



Rewarding Learning

**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2012**

Economics

Assessment Unit AS 2

The National Economy

[AE121]

WEDNESDAY 20 JUNE, MORNING



TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **Question 1** and **one** question from **Questions 2, 3 or 4**.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

Quality of written communication will be assessed in **all** questions.

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

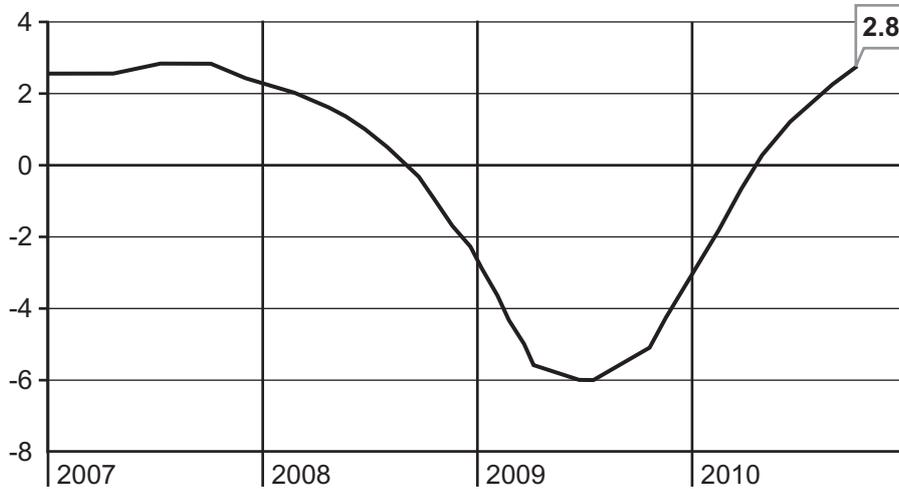
ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

Question 1: Data response

The following article was written in November 2010. Study it carefully and answer the questions which follow.

Annual % changes in UK real Gross Domestic Product



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Fig. 1

The annual increase in real Gross Domestic Product (GDP) stood at 2.8% at the end of September 2010. This represented a recovery from the low growth in the early part of the year caused by exceptionally bad weather conditions.

1

Renewed growth of GDP in 2010 should indicate that the UK economy has recovered from recession but many economists are not convinced. There are widespread fears of a “double dip recession” with the economy reverting to negative growth.

2

One analyst stated “There is a great deal of bad news still to come and the UK economic recovery could easily be derailed. VAT is set to rise. Government spending is set to fall. Inflation remains persistently above target and there is the possibility of a hike in interest rates. With households tending to save rather than spend, it is hard to see any significant rise in aggregate demand”.

3

The housing market which is regarded as a reliable indicator of the overall state of the economy has already started to turn downwards with the rate of increase of house prices down from 10 to 1.4 per cent.

4

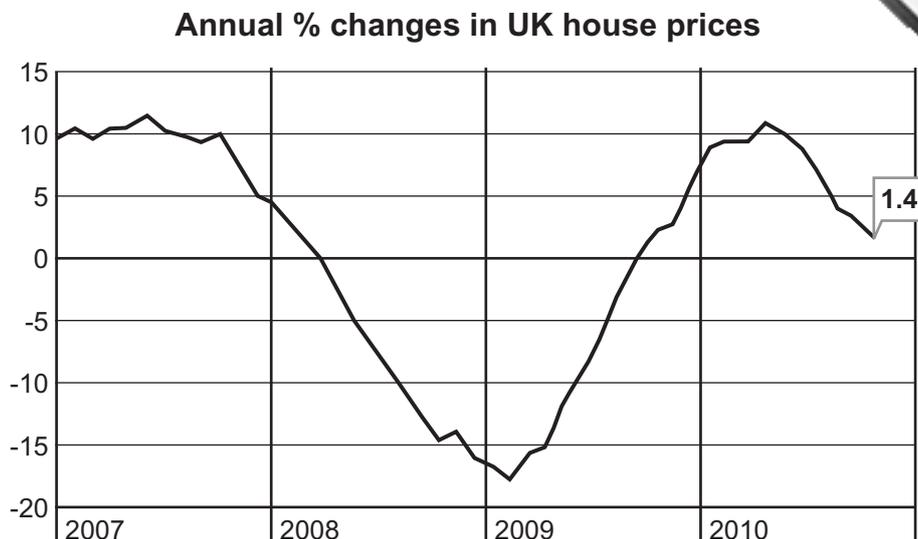


Fig. 2

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It is against this uncertain economic background that the UK government is taking steps to reduce the nation's massive fiscal deficit. Many areas of government spending are to be cut with welfare spending getting severely trimmed. There is to be a cap on the level of housing benefit which families can claim. Many recipients of sickness and incapacity benefits will be deemed capable of work and shifted to the less generous job seekers' allowance. Some claimants will be compelled to carry out unpaid community work or risk the loss of benefits. 5

The Archbishop of Canterbury, Rowan Williams, was extremely critical of these measures. He said that they risked pushing vulnerable people into a downward spiral of uncertainty or even despair. He added "people will refuse to accept them unless bankers and the wealthy are seen to be making a bigger sacrifice". 6

However, supporters of government policy argue that the cuts are necessary to reduce the burden of interest payments for future generations and to restore work incentives. 7

- (a) Explain the meaning of the term **real** Gross Domestic Product (GDP). [6]
- (b) Compare the trends shown in **Figs. 1** and **2**. [8]
- (c) Analyse how adverse weather conditions can affect an economy's rate of economic growth. [6]
- (d) Examine why some analysts were predicting a "double dip recession" for the UK economy (Paragraph 2). [8]
- (e) Critically examine the government's decision to significantly cut welfare spending. [12]

Essays:

Answer **one** question from **Questions 2, 3 or 4.**

2 Supply creates its own demand

- (a) Explain what is shown by the short-run aggregate supply curve. [10]
- (b) Using aggregate demand and supply analysis explain the probable impact on the UK economy of a substantial increase in the availability of skilled workers from abroad. [15]
- (c) Critically examine the view that government policy should focus on increasing aggregate supply rather than managing aggregate demand. [15]

3 Government inflation target missed yet again

- (a) Explain what is meant by the rate of inflation. [10]
- (b) Examine the main causes of inflation in the UK. [15]
- (c) Critically examine the policies which the UK Government and the Bank of England might use in order to control inflation. [15]

4 Fairness may threaten economic growth!

- (a) Explain what is meant by the equilibrium level of national income. [10]
- (b) Analyse how a government could increase an economy's rate of economic growth. [15]
- (c) Evaluate the view that the UK Government's top economic priority should be to achieve a fairer distribution of income. [15]