

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					

X57195A

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.

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.

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)

1. continued.

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

(2 marks)

(continued on the next page)

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)

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)

2. continued.

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

(2 marks)

(continued on the next page)

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)

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.

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3. (a) continued.

(continued on the next page)

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)

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)

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)

(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)

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

(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)

5. continued.

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

(2 marks)

(i) **2015**

(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

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.

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, lines 6–7)
(4 marks)
- (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)

(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)

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)

- 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, lines 6–7)**
- (4 marks)**

Answer lines continue on the next two pages.

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6. (a) continued.

[illegible]

Turn over

6. (a) continued.

(continued on the next page)

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 two pages.

6. (b) continued.

[illegible]

Turn over

6. (b) continued.

(continued on the next page)

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 two pages.

[illegible]

6. (c) continued.

[illegible]

Turn over

6. (c) continued.

(continued on the next page)

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 six pages.

6. (d) continued.

[illegible]

Turn over

6. (d) continued.

[illegible]

Turn over

6. (d) continued.

[illegible]

Turn over

6. (d) continued.

[illegible]

Turn over

6. (d) continued.

6. (d) continued.

(continued on the next page)

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 eight pages.

[illegible]

6. (e) continued.

[illegible]

Turn over

6. (e) continued.

[illegible]

Turn over

6. (e) continued.

[illegible]

Turn over

6. (e) continued.

[illegible]

Turn over

6. (e) continued.

[illegible]

Turn over

6. (e) continued.

[illegible]

Turn over

6. (e) continued.

[illegible]

Turn over

6. (e) continued.

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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)

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:

Answer lines continue on the next twelve pages.

Turn over

6. continued.

[illegible]

Turn over

6. continued.

[illegible]

Turn over

6. continued.

[illegible]

Turn over

6. continued.

[illegible]

Turn over

6. continued.

[illegible]

Turn over

6. continued.

[illegible]

Turn over

6. continued.

[illegible]

Turn over

6. continued.

[illegible]

Turn over

6. continued.

[illegible]

Turn over

6. continued.

[illegible]

Turn over

6. continued.

[illegible]

Turn over

6. continued.

[illegible]

(Total for Question 6 = 60 marks)

TOTAL FOR SECTION B = 60 MARKS

TOTAL FOR PAPER = 80 MARKS

END OF PAPER