

Paper Reference 8EC0/02
Pearson Edexcel
Level 3 GCE

Total Marks

Economics A
Advanced Subsidiary
Paper 2: The UK Economy –
Performance and Policies

Thursday 16 May 2019 – Morning

**Time: 1 hour 30 minutes plus your
additional time allowance.**

**In the boxes below, write your name,
centre number and candidate number.**

Surname					
Other names					
Centre Number					
Candidate Number					

Y57195A

You do not need any other materials.

YOU WILL BE GIVEN

Data Book

INSTRUCTIONS

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 in this Question Paper or in the Data Book – there may be more space than you need.

Turn over

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.

There may be spare copies of some data sheets.

ADVICE

Read each question carefully before you start to answer it.

Check your answers if you have time at the end.

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions are multiple choice. Write the letter(s) of your chosen answer(s) in the box(es) provided.

You are advised to spend 25 minutes plus some of your additional time allowance on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

Turn over

- 1. Refer to the information for Question 1 in the Data Book.**

(a) Define the term ‘injection’ in this context.

(1 mark)

(continued on the next page)

Turn over

1. continued.

(b) Calculate the value of the multiplier based on the data given. You are advised to show your working.

(2 marks)

Answer lines continue on the next page.

Turn over

1. (b) continued.

(continued on the next page)

Turn over

1. continued.

(c) Which ONE of the following is a likely cause of a decrease in the value of the UK's multiplier?

- A A decrease in the marginal propensity to save**
- B A decrease in the marginal propensity to tax**
- C An increase in the marginal propensity to consume**
- D An increase in the marginal propensity to import**

Answer

(1 mark)

(Total for Question 1 = 4 marks)

Turn over

2. Refer to the diagram for Question 2(a) in the Data Book.

(a) Illustrate the shape of the Keynesian long-run AS curve on the diagram.

(1 mark)

(continued on the next page)

Turn over

2. continued.

(b) Explain what is meant by spare capacity in an economy.

(2 marks)

Answer lines continue on the next page.

Turn over

2. (b) continued.

(continued on the next page)

Turn over

2. continued.

(c) Which ONE of the following is most likely to cause a movement along the AS curve?

Changes in:

- A competition policy**
- B relative productivity**
- C the cost of raw materials**
- D the level of aggregate demand**

Answer

(1 mark)

(Total for Question 2 = 4 marks)

Turn over

3. Refer to the diagram for Question 3 in the Data Book.

**(a) With reference to the chart,
explain ONE likely economic
effect of the change in the UK
unemployment rate between
2012 and 2018**

(3 marks)

**Answer lines continue on the
next page.**

Turn over

3. (a) continued.

[illegible]

(continued on the next page)

Turn over

3. continued.

(b) Which ONE of the following policies is most likely to reduce the unemployment rate in the UK?

- A A decrease in direct taxes on company profits**
- B A decrease in quantitative easing**
- C An increase in government payments to the unemployed**
- D An increase in the UK base interest rate**

Answer

(1 mark)

(Total for Question 3 = 4 marks)

Turn over

4. Refer to the diagram for Question 4 in the Data Book. It shows the aggregate demand (AD) and a possible long-run aggregate supply (LRAS) for the UK.

(a) Define the term ‘price level’.

(1 mark)

(continued on the next page)

Turn over

4. continued.

(b) Annotate the diagram to show the likely impact of government policy to promote business competition on the equilibrium level of real output and price level.

(2 marks)

Answer space continues on the next page.

Turn over

4. (b) continued.

(continued on the next page)

Turn over

4. continued.

(c) Which ONE of the following is an interventionist supply–side policy?

- A An improvement in infrastructure**
- B An increase in indirect taxation**
- C An increase in interest rates**
- D An increase in the regulation of markets**

Answer

(1 mark)

(Total for Question 4 = 4 marks)

Turn over

- 5. Refer to the table for Question 5 in the Data Book. It shows average UK house prices between July 2014 and July 2017**

(continued on the next page)

5. continued.

(a) Which ONE of the following is the most likely impact of an increase in average UK house prices on existing homeowners?

A Greater confidence

B Higher income

C Lower consumption

D Negative wealth effect

Answer

(1 mark)

(continued on the next page)

Turn over

5. continued.

**(b) Using 2014 as the base year,
calculate the index number for
(2 marks)**

(i) 2015

(continued on the next page)

Turn over

5. (b) continued.

(ii) 2016

(continued on the next page)

Turn over

5. continued.

(c) Define the term 'index number'.

(1 mark)

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

Turn over

SECTION B

**Read Figures 1 to 4 and
extracts A and B in the Data Book
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 plus some of your
additional time allowance on this
section.**

Turn over

Question 6

UK inflation and economic growth

- (a) With reference to the first paragraph of Extract A and Figure 1, explain how the change in the exchange rate of the pound has ‘contributed to rising inflation’ (Extract A, line 6) (4 marks)**

(continued on the next page)

Turn over

6. continued.

(b) With reference to Extract A, explain TWO likely economic effects of the higher rate of UK inflation.

(6 marks)

(c) With reference to the last paragraph of Extract A and Figure 2, explain ONE reason why it is necessary to regularly update the CPI basket of goods and services.

(5 marks)

(continued on the next page)

Turn over

6. continued.

- (d) With reference to Figure 3, assess the likely impact of the change in the value of exports, since mid-2016, on the economic growth of the UK. Use an aggregate demand and aggregate supply diagram in your answer.**
- (10 marks)**

(continued on the next page)

Turn over

6. continued.

(e) With reference to Figure 4, Extract B and your own knowledge, discuss the limitations of using GDP data to compare living standards between the UK and developing countries.

(15 marks)

(continued on the next page)

Turn over

6. continued.

EITHER

- (f) Evaluate the use of interest rate changes as a means of controlling UK inflation.**

(20 marks)

OR

- (g) Evaluate the potential conflicts between the objective of economic growth and TWO other UK macroeconomic objectives.**

(20 marks)

(continued on the next page)

Turn over

6. (a) With reference to the first paragraph of Extract A and Figure 1, explain how the change in the exchange rate of the pound has 'contributed to rising inflation' (Extract A, line 6) (4 marks)

Answer lines continue on the next three pages.

Turn over

6. (a) continued.

Turn over

6. (a) continued.

Turn over

6. (a) continued.

(continued on the next page)

Turn over

6. continued.

**(b) With reference to Extract A,
explain TWO likely economic
effects of the higher rate of UK
inflation.**

(6 marks)

**Answer lines continue on the
next three pages.**

Turn over

6. (b) continued.

Turn over

6. (b) continued.

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6. (b) continued.

(continued on the next page)

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6. continued.

(c) With reference to the last paragraph of Extract A and Figure 2, explain ONE reason why it is necessary to regularly update the CPI basket of goods and services.

(5 marks)

Answer lines continue on the next three pages.

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6. (c) continued.

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6. (c) continued.

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6. (c) continued.

(continued on the next page)

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6. continued.

(d) With reference to Figure 3, assess the likely impact of the change in the value of exports, since mid-2016, on the economic growth of the UK. Use an aggregate demand and aggregate supply diagram in your answer.

(10 marks)

Answer lines and space continue on the next eight pages.

Turn over

6. (d) continued.

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6. (d) continued.

(continued on the next page)

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6. continued.

(e) With reference to Figure 4, Extract B and your own knowledge, discuss the limitations of using GDP data to compare living standards between the UK and developing countries.

(15 marks)

Answer lines continue on the next twelve pages.

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6. (e) continued.

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6. (e) continued.

(continued on the next page)

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6. continued.

EITHER

- (f) Evaluate the use of interest rate changes as a means of controlling UK inflation.
(20 marks)**

OR

- (g) Evaluate the potential conflicts between the objective of economic growth and TWO other UK macroeconomic objectives.
(20 marks)**

(continued on the next page)

Turn over

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)

☐

(continued on the next page)

Turn over

6. continued.

Write your answer here:

**Answer lines continue on the next
seventeen pages.**

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6. continued.

[illegible]

Turn over

6. continued.

(Total for Question 6 = 60 marks)

TOTAL FOR SECTION B = 60 MARKS

TOTAL FOR PAPER = 80 MARKS

END OF PAPER
