



*Rewarding Learning*

ADVANCED SUBSIDIARY (AS)  
General Certificate of Education  
2011

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## Economics

Assessment Unit AS 2

The National Economy

[AE121]

FRIDAY 3 JUNE, MORNING

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AE121

### 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 parts of **all** questions **except 1(a)(i) and 1(b)**.

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 allocated for each part question in allocating the available examination time.

**Question 1**

The article below was written in January 2010.

Study it carefully and answer the questions which follow.

**“Weak Recovery”**

Most of the world’s developed economies are slowly returning to economic growth after a prolonged period of recession caused by the credit crunch and a massive fall in consumer spending. This resulted in the sharpest fall in output since World War 2. 1

In the third quarter of 2009 the 16 member states of the Eurozone achieved an expansion of their collective economy by 0.4%. The UK by comparison saw its economy shrink by 0.2% over the same period. 2

However, this UK performance may not be as bad as it appears. The GDP figures have been revised upwards from a contraction of 0.4% which was the original figure. Government statisticians have significantly increased their estimate for the output of the construction industry and many economists feel that the negative growth for the third quarter of 2009 is little more than a statistical blip. 3

Predictions for 2010 show that most developed economies will continue to experience very low rates of economic growth. These weak growth predictions will provide little comfort to the unemployed whose numbers continue to swell. In October 2009 Eurozone unemployment was at 9.8%, up from 7.3% in October 2008. 4

Howard Archer, chief economist at Global Insight predicted that unemployment had a good deal further to rise. He said, “Unemployment is a lagging indicator and the length and depth of the recession that most countries have suffered will continue to have an impact on the jobs market for some time to come. Even though the Eurozone came out of recession in the third quarter, growth is unlikely to be strong enough to generate net jobs for a long time.” 5

Country	2010 GDP growth forecasts (%)
Italy	0.2
Germany	0.3
UK	0.9
France	0.9
USA	1.5
Japan	1.7
Canada	2.1
India	6.4
China	9.0

*Adapted from: © International Monetary Fund*

**Fig. 1**

Fortunately, this gloomy picture is not true of the entire world. Emerging economies such as India and China have been able to expand significantly whilst many other countries have grown much more slowly. Their success appears to be based on an increasingly educated and motivated workforce and the introduction of many free market reforms. The old pattern of world dominated by the performance of the American economy appears to be at an end.

The UK's economic prospects look fairly dismal when compared to these booming Asian economies. In the UK there is massive public sector debt which will only be corrected by a combination of tax increases and cuts in government spending. Consumer spending is likely to be restricted by high levels of household debt, tax increases and rising unemployment. Against this background the government shows no real appetite for the deep cuts necessary to reduce the fiscal deficit.

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One Tory MP urged Chancellor Alistair Darling to follow the tax rises and expenditure cuts, recently announced by Irish finance minister Brian Lenihan. In the Republic of Ireland, public sector pay is to be reduced by 5% at the bottom and by 15% for high earners. There are to be cuts in state benefits, including child benefit, and a new carbon tax is to be introduced. The MP said, "The government should take immediate steps to correct the budget deficit. Only by doing this can the foundations of future economic growth be laid."

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- (a) (i) Explain what is meant by recession. (Paragraph 1) [4]
- (ii) Outline some of the factors which caused many economies to slip into recession in 2009. [6]
- (b) Explain why GDP estimates often require revision. [4]
- (c) In paragraph 5, unemployment is described as a "lagging indicator". Explain why unemployment can rise at the same time as the economy is experiencing economic growth. [8]
- (d) Explain some of the reasons why China and India might have experienced higher growth rates than the other countries in **Fig. 1**. [8]
- (e) Critically examine the view of the MP in paragraph 8 that the government should take immediate steps to correct the UK budget deficit. [10]

**Essays:**

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

**2 “Government cannot achieve all of its economic objectives”**

- (a) Outline the main economic objectives of government. [10]
- (b) Explain the main problems faced by UK governments in trying to achieve their economic objectives. [15]
- (c) Critically examine the main policy instruments available to governments in trying to control the macroeconomy. [15]

**3 “Tighter monetary policy needed to control inflation”**

- (a) Explain what is meant by monetary policy. [10]
- (b) Using aggregate demand and supply analysis, explain the impact of an expansionary monetary policy on an economy with a negative output gap. [15]
- (c) Critically examine the view that only monetary policy can control an economy's rate of inflation. [15]

**4 “UK National Income rises by 2%”**

- (a) Outline the main differences between micro and macroeconomics. [10]
- (b) Analyse the effects of an increase in investment on the circular flow of income and expenditure for an open economy with government. [15]
- (c) Evaluate the view that the level of national income fails to give a true indication of economic welfare. [15]