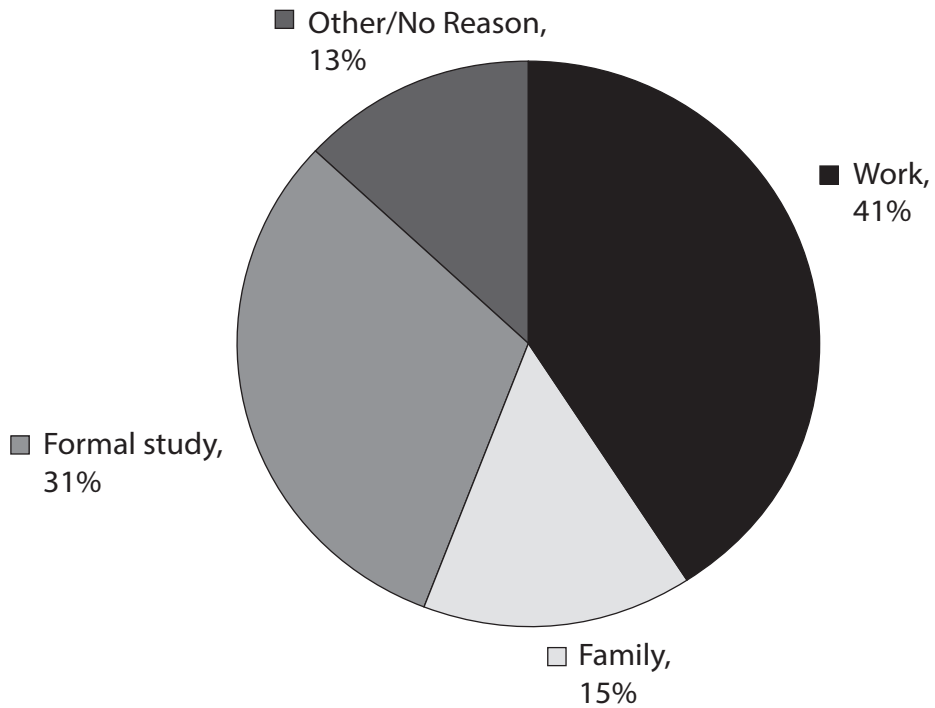


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Figure 3 Main reason for immigrating to UK, year ending March 2014



(Source: © ONS Migration Statistics Quarterly Report, August 2014, http://www.ons.gov.uk/ons/dcp171778_375307.pdf)

Extract 1 Migration trends

- Net long-term migration to the UK was estimated to be 244 000 in the year ending March 2014, an increase from 175 000 in the previous 12 months.
- 560 000 people immigrated to the UK in the year ending March 2014, an increase from 492 000 in the previous 12 months.
- An estimated 316 000 people emigrated from the UK in the year ending March 2014. Long-term emigration has been relatively stable since 2010.
- There was an increase in immigration for work (up 38 000 to 228 000).

5

(Source: adapted from © ONS Migration Statistics Quarterly Report, August 2014, http://www.ons.gov.uk/ons/dcp171778_375307.pdf)



Extract 2 Trade deficit widens

The UK's trade position deteriorated unexpectedly in July 2014 after imports increased more than exports, frustrating the Coalition Government's ambitions to rebalance the economy. The trade in goods deficit widened to £10.2 billion from £9.4 billion in June 2014. It almost matched the largest monthly deficit on record. The broader trade in goods and services deficit also widened in July 2014, to £3.3 billion from £2.5 billion in June 2014. The Office for National Statistics data showed a larger goods deficit in July 2014 driven by a £1.3 billion rise in imports to £34.2 billion, outpacing a £0.5 billion increase in exports to £24 billion.

5

In 2012, the Government set a target of doubling UK exports to £1 trillion by 2020 as part of a broader ambition to rebalance the economy away from consumer spending and towards manufacturing and exports. However, exports increased by just 2.1% in 2013 to £505.6 billion, and this target is looking increasingly challenging. With the eurozone economy remaining weak and ongoing unrest in Eastern Europe and the Middle East, export growth is likely to remain low in the short term.

10

Exchange rates are of particular concern for UK trade, according to Martin Beck, a senior economic advisor: "With around 45% of UK manufactured goods exported, overseas sales are key for continued growth in the sector. The recent fall in the value of sterling should, temporarily, boost prospects for UK exporters."

15

(Source: adapted from © Guardian Newspaper Ltd., September 2014, <http://www.theguardian.com/business/2014/sep/09/uk-trade-deficit-widens-unexpectedly>)



- (a) With reference to Figure 1,
- (i) explain the meaning of the term 'real wage growth.' (4)
 - (ii) explain **two** likely reasons for the negative real wage growth experienced in the UK for much of the period 2009–2013. (8)
- (b) With reference to Figure 3 and Extract 1, assess the likely effects of rising immigration for employment **and** unemployment in the UK. (12)
- * (c) With reference to Extract 2 paragraph 1, evaluate the likely impact of the UK's deteriorating trade balance on the UK's price level and real output. Use an aggregate demand and aggregate supply diagram in your answer. (12)
- (d) (i) Explain the likely consequence of weakness in the eurozone economy for the UK's balance of trade. (6)
- (ii) Explain **two** likely effects of 'the recent fall in the value of sterling' (Extract 2, lines 17–18) on the UK economy. (8)
- * (e) Evaluate government policies that could be used to increase the employment rate in the UK. (30)



(a) (i) With reference to Figure 1, explain the meaning of the term 'real wage growth.'

(4)

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(ii) With reference to Figure 1, explain **two** likely reasons for the negative real wage growth experienced in the UK for much of the period 2009–2013.

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(b) With reference to Figure 3 and Extract 1, assess the likely effects of rising immigration for employment **and** unemployment in the UK.

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*(c) With reference to Extract 2 paragraph 1, evaluate the likely impact of the UK's deteriorating trade balance on the UK's price level and real output. Use an aggregate demand and aggregate supply diagram in your answer.

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(d) (i) Explain the likely consequence of weakness in the eurozone economy for the UK's balance of trade.

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(ii) Explain **two** likely effects of 'the recent fall in the value of sterling' (Extract 2, lines 17-18) on the UK economy.

(8)

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*(e) Evaluate government policies that could be used to increase the employment rate in the UK.

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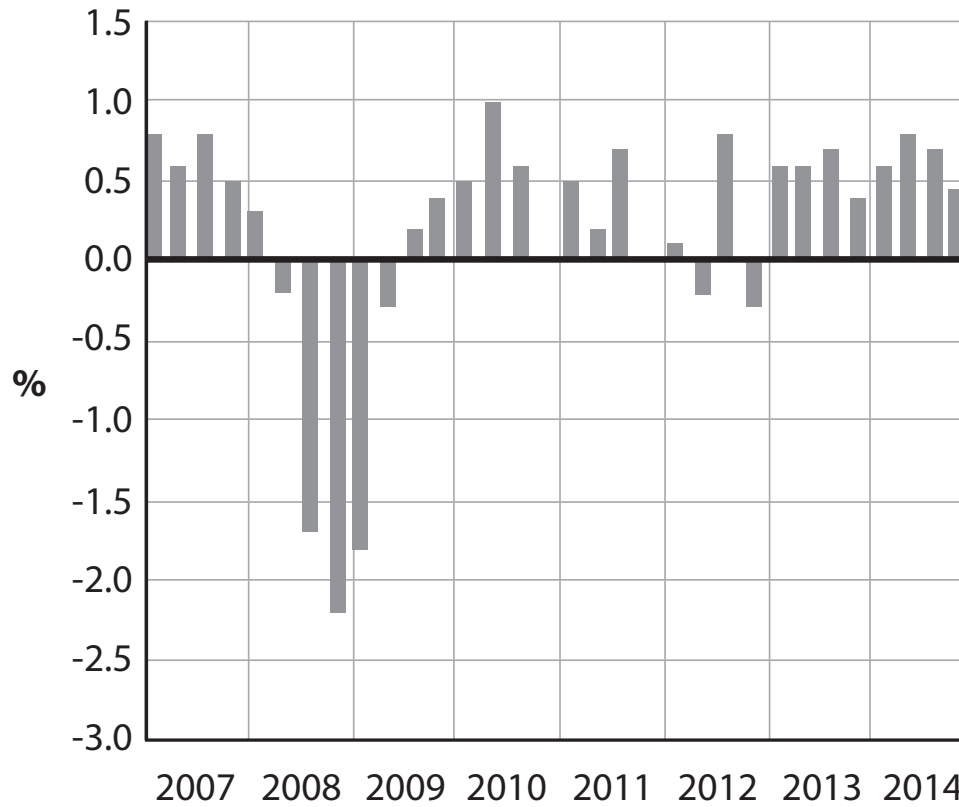
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QUESTION 2 BEGINS ON THE NEXT PAGE.



If you answer Question 2, put a cross in this box .

2 Macroeconomic indicators and policies

Figure 1 UK real GDP growth, quarter on previous quarter



(Source: ONS, http://www.ons.gov.uk/ons/dcp171778_392909.pdf)

Figure 2 Top 5 countries in the Human Development Index (HDI)

HDI Rank	Country	Human Development Index 2013	Life expectancy at birth 2013 (years)	Mean years of schooling 2012	Expected years of schooling 2012	Gross national income per capita 2013 (2011 PPP US\$)
1	Norway	0.944	81.5	12.6	17.6	63 909
2	Australia	0.933	82.5	12.8	19.9	41 524
3	Switzerland	0.917	82.6	12.2	15.7	53 762
4	Netherlands	0.915	81.0	11.9	17.9	42 397
5	United States	0.914	78.9	12.9	16.5	52 308

(Source: © United Nations Human Development Report, <http://hdr.undp.org/en/content/table-1-human-development-index-and-its-components>)

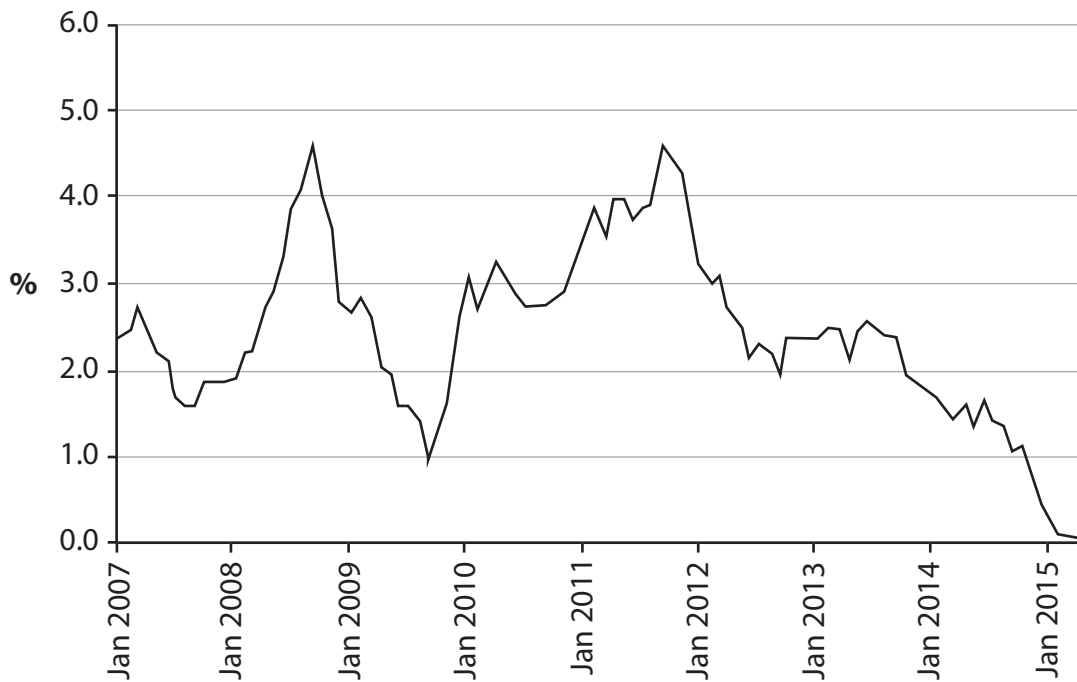


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Figure 3 UK Consumer Price Index (CPI) Inflation



(Source: © Bank of England Inflation Report February 2015, <http://ons.gov.uk/ons/rel/cpi/consumer-price-indices/april-2015/consumer-price-inflation-summary--april-2015.html>)

Extract 1 Bank of England could raise interest rates next spring, says Monetary Policy Committee (MPC) member

A Bank of England policymaker, Ian McCafferty, has reinforced expectations that the first rise in interest rates will come as soon as Spring 2015, in remarks that pushed up the UK's exchange rate.

Under Governor Mark Carney, earlier this month the Bank overhauled its forward guidance policy on when rates would rise from their record low of 0.5%. At the time it said a view in the financial markets that rates could rise in the second quarter of 2015 was consistent with its goal of keeping inflation close to the Government-set 2% target.

5

"The exact timing of course is going to depend on events that have yet to unfold in terms of how the recovery proceeds over the course of the next six to 12 months or so" said Ian McCafferty. He added that he was watching for pressures on inflation from pay deals negotiated in coming months. After years above its target, inflation has now fallen below 2% to stand at 1.9% in January 2014.

10

"If we did see some inflationary pressure – more than we currently expect in our central case – that would if anything, I suspect, lead the Committee to consider slightly earlier rate rises."

15

(Source: adapted from © Guardian Newspaper Ltd., February 2014, <http://www.theguardian.com/business/2014/feb/25/bank-england-raise-interest-rates-2015-mpc-mccafferty>)



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- (a) (i) With reference to Figure 1, explain the term 'real GDP growth'. (4)
- (ii) Discuss the advantages of using the Human Development Index (HDI) as a measure of the standard of living of a country. (12)
- (iii) With reference to Figure 2, explain **two** government policies that could be used to improve a country's Human Development Index (HDI) values. (8)
- (b) (i) Explain how the CPI measure of inflation is calculated. Refer to the concept of weighting in your answer. (6)
- (ii) Explain **two** factors that might encourage the Monetary Policy Committee of the Bank of England to increase the UK base rate of interest. (8)
- *(iii) Examine whether a very low rate of inflation is desirable for the UK economy. (12)
- *(c) To what extent is monetary policy effective in controlling the rate of inflation? (30)



(a) (i) With reference to Figure 1, explain the term 'real GDP growth'.

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(ii) Discuss the advantages of using the Human Development Index (HDI) as a measure of the standard of living of a country.

(12)

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(iii) With reference to Figure 2, explain **two** government policies that could be used to improve a country's Human Development Index (HDI) values.

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(b) (i) Explain how the CPI measure of inflation is calculated. Refer to the concept of weighting in your answer.

(6)

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(ii) Explain **two** factors that might encourage the Monetary Policy Committee of the Bank of England to increase the UK base rate of interest.

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*(iii) Examine whether a very low rate of inflation is desirable for the UK economy.

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*(c) To what extent is monetary policy effective in controlling the rate of inflation?

(30)

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