



A-level

Economics

Practice paper for AQA

Paper 2

National and international economy

Time allowed: 2 hours

Materials

For this paper you must have:

- some paper or a notepad for your answers
- a calculator.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

Information

- There are 80 marks available on this paper.
- The marks for questions are shown in brackets.

Name:

Paper 2 National and international economy

DATA RESPONSE QUESTIONS

Section A

Answer EITHER Context 1 OR Context 2

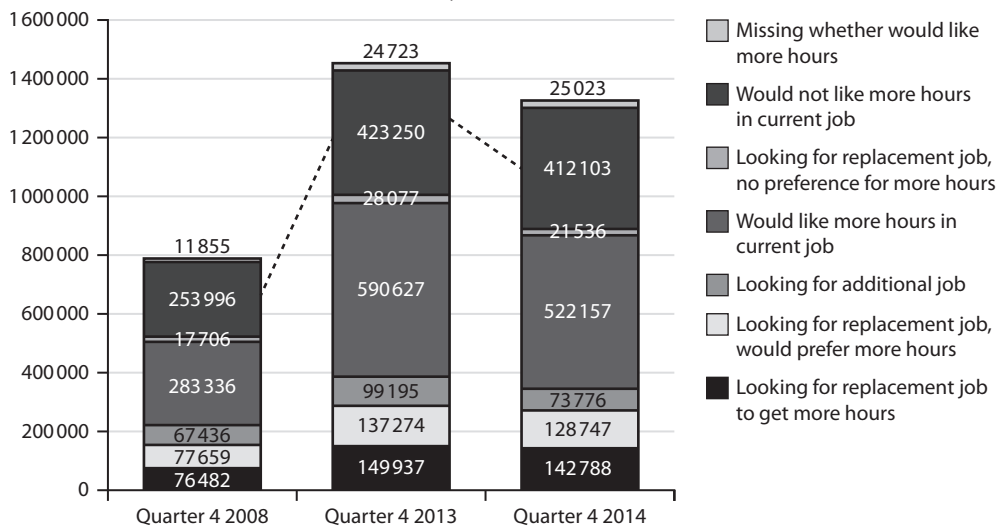
Context 1 (Total for this context: 40 marks)

Unemployment and Economic Growth

Study **Extracts A, B and C** and then answer all parts of **Context 1** that follow.

Extract A: Involuntary part-time employment

Breakdown of part-time individuals who could not find a full-time job,
Labour Force Survey (LFS)



Extract B: Unemployment falls to lowest level in 11 years

The level of unemployment in any given country is a measure of economic health.

In the second quarter of 2016, the unemployment rate in the UK declined to 4.9%, the lowest figure since October 2005. There were 1.65 million unemployed people, 54,000 fewer than in the first quarter of 2016 and 201,000 fewer than for a year earlier.

5 The inactivity rate had also fallen. In the same quarter, there were 8.87 million people aged 16 to 64 who were economically inactive, 46,000 fewer than the first quarter of 2016 and 181,000 fewer than a year earlier. Thus, the inactivity rate was 21.6%, the lowest since comparable records began in 1971.

Commensurate with an unemployment rate at its lowest since 2008, the employment rate reached a record high of 74.4%. There were 31.70 million people in work, 176,000 more than the first quarter of 2016 and 624,000 more than for a year earlier. 23.19 million were working full-time, 401,000 more than for a year earlier; 8.52 million were working part-time, 223,000 more than for a year earlier. As a result, the employment rate was 74.4%, the highest since comparable records began in 1971.

As a result of healthy employment figures, average weekly earnings for employees in the UK increased in nominal terms by 2.3% (including bonuses) and by 2.2% (excluding bonuses) compared 15 with a year earlier.

Extract C: UK GDP growth slumps to half previous rate

According to a respected independent thinktank, UK economic growth showed signs of struggle in the middle period of 2016.

Based on its estimates, the National Institute of Economic and Social Research (NIESR) calculated that gross domestic product (GDP) grew by 0.3% in the three months ending in July 2016, down from 6% in the three months to June. This was short of consensus City forecasts for a 0.4% increase.

NIESR said the estimate was consistent with its latest quarterly forecast of a 0.2% contraction in the third quarter. This is worse than the market expected and adds credence to predictions that the economy will contract in the third quarter and then fall into recession. Indeed, the thinktank predicted an even-money chance of a technical recession between the third quarter of 2016 and the final quarter of 2017.

Commentators observed that this was a marked economic slowdown: 'The month-on-month profile suggests that the third quarter has got off to a weak start, with output declining in July. Estimates suggest that there is around an evens chance of a technical recession by the end of 2017.'

The month-on-month profile suggests output declined in July by 0.2%, though NIESR stressed that monthly calculations are volatile and cautioned against 'over-interpreting developments in the fundamentals of the economy from any single month'.

QUESTION 1

Using the data in **Extract A**, calculate to **two** decimal places the percentage change in the total number of individuals looking to increase the number of hours they work from 2008 to 2014.

[2 Marks]

QUESTION 2

Explain how the data in **Extract A** shows that measuring unemployment may be inaccurate.

[4 Marks]

QUESTION 3

Extract B (lines 2–3) states that the 'unemployment rate in the UK declined to 4.9%, the lowest figure since October 2005'.

With the help of a diagram, explain how low levels of unemployment may cause possible conflicts between macroeconomic policy objectives.

[9 Marks]

QUESTION 4

Extract C (lines 11–13) states 'The month-on-month profile suggests that the third quarter has got off to a weak start, with output declining in July. Estimates suggest that there is around an evens chance of a technical recession by the end of 2017'.

Using the data in the extracts and your economic knowledge, evaluate the view that low unemployment is the main reason for improved economic growth.

[25 Marks]

Context 2 (Total for this context: 40 marks)

Study Extracts D, E and F and then answer all parts of Context 2 that follow.

Extract D: UK Government spending

Fiscal years 2016–2018

Spending amounts in billions GBP

| Year | 2016 Spending | | % of GDP | 2017 Spending | | % of GDP | 2018 Spending | | % of GDP |
|------------------------|---------------|---|----------|---------------|---|----------|---------------|---|----------|
| Pensions | 154.7 | a | 8.25 | 156.9 | e | 8.07 | 158.6 | e | 7.85 |
| Health care | 138.7 | e | 7.4 | 142.7 | g | 7.34 | 146.4 | g | 7.25 |
| Education | 84.0 | e | 4.48 | 85.2 | g | 4.39 | 86.2 | g | 4.27 |
| Defence | 44.8 | e | 2.39 | 45.6 | g | 2.35 | 47.0 | g | 2.32 |
| Welfare | 112.9 | e | 6.02 | 113.1 | g | 5.82 | 111.6 | g | 5.52 |
| Protection | 29.9 | e | 1.59 | 29.4 | g | 1.51 | 30.5 | g | 1.51 |
| Transport | 26.3 | e | 1.4 | 28.3 | g | 1.45 | 29.4 | g | 1.45 |
| General government | 14.1 | e | 0.75 | 15.3 | g | 0.79 | 14.5 | g | 0.72 |
| Other spending | 17.1 | e | 0.91 | 18.6 | g | 0.96 | 18.3 | g | 0.91 |
| Interest | 45.7 | e | 2.44 | 48.5 | g | 2.5 | 51.7 | g | 2.56 |
| Total spending | 761.9 | e | 40.64 | 784.1 | g | 40.36 | 796.7 | g | 39.43 |
| Public net debt | 1590.6 | a | 84.84 | 1638.4 | e | 84.34 | 1676.9 | e | 82.99 |
| Current budget deficit | 39.0 | e | 2.08 | 19.1 | e | 0.98 | 3.5 | e | 0.17 |

a – actual outturn; e – estimate in HM Treasury 2016 Budget; g – ‘guesstimated’ projection by ukpublicspending.co.uk

Extract E: Real wages growth remains low for UK workers

The UK’s record in real term wage drops is equalled only by Greece within the Organisation for Economic Co-operation and Development’s (OECD) 35 member states. The financial crisis started a chain of events that has seen wages fall in real terms by 10.4% – and there has been little sign of recovery.

The fall is the biggest among leading OECD countries, including Portugal, Spain, France, Germany and Ireland. The UK, Greece and Portugal were the only OECD countries where real wages, a measure which takes inflation into account, fell.

Trade Union Congress (TUC) General Secretary Frances O’Grady said: ‘Wages fell off the cliff after the financial crisis and have barely begun to recover’. As the Bank of England recently argued, the majority of UK households have endured a ‘lost decade of income’.

10 ‘People cannot afford another hit to their pay packets. Working people must not foot the bill for a downturn in the way they did for the bankers’ crash.’ This shows why the government needs to invest in large infrastructure projects to create more decent, well-paid jobs. ‘Other countries have shown that it is possible to increase employment and living standards at the same time.’

15 A Treasury spokesman said: ‘This analysis ignores the point that following the so-called “Great Recession” the UK employment rate has grown more than any G7 country, living standards have

reached their highest level and wages continue to rise faster than prices – and will be helped by the new National Living Wage.'

Extract F: UK spends less on health than European neighbours

According to research, by 2020 the UK will be spending £43bn a year less on healthcare than its European counterparts.

The King's Fund, which carried out an analysis for The Guardian newspaper, pointed out that the UK spent 8.5% of its Gross Domestic Product (GDP) on healthcare in 2013, putting it 13th out of the 15 original members of the European Union (EU).

Politicians speaking on behalf of the Labour Party claimed that Britain was becoming the 'sick person of Europe', while the Liberal Democrats warned the National Health Service (NHS) would 'crash' if it did not get more funding.

Professor John Appleby, the King's Fund chief economist, wrote: 'Whatever the flaws of international comparisons, it's clear that the UK is currently a relatively low spender on healthcare, with a prospect of sinking further down the international league tables.'

He said the UK's GDP was predicted to grow by about 15% between 2014–15 and 2020–2021, but NHS spending would increase by just 5.2% over the same period under current plans.

Spending the same on healthcare as the 15 original EU members would take a huge rise in the NHS budget. 'If we were to close the gap solely by increasing NHS spending, by 2020–21 it would take an increase of 30% (£43bn) in real terms to match the EU-14's level of spend in 2013, taking total NHS spending to £185bn', Professor Appleby said.

Increased funding alone is not necessarily the answer though. Research carried out by Carol Propper, of Imperial College, London, has found that when there is more competition, the performance of hospitals improves. Propper has said that she is concerned that this focus on financial issues has distracted from efforts to increase choice for patients.

QUESTION 5

Using the total spending figures from the data in **Extract D**, calculate to one decimal place the change in GDP over the period.

[2 Marks]

QUESTION 6

Explain how the data in **Extract D** shows why there may be concerns about future economic growth rates in the UK.

[4 Marks]

QUESTION 7

Extract E (lines 2–3) states 'The financial crisis started a chain of events that has seen wages fall in real terms by 10.4% – and there has been little sign of recovery'.

Explain the effect falling real wages may have on households in the UK **and** what the government can do to improve living standards.

[9 Marks]

QUESTION 8

Extract F (lines 3–5) states 'the UK spent 8.5% of its Gross Domestic Product (GDP) on healthcare in 2013, putting it 13th out of the 15 original members of the European Union (EU)'.

Using the data in the extracts and your economic knowledge, evaluate the view that spending on healthcare should take top priority for the UK government.

[25 Marks]

Paper 2 – Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting in August 2016, the MPC unanimously voted to reduce the bank rate of interest to 0.25%.

QUESTION 9

Using examples to illustrate your answer, explain some of the factors considered by the MPC when setting the 'bank rate' each month.

[15 Marks]

QUESTION 10

Assess the importance of monetary policy for achieving an improvement in the performance of the UK economy.

[25 Marks]

OR

Essay 2

In recent years, the UK government has undertaken a range of supply-side measures including reductions in corporation tax, welfare reforms and the privatisation of Royal Mail, to improve the productivity and competitiveness of the UK economy.

QUESTION 11

Explain how supply-side improvements in the economy can originate from the private sector, independently of the government.

[15 Marks]

QUESTION 12

Assess the view that supply-side policies are more effective in achieving economic growth than demand-side policies.

[25 Marks]

OR

Essay 3

The current account deficit reflects Britain's trade gap with the rest of the world and the shortfall between money paid out by the UK and money coming in. It stood at 6.9% of GDP in the first quarter of 2016, down only marginally from a record high of 7.2% in the fourth quarter of 2015.

QUESTION 13

Explain the factors that may have contributed to the large current account deficit experienced by the UK.

[15 Marks]

QUESTION 14

Evaluate the view that protectionism is never the best option for an economy.

[25 Marks]