

AS ECONOMICS 7135/2

Paper 2 The national economy in a global context

Source booklet

DO NOT WRITE ANY ANSWERS IN THIS SOURCE BOOKLET. YOU MUST ANSWER THE QUESTIONS IN THE PROVIDED ANSWER BOOKLET.

Context 1 UK economic recovery

Questions 21 to 26

- Extract A: Contribution to output as a proportion of GDP, and the construction industry breakdown, October 2013
- Extract B: The road to recovery: industry, investment and exports?
- Extract C: Is a consumption-led recovery desirable?

Context 2 UK employment and unemployment

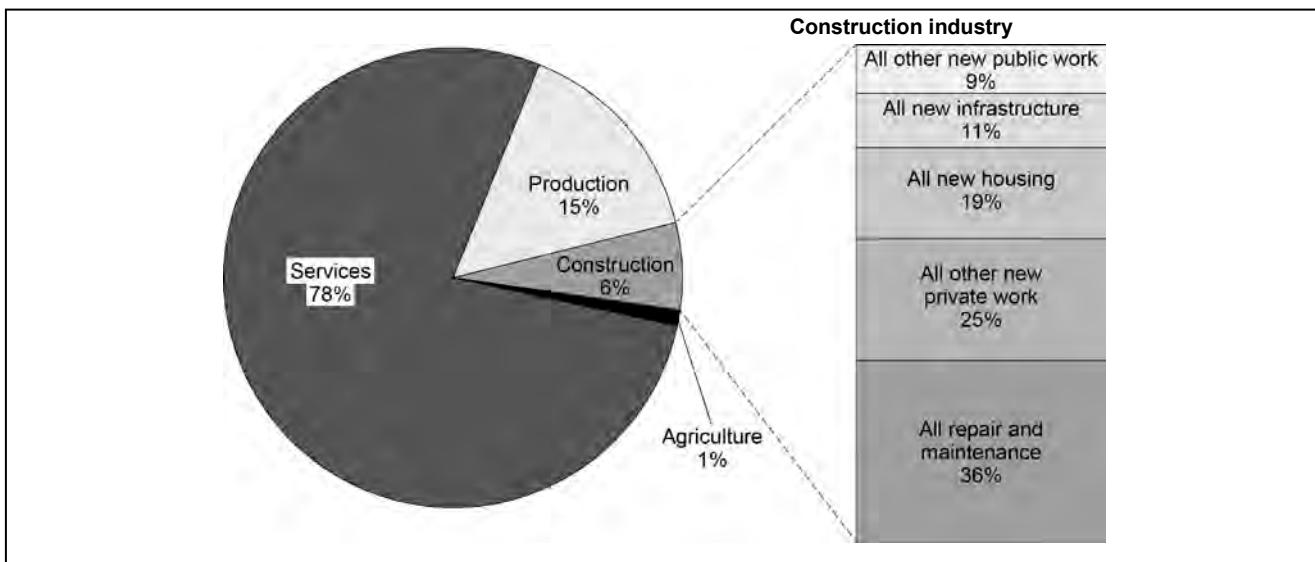
Questions 27 to 32

- Extract D: People in employment and people claiming Jobseeker's Allowance
- Extract E: Good news...and not such good news
- Extract F: All change at the Bank of England

Context 1

Total for this Context: 50 marks

UK economic recovery

Extract A: Contribution to output as a proportion of GDP, and the construction industry breakdown, October 2013

Source: Office for National Statistics licensed under Open Government Licence v. 1.0

Extract B: The road to recovery: industry, investment and exports?

<p>The circular flow of income illustrates, quite simply, how money flows around the economy between firms and households. Households receive income, as a reward for the factors of production they provide, and the firms receive the households' expenditure on the goods and services produced. Yet there is so much more to an economy than this: the UK economy is open to a range of injections and withdrawals. But what happens when the value of one is greater than the other?</p>	1
<p>The UK trade balance improved slightly in August to -£3.3 billion, as the £9.6 billion deficit in goods was partly offset by the estimated surplus of £6.3 billion in services. The value of exports has certainly been boosted by the current success story in the UK car market, which is now the second biggest in Europe after Germany. Over 1.5 million cars have been produced in the last 12 months, and production specifically for export has increased by 9.3%. These sales were predominantly to China, Russia and the USA, where there is a growing demand for high quality, luxury British brands. The weaker pound has also played its part.</p>	5
<p>The signs are encouraging, but some economists argue that there is still a long way to go to improve the external performance of the economy. Improvements in productivity are absolutely vital. But it is difficult to see where these productivity gains will come from: in July 2013, business investment was 3.5% lower than a year earlier. Incentives to increase savings, which provide much-needed funds for investment, have been reduced due to low interest rates.</p>	10
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Source: News reports, October 2013

Extract C: Is a consumption-led recovery desirable?

<p>The level of consumer spending is growing again and, compared with a year earlier, the amount spent on retail sales in August has increased by 3.6%. It seems that, while on average, UK workers have seen falls in the purchasing power of their incomes, confidence is returning, and many have not lost their appetite for shopping. But not all of the money stays in the UK, a quick look around people's homes reveals a strong desire for imports. In addition, 20% is added to the price of nearly all purchases and paid to the government as Value Added Tax (VAT).</p>	1
<p>Rising consumption is likely to be spurred on further by rising house prices. As homeowners see the value of their homes increase, they feel better off, and so are more likely to spend. It is predicted that house prices will rise by 6.6% in 2014. Undoubtedly this has been fuelled by the Government's 'Help to Buy' scheme, which is designed to provide financial support to would-be homeowners. In terms of complementary purchases, it should provide a welcome boost to the economy, but more importantly it could provide a lifeline to the construction industry.</p>	5
<p>The construction industry has struggled to recover since the financial crisis. A small rise in output of 2% was recorded for July 2013, compared with July 2012, so there are reasons to be optimistic. Although following the inevitable job losses over the past few years, there are concerns that a skills shortage may fuel wage increases. Coupled with rising consumer spending, it might make it difficult to keep inflation under control, if the necessary supply-side improvements are not seen.</p>	10
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Source: News reports, October 2013

Turn over for context 1 questions

Context 1 - Questions 21 to 26

- 2 1** Define 'inflation' (**Extract C**, line 19).
[3 marks]
- 2 2** In 2013, the average house price in the UK was £193 000. Using **Extract C**, calculate the predicted average house price for 2014.
[4 marks]
- 2 3** Using **Extract A**, identify **two** significant features of the data, showing contribution to output and the construction industry breakdown for October 2013.
[4 marks]
- 2 4** With reference to **Extract B** (lines 7–14), draw an AD/AS diagram to illustrate the likely impact of a weaker pound on the price level and national output.
[4 marks]
- 2 5** **Extract B** (lines 15–17) states 'some economists argue that there is still a long way to go to improve the external performance of the economy. Improvements in productivity are absolutely vital.'
Explain how improvements in productivity can affect the UK's trade balance.
[10 marks]
- 2 6** **Extract B** (lines 4–5) states, 'Yet there is so much more to an economy than this: the UK economy is open to a range of injections and withdrawals.'
Using the data in the extracts and your economic knowledge, assess the possible effects on UK macroeconomic performance if exports grow more quickly than imports.
[25 marks]

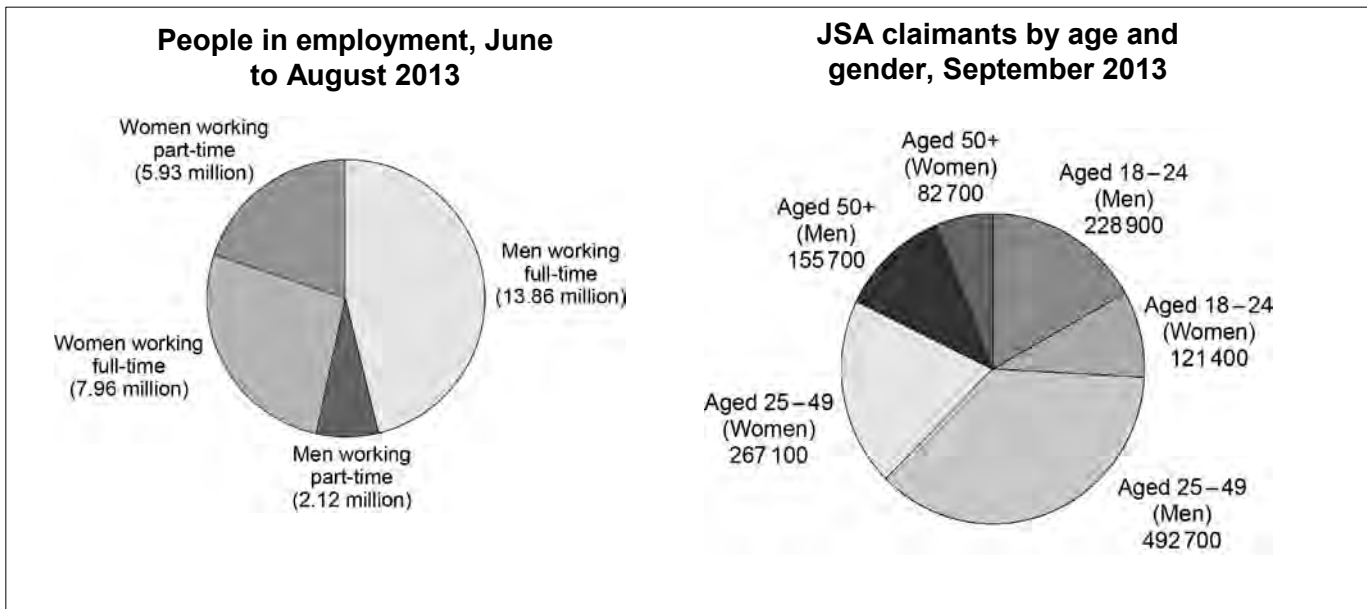
Turn over for Context 2

Context 2

Total for this Context: 50 marks

UK employment and unemployment

Extract D: People in employment and people claiming Jobseeker's Allowance



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Note: JSA claimants refers to the number of people claiming Jobseeker's Allowance

Extract E: Good news...and not such good news

There is good news in the economy at last, as employment in the UK hit a record high of almost 29.9 million people, following the creation of 155 000 new jobs during the summer. Coupled with the sharpest monthly fall in the jobless claimant count for more than 16 years, to 1.35 million, it seems that the economy is well and truly on the way to recovery.

And there are more reasons for optimism: in the services sector Deutsche Bank, the German investment bank, said it intended to double the number of staff working in its Birmingham office to 2000 by summer 2014. In manufacturing, Jaguar Land Rover announced plans to create 1 700 jobs at its plant in Solihull as part of a £1.5 billion investment. The positive multiplier effect of such projects could be significant.

Yet, despite this, the unemployment rate as measured by the Labour Force Survey remains stubbornly high at 7.7%. Looking more closely at the unemployment figures, 900 000 people have been unemployed for twelve months or more, 467 000 of those for over two years. Perhaps more disturbing, the unemployment rate for those aged between the years of 18 to 24 reached 21% for the quarter ending August 2013.

In addition, some regions are struggling more than others: in the North East the unemployment rate is currently the highest in the UK at 10.4%. The effect that high unemployment can have on local communities can be devastating. The number of shop vacancies in the north west seaside town of Morecambe stands at 37.1%.

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Source: News reports, October 2013

Extract F: All change at the Bank of England

<p>The slow fall in unemployment since its peak in 2011 may be blamed partly on a lack of confidence. Consumers have been reluctant to increase consumption, firms have postponed expansion plans, and it has been said that banks have been unwilling to lend. Confidence is vital to any recovery and subsequent fall in unemployment.</p>	1
<p>In an attempt to boost confidence, Mark Carney, the new Governor of the Bank of England, has said that interest rates will not rise until unemployment falls to at least 7.0%. This is a move away from the more familiar role of interest rates, which has been to control inflation. Is the Governor suggesting that a reduction in unemployment is more important? What if inflation starts to increase again? The possibility of conflicts between the various macroeconomic objectives should not be overlooked.</p>	5
<p>Rising confidence will encourage domestic firms to invest, and high-profile politicians are also keen to attract more foreign investment. The Chancellor, George Osborne, has just returned from a week-long trade mission to China.</p>	10
<p>But will this be enough? The Government continues to make use of supply-side policies, such as welfare reform. Others believe that an immediate increase in government spending is required. Yet governments do not need to take all the responsibility: many businesses and communities are busy creating local initiatives. Everyone has a role to play.</p>	15

Source: News reports, October 2013

Turn over for Context 2 questions

Context 2 - Questions 27 to 32

- 2 7** Define 'multiplier effect' (**Extract E**, line 10). **[3 marks]**
- 2 8** Using **Extract D**, calculate, to **two** decimal places, the percentage of people in employment who work part-time. **[4 marks]**
- 2 9** Using **Extract D**, identify **two** significant points of comparison between male and female Jobseeker's Allowance (JSA) claimants in September 2013. **[4 marks]**
- 3 0** Using **Extract F**, draw an AD/AS diagram to illustrate the likely short-run effects of a rise in confidence on the price level and national output. **[4 marks]**
- 3 1** **Extract F** (line 7–8) states that 'This is a move away from the more familiar role of interest rates, which has been to control inflation.'
- Explain how monetary policy can be used to control inflation. **[10 marks]**
- 3 2** **Extract E** (lines 11–12) states that 'the unemployment rate as measured by the Labour Force Survey remains stubbornly high at 7.7%.'
- Using the data in the extracts and your economic knowledge, evaluate different policies that could be used to reduce the rate of unemployment in the UK. **[25 marks]**

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Extracts B, C, E, F: News Reports; October 2013

Extract D: Contains public sector information licensed under the Open Government Licence v1.0

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