



*Rewarding Learning*

**ADVANCED SUBSIDIARY (AS)**  
**General Certificate of Education**  
**2023**

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# Economics

Assessment Unit AS 2  
*assessing*  
Managing the National Economy



SEC21

**[SEC21]**

**MONDAY 22 MAY, MORNING**

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## 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(b)**, **6(b)**, **(c)** and **(d)**, **7** and **8**. Quantitative skills will be assessed where appropriate.

## Section A (25 marks)

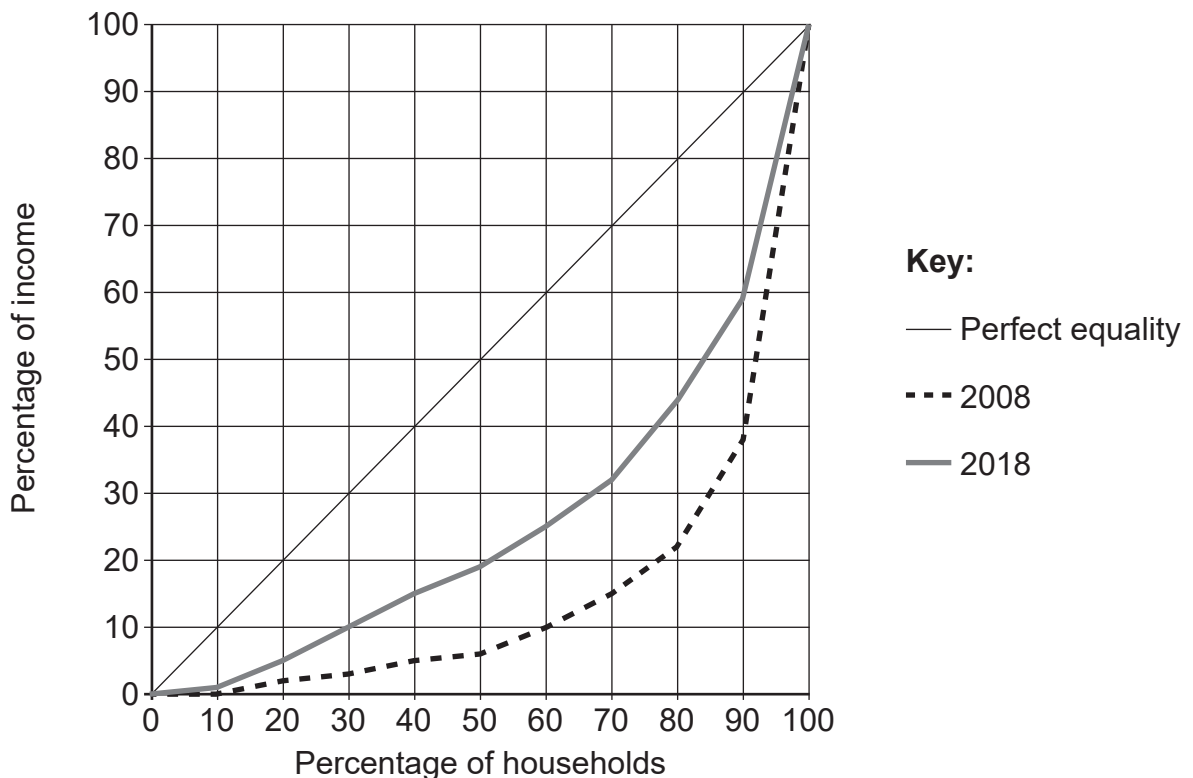
### Answer all questions

- 1 The table below shows the percentage change in real GDP of the four regions of the United Kingdom in the last quarter of 2019 and the first quarter of 2020.

Region	Q4 2019	Q1 2020
England	0.0%	-2.5%
Wales	-1.1%	-2.4%
Scotland	0.1%	-2.5%
Northern Ireland	-1.0%	-4.5%

- (a) Explain what is meant by the term real GDP. [4]
- (b) With reference to the data above, explain why the Northern Ireland economy could be considered to be in recession at the beginning of 2020, but the Scottish economy could not. [3]

- 2 The chart below shows Lorenz curves for the distribution of income in a country in 2008 and 2018.



- Using the information in the chart above, explain what has happened to the distribution of income in this country between 2008 and 2018. [3]

- 3 The table below shows the Consumer Prices Index (CPI) for the UK between January 2010 and January 2015.

Year	CPI
2010	89.4
2011	93.4
2012	96.1
2013	98.5
2014	99.6
2015	100.0

- (a) Explain what is meant by the term inflation. [2]
- (b) Using the information in the table above, calculate the rate of inflation between January 2010 and January 2011. [2]
- 4 Figures from the Office for National Statistics showed that UK labour productivity fell by 20% in the second quarter of 2020 compared to the same period in 2019.
- Explain how labour productivity is measured in the UK. [3]
- 5 On 17 March 2020, £1 bought US\$1.16 on the foreign exchange markets while £1 was worth €1.06. By January 2021 the pound had risen to \$1.37 and €1.12 respectively.
- (a) Using the information above, calculate the value of one euro in US dollars on 17 March 2020. [2]
- (b) With the aid of an appropriate diagram, explain the likely impact on the UK economy of a rise in the value of the pound against the euro and US dollar. [6]

## Section B (35 marks)

### Answer all questions

The following article was written in January 2021. Read it carefully and answer the questions which follow.

#### 6 UK economy to remain in intensive care

2020 was a grim year for the UK economy. The UK recorded the worst recession in 300 years, interest rates were slashed to the lowest level in history, and the government posted its highest ever peacetime budget deficit. 1

The UK economy will begin 2021 still in intensive care as a new wave of coronavirus infections and the outworking of the UK's withdrawal from the EU limit the chances of a rapid recovery. The UK has a huge hill to climb because its economy suffered more than most during the early stages of the pandemic, with GDP falling by over 20% in the first six months of 2020 as shown in **Fig. 1** below. 2

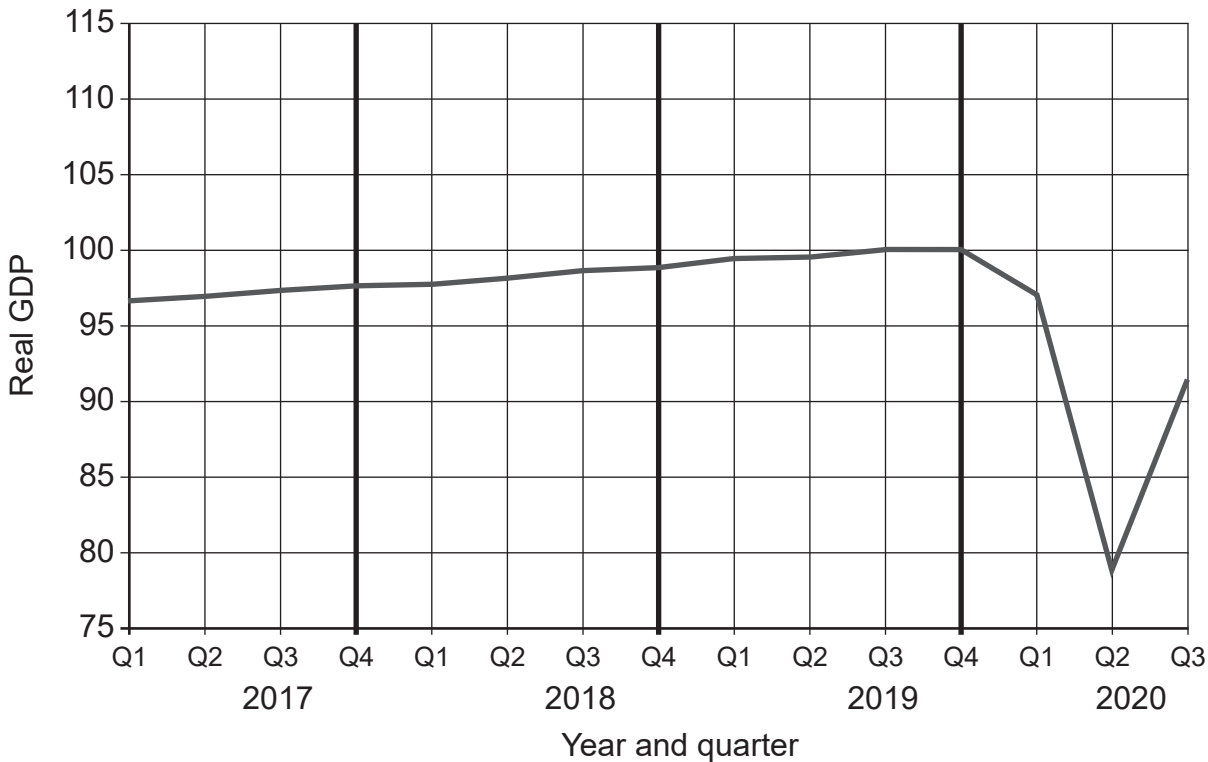


Fig. 1: Quarterly index real GDP 2017 to Q3 2020 (Q4 2019 = 100)

Economists are predicting that it will take at least another 18 months for the UK to return to its pre-pandemic size, with many predicting that it will be the last of its peers to do so. Charlotte Blair, an independent consultant, claimed that there were a number of factors that would be likely to limit the UK's potential to bounce back quickly in 2021. "A second wave of lockdowns in early 2021 will reduce spending in and by the UK's large services sector. At the same time the UK's withdrawal from the EU will cause significant disruption to external trade. When you factor in the record number of redundancies already announced for 2021, it is difficult to see aggregate demand increasing significantly any time soon." 3

These gloomy predictions come despite the best attempts of the Treasury and the Bank of England to boost the economy. The Chancellor has borrowed record amounts to fund his furlough scheme and other support to businesses, while the Bank of England has slashed interest rates to 0.1% and pumped an extra £450 billion into the economy. Treasury and Central Bank officials believe that these expansionary fiscal and monetary measures will be enough to kick-start demand and get the economy growing again. A government spokesperson stated that “as the vaccines roll out in the first quarter of 2021, we should see society and the economy return to normality, which will allow the government to gradually reduce the support in place and allow our fiscal and monetary stances to return to more ordinary levels”.

4

However, some economists argue that rather than rush to see government spending drop to more normal levels, the government should avail of the historically low interest rates and use fiscal policy to address the inequalities exposed by COVID-19. Charlotte Blair stated that “the pandemic had a disproportionate impact on deprived groups and highlighted the scale of inequality in the UK. It has presented the government with a once in a lifetime opportunity to prioritise reducing income and wealth inequality over all other macroeconomic considerations”.

5

- (a) Using the information in **Fig. 1**, describe the trend in UK GDP over the period shown. [5]
- (b) Explain why some economists felt that aggregate demand was unlikely to increase significantly in 2021 (para 3). [6]
- (c) With the aid of an appropriate diagram, analyse the likely impact of expansionary monetary and fiscal policies on the UK economy. [9]
- (d) Critically examine the view that reducing income and wealth inequality should be the government’s number one economic priority. [15]

## Section C (20 marks)

### Answer one question

- 7 Supporters of ex-US President Donald Trump highlight the US economy's pre-pandemic performance as evidence that his supply side policies of tax cuts and deregulation were "making America great again". Opponents, however, argue that these policies led to an erosion of workers' rights, higher inequality, and the destruction of the environment.

Critically examine the view that supply-side policies benefit large firms at the expense of ordinary workers and the environment. [20]

- 8 In October 2020, unemployment in the UK stood at 4.9%, up from 3.7% in the same month in 2019. While the increase in the unemployment rate was widely seen as a cause for alarm, some economists expressed even greater concern about the UK's high rate of economic inactivity, which was 20.7% in October 2020.

Critically examine the view that the UK government should be more concerned with reducing economic inactivity than unemployment. [20]

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**THIS IS THE END OF THE QUESTION PAPER**

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