Rewarding Learning

ADVANCED SUBSIDIARY (AS)
General Certificate of Education

Economics

SEC21

Assessment Unit AS 2
assessing
Managing the National Economy

[SEC21]
Assessment

Assessment Level of Control:
Tick the relevant box (✓)

Controlled Conditions	
Other	

TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **all** questions in Sections **A** and **B** and **one** question in Section **C**.
You are permitted to use a calculator in this paper.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

- Section A: 25 Marks
- Section B: 35 Marks
- Section C: 20 Marks

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time. In questions involving calculations, you are advised to show your workings. Quality of written communication will be assessed in Questions **5**, **6(b)**, **(c)** and **(d), 7** and **8**. Quantitative skills will be assessed where appropriate.

Section A (25 marks)

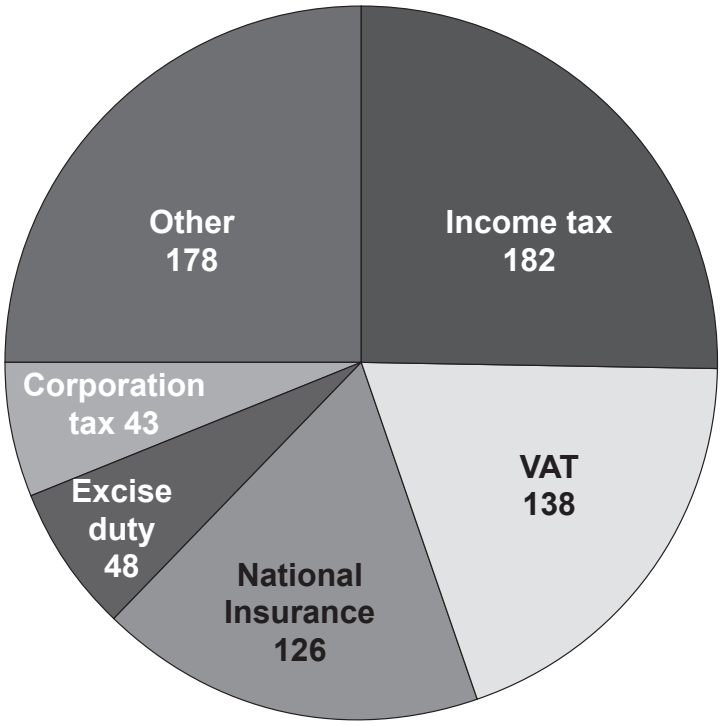
Answer all questions

1 The table below shows estimates for the population of the Dungannon area in 2002, 2010 and 2018.

Year	Population
2002	48 125
2010	57 640
2018	62 169

Convert the data for 2018 into index number form using 2002 as the base year. [3]

2 The chart below shows estimates of UK tax receipts by category in the 2017–18 financial year.



Tax Revenue (£billion)

With reference to the chart above, explain the difference between direct and indirect taxation. [4]

3 The table below shows selected information from the July 2018 labour market bulletin published by the Office for National Statistics (ONS). For simplicity, the data is rounded to the nearest thousand. Use the information in the table to answer the questions below.

Labour market data		**Number of people (thousands)**
Number of people in work		32 399
Number of people unemployed	by ILO (International Labour Organisation) method	1 411
	by Claimant Count method	898

(a) Calculate the economically active population for the UK in July 2018. [2]

(b) Calculate the ILO rate of unemployment for the UK in July 2018. [2]

(c) Explain two reasons why the ILO unemployment figure in the UK is higher than the claimant count unemployment figure. [4]

4 The table below gives figures for Gross Domestic Product (GDP) and Retail Prices Index (RPI) for a country in 2017 and 2018.

Using the information in the table below, calculate the percentage change in real GDP between 2017 and 2018. [4]

Year	**Nominal GDP(bn)**	**Retail Prices Index**
2017	£790	110
2018	£1,037	125

5 During 2018 the Gross Domestic Product (GDP) of the USA was growing by 4.1%, its fastest rate in five years. In the same period, unemployment in the USA fell to its lowest level in 11 years. Some economists claim that these impressive figures are a direct result of President Trump's supply side reforms, such as deregulating energy supply and implementing corporate and income tax cuts.

With the aid of an appropriate diagram, explain why neoclassical economists consider supply side policies to be so effective in helping an economy meet its macroeconomic objectives. [6]

Section B (35 marks)

Answer all questions

The following article was written in August 2018. Read it carefully and answer the questions which follow.

6 The UK productivity puzzle

A new report warns that British businesses need to up their game and become more productive or risk going to the wall. The report comes as figures published by the Office for National Statistics (ONS) show just how poor UK productivity is compared to other major economies.

UK productivity, as measured by output per hour worked, is approximately 25% behind our main EU competitors such as France and Germany, meaning that it takes a British worker five days to produce what French and German workers achieve in four.

In 2017, the last year for which figures are available, UK productivity actually increased by 0.6%, its highest rate of growth since 2011. However, this rate was still well below our own long-term trend and below the rates of growth achieved in the US and elsewhere.

Fig. 1 below compares productivity growth in the G7 nations before and after the financial crisis, and illustrates just how poorly the UK has performed since 2008.

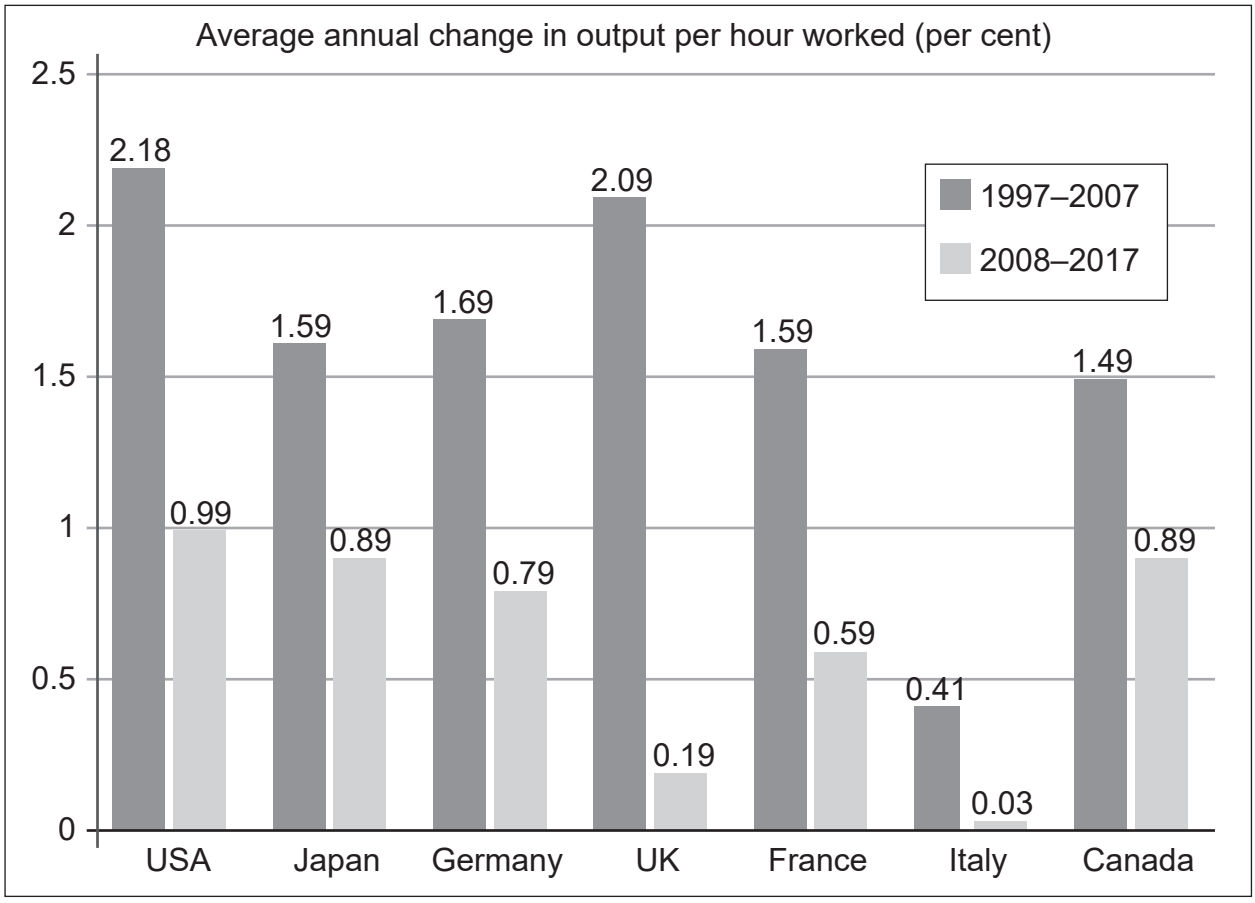


Fig. 1: Productivity growth in the G7 before and after the financial crisis

Economic commentator Richard Murray said that “politicians and business leaders have become increasingly worried about the poor productivity figures because rising productivity leads to increases in GDP, real wages and ultimately living standards. The absence of productivity growth since the financial crisis means that the millennium generation does not have a higher income than the generation before – the first time this has happened since the Second World War.”

Hal Varian, chief economist at Google, argued that we should not read too much into the productivity figures. He claimed that the output of a country is notoriously hard to measure, not to mention the number of hours worked. So if, for example, GDP is underestimated then so too will productivity.

Richard Murray, however, argued that it is naïve to dismiss the productivity figures as meaningless. “The UK’s poor productivity figures are not a reflection of accounting difficulties,” he said. “Rather they are a reflection of low levels of investment by the private sector, infrastructure bottlenecks and a poorly functioning education system which does not equip workers with the skills required by businesses. Closing the productivity gap should be the government’s number one economic priority as it is the only way we can ensure that we reverse the fall in living standards that has occurred since 2008.”

(a) Using the information in **Fig. 1**, compare the growth in productivity in the UK before and after the 2008 financial crisis with that of the other G7 economies. [5]

(b) Explain why it might be difficult to accurately measure the productivity of a country such as the UK. [6]

(c) Analyse some of the reasons for low productivity in the UK. [9]

(d) Critically examine the view that increasing productivity should be the UK government’s number one economic priority. [15]

Section C (20 marks)

Answer one question

7 In July 2015 the pound was trading on the foreign exchange markets at €1.44. By July 2018 its value had fallen to €1.12, with many commentators expecting it to drop further by the end of the year. While this change gave some comfort to exporters, it offered little comfort to UK holidaymakers.

Critically examine the likely impact on the UK economy of a fall in the value of the pound against the euro. [20]

8 Since 2013, the Bank of Japan has been introducing a variety of traditional and unorthodox measures to boost the country's inflation rate above the 2% target. These measures are a result of concerns that the economy may well be slipping back into a deflationary spiral similar to that experienced at the turn of the century.

Critically examine the view that deflation is a far greater economic problem than inflation. [20]

THIS IS THE END OF THE QUESTION PAPER

Sources:

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