Write your name here

Surname	Other names

Pearson Edexcel
Level 3 GCE

Centre Number	Candidate Number

Economics A

Advanced Subsidiary
Paper 2: The UK economy – performance and policies

Monday 23 May 2016 – Morning
Time: 1 hour 30 minutes

Paper Reference
8EC0/02

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 **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 ▶

1/1/1/1/1/1/1

P 4 9 5 9 5 A 0 1 2 8

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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 the 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 (a) Define the term 'national income'.

(1)

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(b) Which **one** of the following is an injection into the circular flow of income?

(1)

- ☒ **A** Taxation
- ☒ **B** Imports
- ☒ **C** Investment
- ☒ **D** Saving

(c) Define the term 'circular flow of income'.

(2)

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(Total for Question 1 = 4 marks)

2 The table below shows GDP per capita at purchasing power parities (PPPs) for a selection of European countries in 2013.

Country	**GDP per capita (US$, at PPPs, 2013, rounded)**
UK	38 500
Spain	33 000
Italy	35 500

(Source: http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD)

(a) Define the term 'purchasing power parities'.

(2)

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(b) The Office for National Statistics estimates that the UK population was 64 million in 2013. Using the data, what was the UK's total GDP in 2013?

(1)

☒ **A** $2 464 000 million

☒ **B** $2 272 000 million

☒ **C** $1 662 000 million

☒ **D** $2 112 000 million

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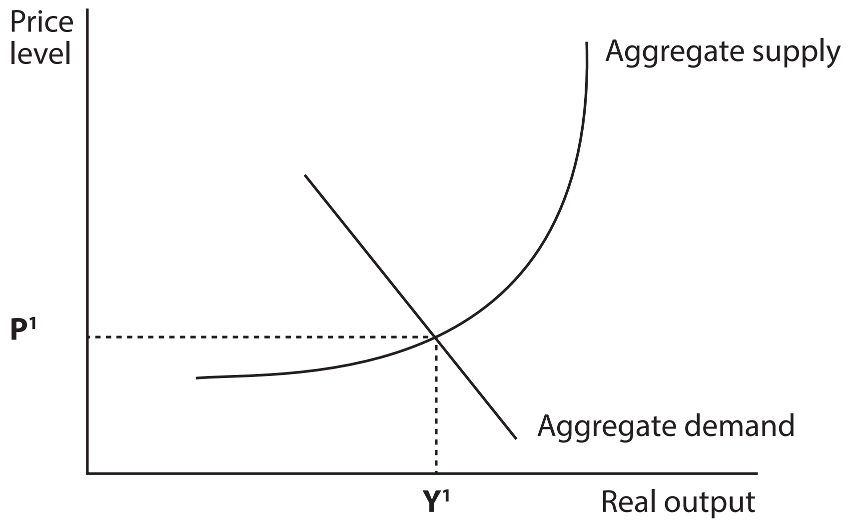
(c) Diagram A shows the aggregate demand and aggregate supply for a country.
Illustrate actual economic growth on Diagram A.

(1)

Diagram A



(Total for Question 2 = 4 marks)

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3 The table below shows claimant count data for the UK.

	Number of Claimants
August 2014	961 149
September 2014	923 240
October 2014	887 771
November 2014	848 085
December 2014	823 880
January 2015	852 934
February 2015	858 344

(Source: http://www.nomisweb.co.uk/query/construct/submit.asp?forward=yes&menuopt=201&subcomp=)

(a) Define the term 'claimant count'.

(1)

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(b) Calculate the percentage change in the claimant count from August 2014 to February 2015.

(2)

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(c) Which **one** of the following is likely to cause a reduction in the claimant count?

(1)

☒ **A** An increase in the weekly payment for claimants

☒ **B** A compulsory weekly interview for every claimant

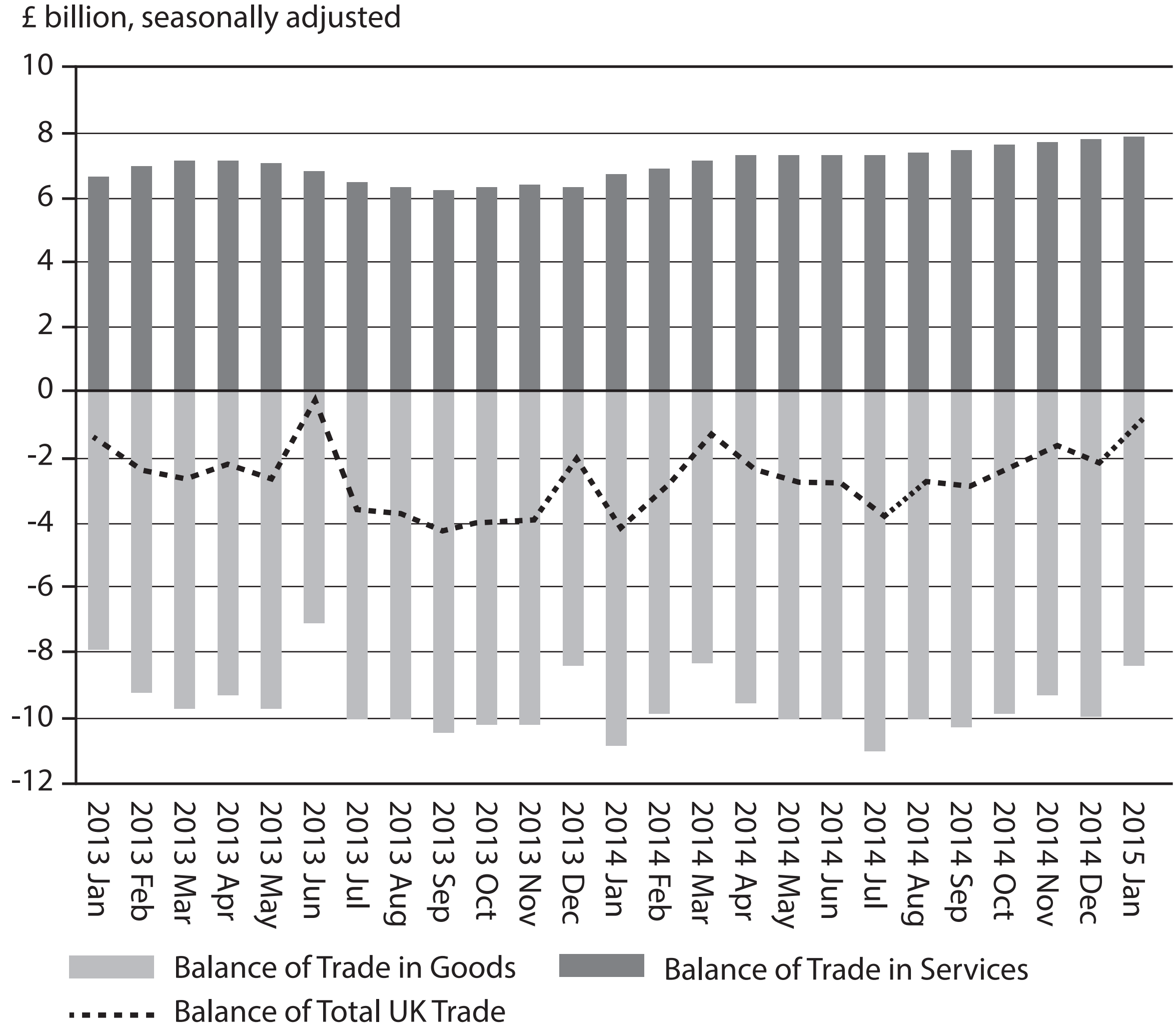
☒ **C** An increase in the size of the workforce

☒ **D** A fall in employment

(Total for Question 3 = 4 marks)

4 Figure 1 shows data on the UK's balance of trade.

Figure 1 – UK's balance of trade January 2013 to January 2015



(Source: http://www.ons.gov.uk/ons/rel/uktrade/uk-trade/january-2015/summ-uk-trade--january-2015.html)

(a) Which **one** of the following can be inferred from Figure 1 in the period shown?

(1)

☒ **A** The total UK trade deficit was the largest in June 2013

☒ **B** The trade in goods was always in surplus between January 2013 and January 2015

☒ **C** The total UK trade deficit was the smallest in January 2014

☒ **D** The trade in goods deficit was the smallest in June 2013

(b) Explain **one** likely reason for the reduction in the total UK trade deficit in January 2015.

(3)

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(Total for Question 4 = 4 marks)

5 In 2014 the Bank of England estimated the marginal propensity to consume of UK consumers to be 0.5.

In 2014 the Chancellor of the Exchequer announced a £15 billion investment programme into UK road infrastructure.

(Sources: http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q405.pdf and https://www.gov.uk/government/news/autumn-statement-2014-16-things-you-should-know)

(a) Using the information above, calculate the total increase in national income, resulting from the £15 billion investment.

(3)

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(b) Which **one** of the following is most likely to cause a rightward shift in the aggregate supply curve?

(1)

- ☒ **A** A decrease in real output
- ☒ **B** A rise in price level
- ☒ **C** A fall in price level
- ☒ **D** An increase in productivity

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

SECTION B

Read Figures 1 and 2 below and read extracts A and B before answering Question 6.

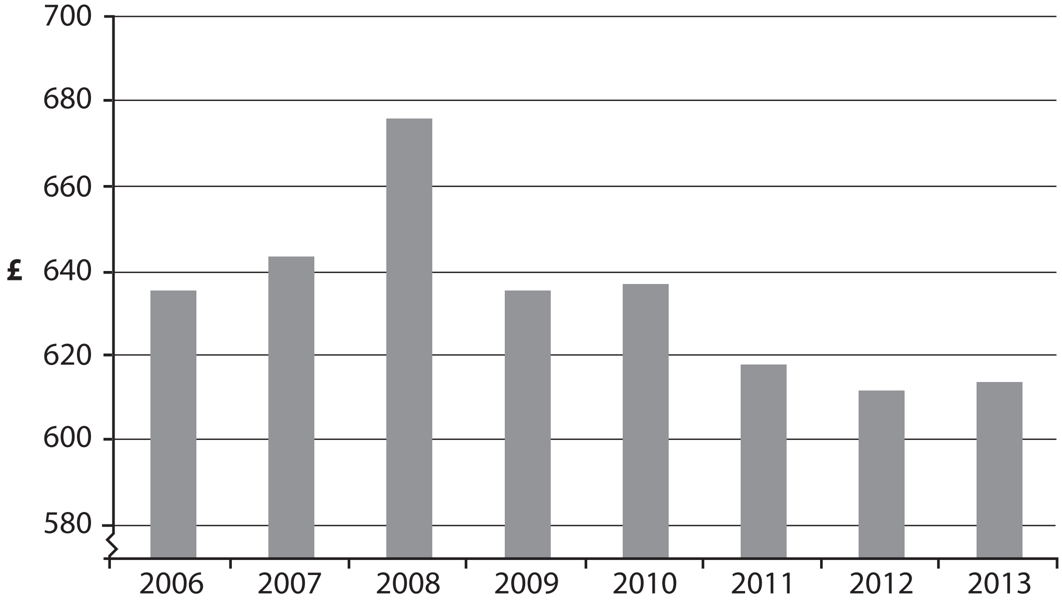
Answer ALL Question 6 (a) to 6 (e) and EITHER Question 6 (f) OR Question 6 (g).

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

Question 6

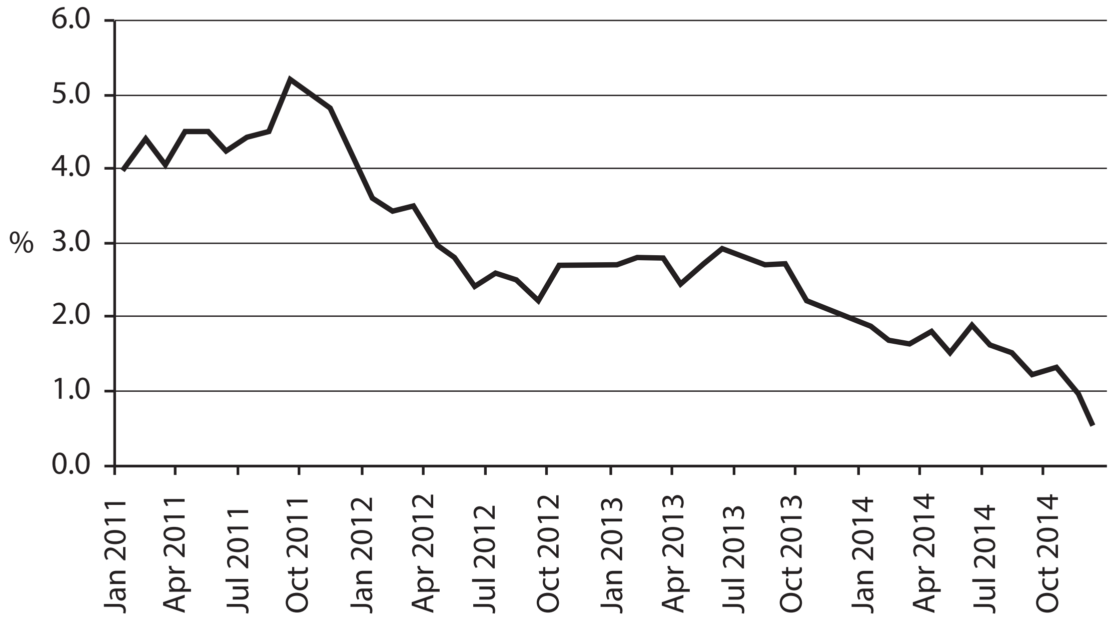
UK incomes, inflation and monetary policy

Figure 1 – UK average weekly household real income



(Source: http://www.ons.gov.uk/ons/rel/family-spending/family-spending/2014-edition/rft-a44-final-2013.xls)

Figure 2 – UK inflation rate as measured by percentage changes in the Consumer Price Index (CPI)



(Source: http://www.bankofengland.co.uk/publications/Pages/inflationreport/2015/feb.aspx)

Extract A

Britons should not fear rise in interest rates

The Monetary Policy Committee (MPC) of the Bank of England is prepared to raise interest rates "in the near future" if inflation increases, one of its senior policymakers has warned.

Kristin Forbes, a member of the MPC, said a rise in borrowing costs would also be necessary should household debt reach unhealthy levels. However, she stressed that this was not yet a cause for concern.

With the UK's base rate of interest at 0.5% and inflation at a record low and expected to be negative, the MPC is currently under no pressure to raise interest rates, despite Britain's economic recovery.

UK inflation is being driven lower by the slump in global oil prices, which have roughly halved since summer 2014, and the Bank's governor Mark Carney warned earlier this month that a strong domestic economy would translate into higher UK inflation over the medium term. "The most likely next move in monetary policy is an increase in interest rates. The message is clear," Carney said.

Forbes said that "even the more lagged effects of the rise in the value of the pound will likely peak in the first part of this year and also gradually fade. Inflation will then most likely bounce back.

"Since interest rates take well over a year to be fully effective, they should be adjusted to respond to inflationary risks at that time horizon – when all of these effects have diminished – rather than respond to today's inflation."

(Source: adapted from http://www.theguardian.com/money/2015/feb/24/ britons-should-not-fear-rise-in-interest-rates- when-they-come-says-boe-member)

Extract B

Deflation is bad news

The problem with deflation is that once you have it you can't get rid of it. Central banks know what to do about inflation but they do not have the policy tools to deal with deflation when interest rates are almost as low as they can go. Just look at Japan, which had deflation in nine separate years from 1999-2012, with two additional years at zero, averaging minus 0.3%. The highest in any single year was minus 1.3% in 2013.

In the European Union (EU) in 2008, at the start of the financial crisis, there were fears of deflation but at that time central banks had the ability to cut interest rates by nearly 5 percentage points. Those fears may now be coming true, with the EU experiencing deflation of 0.5% in 2015.

This was driven primarily by declines in energy prices, but there was also deflation in non-energy industrial goods and telecommunications. The collapse in the cost of shipping goods potentially suggests something deeper is going on and may lead to a more persistent form of deflation than Mark Carney has currently claimed.

(Source: adapted from http://www.independent.co.uk/news/business/comment/david-blanchflower/ david-blanchflower-deflation-is-bad-news--and-britain-is-likely-to-be-next-to-get-it-10078832.html)

6 (a) With reference to Figure 1, explain the term 'real income'.

(4)

(b) Assess the likely impact of falling real incomes on UK consumers.

(10)

(c) With reference to Extract A, explain the likely effect of a rise in the value of the pound on aggregate demand.

(5)

(d) With reference to the data, explain **two** likely reasons for the UK's falling inflation rate.

(6)

(e) With reference to Extracts A and B and your own knowledge, discuss whether the MPC should be concerned about the risk of deflation in the UK economy.

(15)

Answer EITHER

(f) Evaluate whether the MPC has been successful in controlling the UK's inflation rate since 2011.

(20)

OR

(g) Evaluate demand-side policy responses to the Global Financial Crisis of 2008.

(20)

6 (a) With reference to Figure 1, explain the term 'real income'.

(4)

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(b) Assess the likely impact of falling real incomes on UK consumers.

(10)

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(c) With reference to Extract A, explain the likely effect of a rise in the value of the pound on aggregate demand.

(5)

(d) With reference to the data, explain **two** likely reasons for the UK's falling inflation rate.

(6)

(e) With reference to Extracts A and B and your own knowledge, discuss whether the MPC should be concerned about the risk of deflation in the UK economy.

(15)

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Answer EITHER

(f) Evaluate whether the MPC has been successful in controlling the UK's inflation rate since 2011.

(20)

OR

(g) Evaluate demand-side policy responses to the Global Financial Crisis of 2008.

(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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