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General Certificate of Secondary Education June 2005

# ECONOMICS FOUNDATION TIER Paper 2

3144/2F



Thursday 30 June 2005 1.30 pm to 2.30 pm

F

In addition to this paper you will require:

the Information Leaflet (enclosed).

You may use a calculator.

Time allowed: 1 hour

#### **Instructions**

- Use blue or black ink or ball-point pen.
- Fill in the boxes at the top of this page.
- Answer all questions in the spaces provided.
- Additional space for answers can be found on pages 11 and 12.
- Do all rough work in this book. Cross through any work you do not want marked

#### **Information**

- The maximum mark for this paper is 84.
- Mark allocations are shown in brackets.
- You will be awarded up to 4 marks for the quality of your written communication.
- You will be assessed on your ability to present relevant information in a form that suits its purposes. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

#### Advice

- You are advised to spend 15 minutes:
  - reading the questions;
  - reading through all of the information in the Information Leaflet;
  - identifying parts of the information that you might use in answering the questions.
- Writing your answers should take up to 45 minutes.

	For Exam	iner's Use						
Number	Mark	Number	Mark					
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2								
3								
4								
Total (Column	1)	-						
Total (Column 2)								
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The Government has a budget deficit problem.

A budget deficit arises when government spending is greater than government income. The Government therefore has to finance the difference.

In 2003-2004 the budget deficit was £37 billion but this was predicted to grow to £42 billion in 2004-2005.

#### Your task

As an economist working for a national newspaper, you have collected the information given to you in the Information Leaflet.

Using the Information Leaflet, together with your own knowledge and understanding of economics, answer the questions which follow. Use your answers to help you recommend a solution to the budget deficit problem.

### Answer all questions.

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QUESTION 1 CONTINUES ON THE NEXT PAGE

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(a)	Using <b>Item A</b> and at least <b>one</b> other item, describe the Government's budget position in 2003–2004.
	(8 marks

QUESTION 2 CONTINUES ON THE NEXT PAGE

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## NO QUESTIONS APPEAR ON THIS PAGE

TURN OVER FOR THE NEXT QUESTION

	What does the information in the <b>Information Leaflet</b> show about future government sper on education and defence?
	(4 m
b)	Do you think that the Government should continue to spend more money on education and money on defence? Give reasons for your answer.
	money on defence? Give reasons for your answer.

(16 marks)



## TURN OVER FOR THE NEXT QUESTION

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This page may be used to complete answers to earlier questions.  The number of the question must be clearly indicated.

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# ECONOMICS FOUNDATION TIER

3144/2F



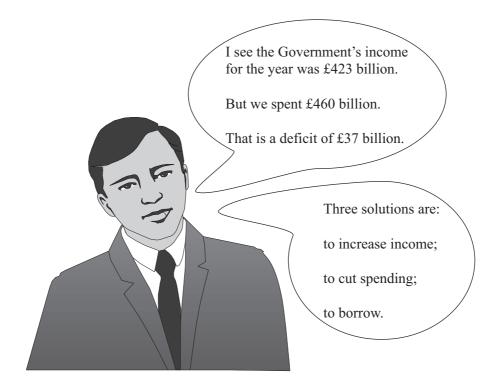
Paper 2: INFORMATION LEAFLET

F

Study all the information before you begin your task.

# Item A The Government's budget deficit 2003–2004

Quote from a government minister:



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#### Item B

#### The Economy

Macroeconomic indicators	<b>Figures for 2003–2004</b>	Predicted figures for 2004–2005		
Economic Growth	2.1%	3 – 3.5%		
Consumer Prices Index*	2.5%	5%		
Unemployment	1 million	2 million		
Balance of Payments**	-£25 billion (deficit)	-£35 billion (deficit)		

- \* Consumer Prices Index is the replacement for the Retail Prices Index and it measures inflation.
- \*\* Balance of Payments a deficit exists when the value of imports is greater than the value of exports.

Item C
The Chancellor's Budget 2003–2004

#### AT A GLANCE ■ Government borrowing rises to ■ Extra £406 million to curb ■ Possible freeze on duty on spirits, £37 billion this year, £10 billion council tax\* bills – still likely to eg whisky, gin. more than forecast in April. rise by more than 8%. ■ Economy to grow 2.1% this ■ Additional £800 million to fund ■ Bank of England given new 2% year, 3–3.5% forecast for next military operations in Iraq and inflation target. Afghanistan. ■ Help for childcare schemes. ■ Tax breaks for 100 000 sports clubs.

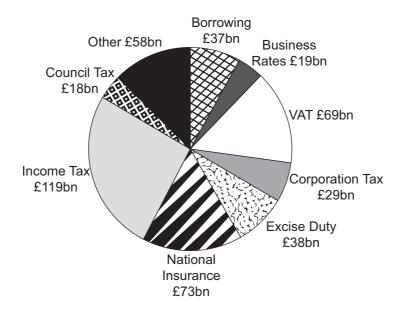
Source: adapted from the Daily Mail, 11 December 2003

<sup>\*</sup> Council tax is a tax paid by residents to the local authority.

Item D

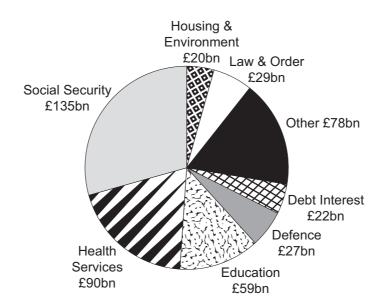
Where the money comes from and where it goes

#### Government income 2003-2004



bn = billion

#### Government spending 2003-2004



bn = billion

Source: adapted from the Daily Mail, 11 December 2003

#### Item E

#### Brown goes deeper into the red

GORDON BROWN, the Chancellor of the Exchequer, moved to prevent further tax increases by adding an extra £10 billion to government borrowing and curbing big increases in council tax.

In his pre-Budget report, the Chancellor surprised the City by disclosing that borrowing this year would rise from the £27 billion he forecast in April to a record £37 billion. Some experts said that the Government would be forced to raise taxes after the election, expected in 2005, to make up the difference between income and spending plans.

It was argued that the increase in borrowing was caused by lower than expected tax receipts and the Iraq war. Mr Brown announced an extra £800 million for operations in Iraq, taking the total amount to be spent in Iraq and the war on terrorism to £6.3 billion.

Those who disagree with the Chancellor said: "This is the pay now, pay later Chancellor: after 60 tax rises and at a time when he says the economy is doing well, why is he borrowing £37 billion this year and £120 billion over four years? Borrowing now will have to be paid for later".

Most economists think that the Chancellor will have to raise taxes on consumers and businesses very soon.

Source: adapted from The Independent, 11 December 2003

#### Item F

#### Future government spending plans revealed for 2004–2005

Government expenditure on education will rise to £63 billion while that on defence will fall to £23 billion and the same pattern will continue in the following year.