Economics A

Advanced
Paper 2: The National and Global Economy

Thursday 23 May 2019 – Morning

Data Book

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

Surname	
Other names	
Centre Number	
Candidate Number	

Pearson

INSTRUCTIONS

There may be spare copies of some data sheets in case you need them.

THIS DATA BOOK MUST BE RETURNED WITH THE QUESTION PAPER AT THE END OF THE EXAMINATION.
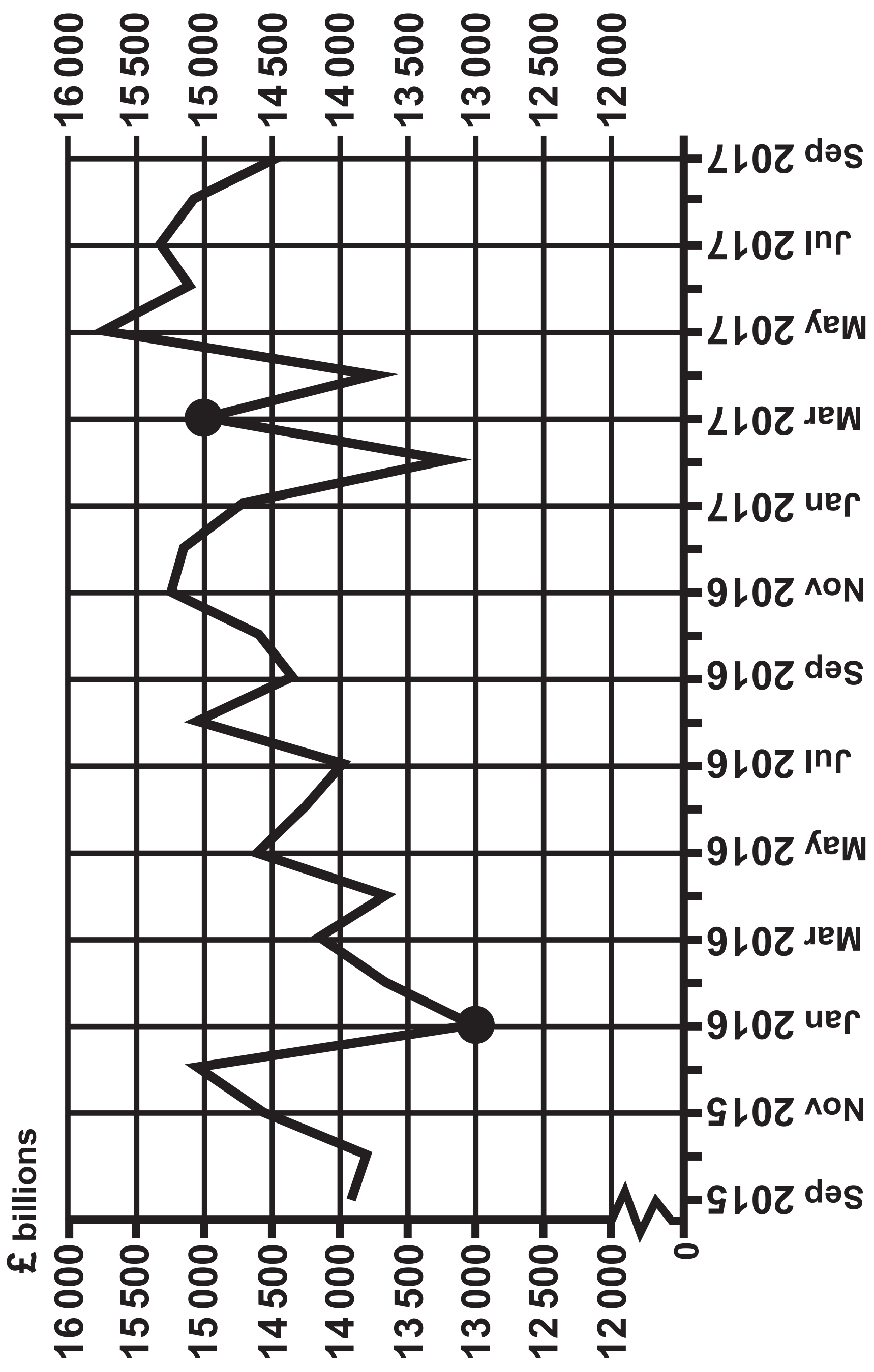

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Question 1

Monthly additions to UK credit card lending, £ billions, 2015 – 2017

£ billions

(Source: https://www.ukfinance.org.uk/statistics/cards/)
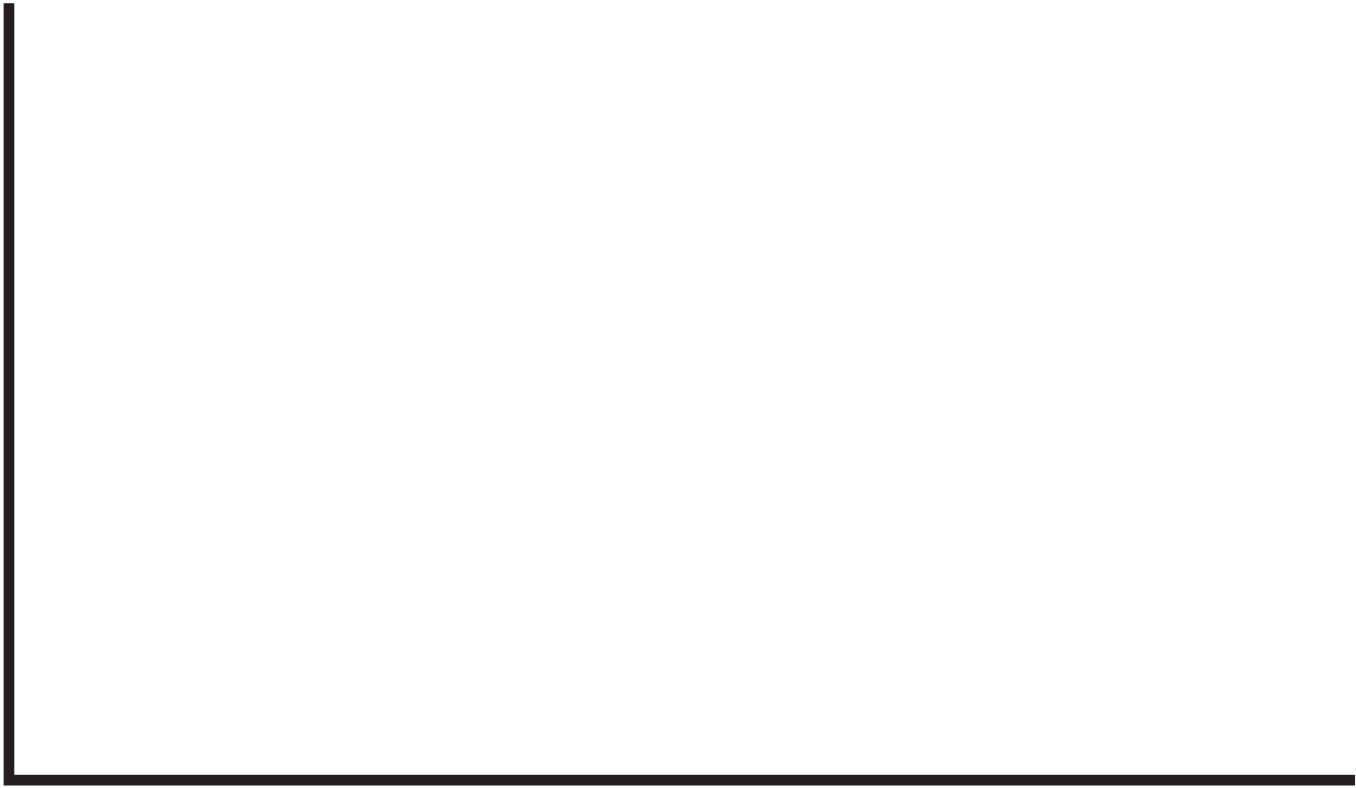
Question 2
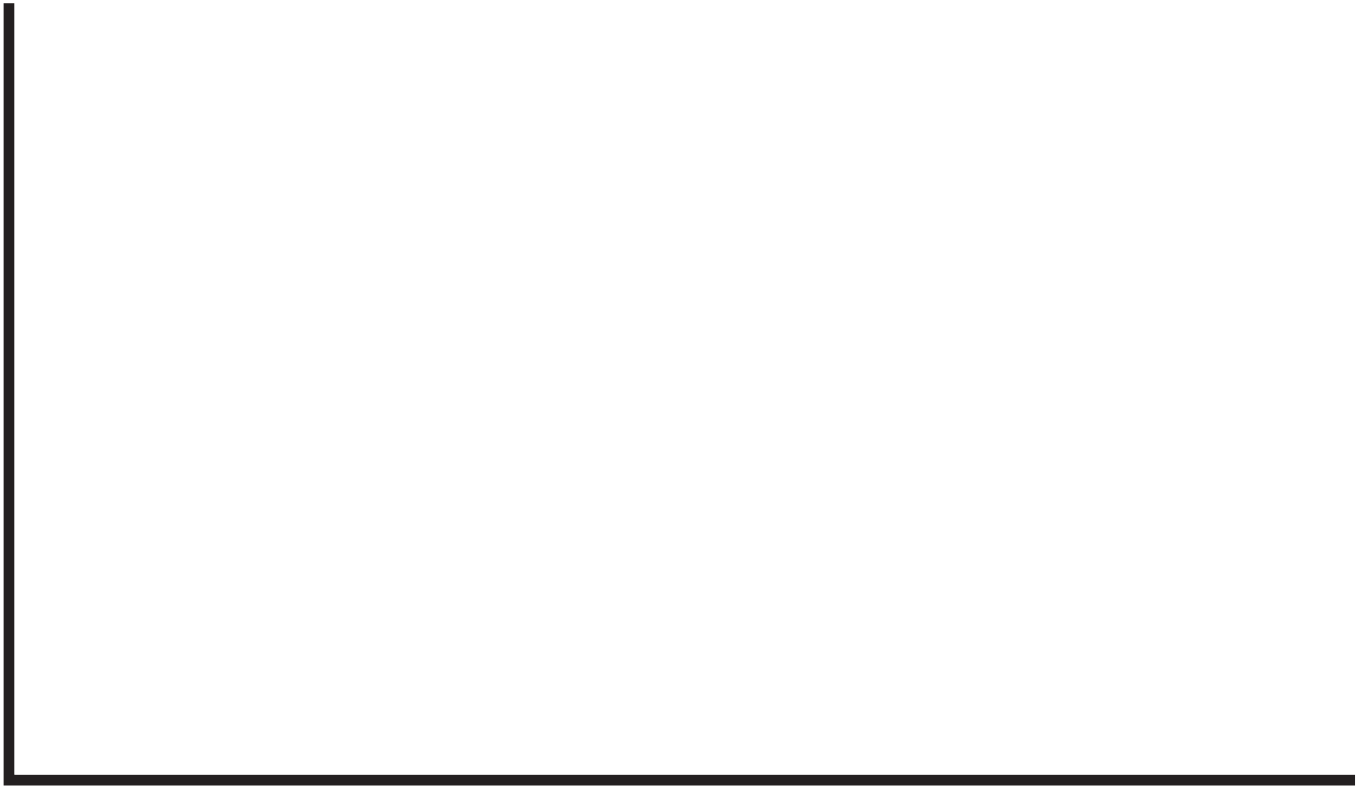
Question 2

Question 3

Country	Unit labour costs
Austria	113
Hungary	120
Estonia	129
France	107

(Source: http://www.oecd−ilibrary.org/economics/data/labour/
unit−labour−cost−quarterly−indicators−early−estimates_
data−00607−en)

Figure 1

Figure 1: Pound sterling to US$ exchange rate, 2016–17

Price of £1 in US dollars
$ per £

UK votes to leave the EU

UK general election announced
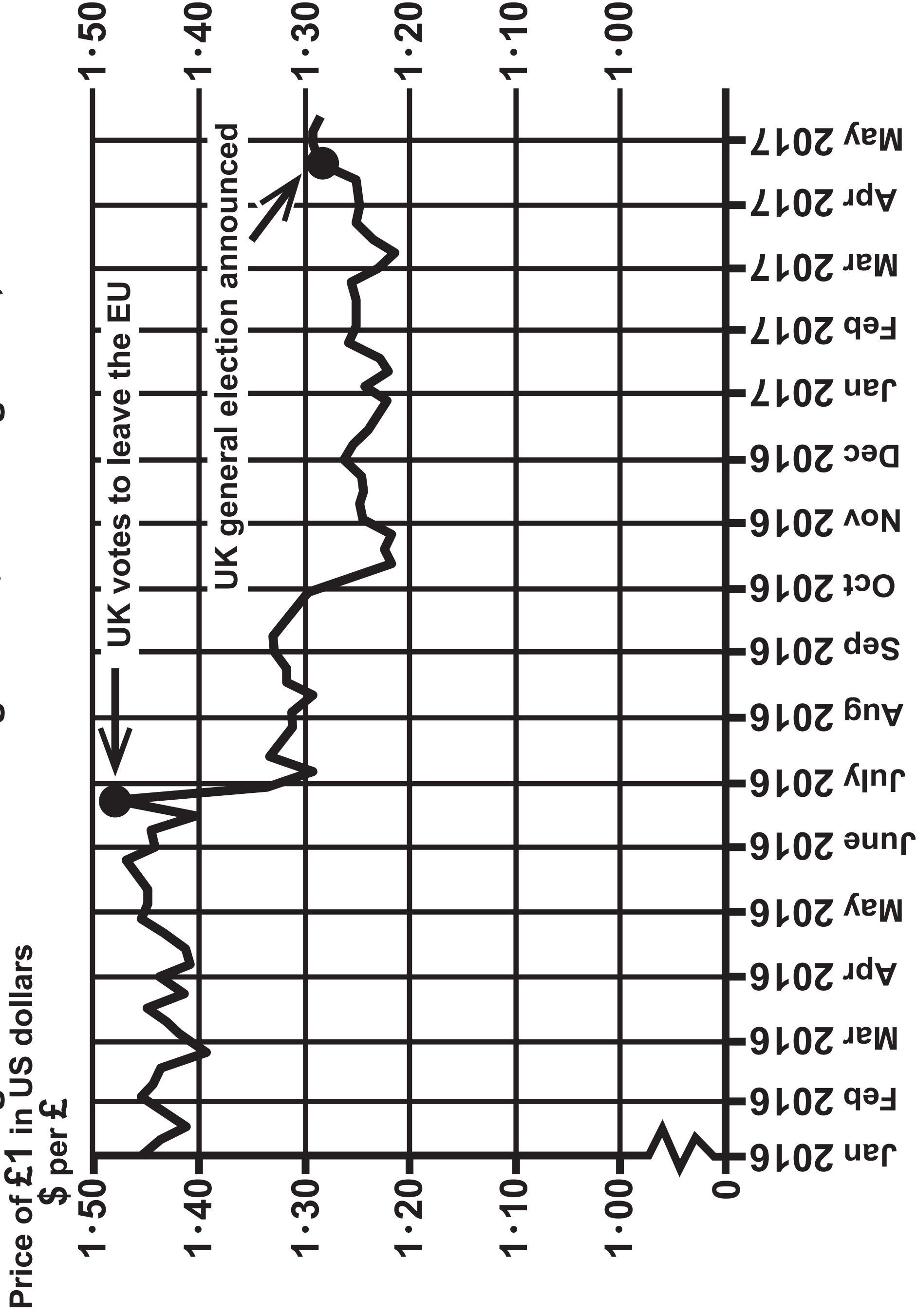
Extract A

UK companies use forward currency market

The Norfolk–based picture frames maker Nielsen Bainbridge recently made forward contracts in the foreign exchange market to reduce the impact of currency
5   fluctuations. The pound's post–Brexit referendum depreciation has been a test of nerve for Nielsen Bainbridge and many other importers. At present the company's suppliers are located in Europe or China. "Currency therefore has a big impact on our business and the margins
10   we can obtain," says Ms Burdett, the Finance Director. Forward contracts enable institutions, businesses and individuals to lock in an exchange rate over a certain period of time regardless of how the rate moves during that time. Ms Burdett buys currency as soon as Nielsen Bainbridge
15   confirms a large order as a way to fix costs. One third of UK business managers are considering shifting from EU to UK suppliers.

Extract B

Bank of England seeking to prevent future bank bailouts

The Bank of England has ordered big lenders in the UK to find **£116** billion of funding to ensure that taxpayers

5 will never again have to bail out the banking sector. The Bank intends to publish details of how each of the big lenders would cope in the event they find themselves in a situation similar to Royal Bank of Scotland and Lloyds Banking Group, which needed **£65** billion of taxpayer

10 bailouts during the **2008** Global Financial Crisis. This had a significant negative impact on the UK government's national debt and, many would argue, increased the need for contractionary fiscal policy. Having said that, the UK government sold all its shares in Lloyds Banking Group in

15 **2017** and, according to the Chancellor of the Exchequer, "recovered every penny of its investment in Lloyds".

Sir Jon Cunliffe, the deputy governor at the Bank responsible for financial stability, said regulators needed to let banks fail in a similar way that traditional companies

20 collapse. This has not been possible in the past because of the risk that savers lose their money and because a system did not exist to allow banks to be put into insolvency.

Extract B continued.

"Just like when other businesses fail, losses arising
25   from bank failure would be imposed on shareholders
and investors. This protects the public from loss and
incentivises banks to operate more prudently," said
Cunliffe.

Extract C

Bank of England tells lenders to increase capital reserves

The Bank of England has told lenders they will need to build a special reserve worth **£11·4** billion by the end

5   of **2018** as it tries to make banks more resilient to the risk posed by mounting consumer debt. This reserve of assets that can be readily turned into cash is a way of forcing banks to set aside capital reserves in good times in order to keep lending to the wider economy at a steady

10   level, even during an economic downturn. In **2017** the Bank of England told UK banks it would raise the reserve ratio, relative to all assets, from zero to **0·5%** and also forecast a further increase to **1%** by the end of **2017**

The move is not intended to directly reduce consumer

15   demand for credit, which in **2017** grew by **10·3%** on an annual basis, but it may well lead to banks becoming less willing to lend to consumers. Since the Bank of England has recently become increasingly concerned about consumer borrowing, including rising car loans and credit

20   card debt, this may be no bad thing as far as the Bank of England is concerned, even if it does have a negative impact on the wider economy.

Extract C continued.

Analysts are concerned about the impact on consumer confidence of rising inflation, partly caused by a falling pound. With falling real incomes consumers could become more vulnerable to falling behind with their credit card and personal loan repayments. Despite these concerns the UK economy recently recorded the lowest rate of unemployment since 1975

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