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Edexcel GCE

Economics
Advanced Subsidiary
Unit 2: Managing the Economy

Wednesday 3 June 2009 – Afternoon
Time: 1 hour 30 minutes

Paper Reference
6EC02/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer EITHER Question 1 OR Question 2. Write your answers in the spaces provided in this question paper.
- Indicate which question you are answering by marking the box (☒). If you change your mind, put a line through the box (☒) and then indicate your new question with a cross (☒).

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
– use this as a guide as to how much time to spend on each question.
- There are 28 pages in this question paper. Any blank pages are indicated.

Advice

- Quality of written communication will be taken into account in the marking of your answers in Question 1(c)(ii) and 1(d) and in Question 2(b)(ii) and 2(d). These questions are indicated with an asterisk. Quality of written communication includes clarity of expression, the structure and presentation of ideas and grammar, punctuation and spelling.

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Answer EITHER Question 1 OR Question 2

If you answer Question 1 put a cross in this box .

Question 1 Measures of economic performance

Figure 1 Measures of economic performance, selected developed countries

	Economic growth % (2006)	Inflation (% increase in CPI) (2006)	Current account of the Balance of Payments (% of GDP) (2006)	Human Development Index (HDI) value (2005)
France	2.0	1.8	-1.8	0.952
Germany	2.0	1.8	5.1	0.935
Spain	2.7	2.8	-10.2	0.949
United Kingdom	2.3	2.0	-3.6	0.946

Source: www.imf.org (2007 report) and www.undp.org (2007 report of HDI based on 2005 values)

Figure 2 School enrolment figures and HDI ranks, selected developed and developing economies (2005)

Economy	Combined enrolment ratio for primary and secondary education (%)	HDI Rank
France	99	10
Spain	98.5	13
United Kingdom	97	16
Pakistan	44.5	136
Kenya	60.5	148
Ethiopia	44.5	169
Niger	24	174

Source: <http://hdr.undp.org/en/statistics> (2007 report based on 2005 figures)



- (a) With reference to Figure 1,
- (i) explain what is meant by the term *economic growth*. (4)
 - (ii) outline how the Consumer Price Index is calculated. (4)
 - (iii) discuss **two** reasons why economic growth is inadequate as a measure of changes in living standards over time. (12)
- (b) (i) Does Spain's current account balance as shown in Figure 1 represent a net *injection* or *withdrawal*? Explain your answer. (4)
- (ii) Outline **two** possible reasons for Spain's current account balance, with reference to the data in Figure 1. (6)
- (c) With reference to Figures 1 and 2,
- (i) explain what is meant by the term *Human Development Index*. (4)
 - *(ii) evaluate the advantages of the HDI in making comparisons between countries. (16)
- *(d) Evaluate the use of supply side policies to achieve economic growth. (30)



(iii) discuss **two** reasons why economic growth is inadequate as a measure of changes in living standards over time.

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(12)



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(Total for Question 1 = 80 marks)



If you answer Question 2 put a cross in this box .

Question 2 Demand management

Extract 1 Bank of England cuts interest rates again

The Bank of England’s Monetary Policy Committee today voted to reduce the official interest rate. The prospects for global output growth abroad have worsened and the disruption to world financial markets has continued. In the UK, credit conditions for households and businesses are tightening. Consumer spending growth appears to have eased. Although the substantial fall in the sterling exchange rate is likely to lessen the effects of the fall in aggregate demand, output growth has moderated to around its historical average rate and business surveys suggest that further slowing is in prospect. These developments might lead to CPI inflation falling below target in the long run.

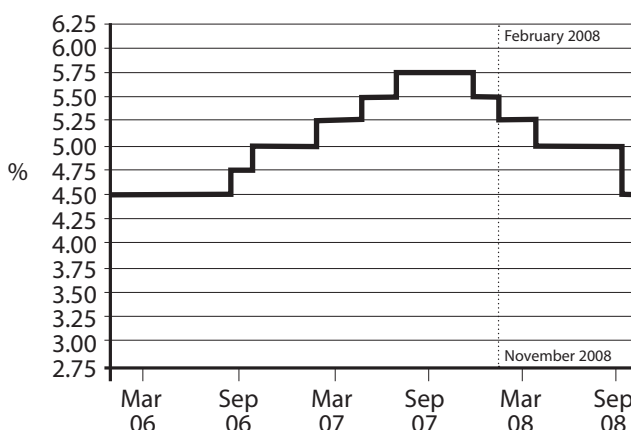
5

CPI inflation, at 2.1% in December 2007, was close to the inflation target, but higher energy and food prices are expected to raise the rate of inflation, possibly quite sharply, in the short run. The lower level of sterling will significantly increase import costs.

10

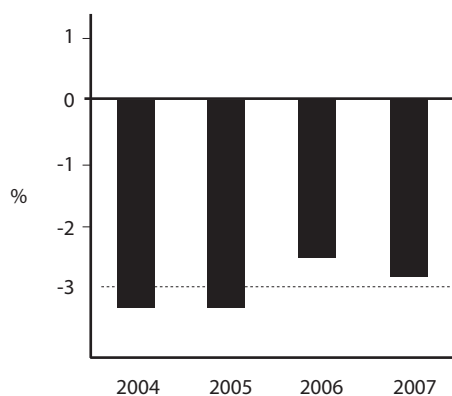
Source: Adapted from press release February 2008 www.bankofengland.co.uk

Figure 1 The Bank of England’s official interest rate



Source: www.bankofengland.co.uk November 2008

Figure 2 Government fiscal position as a percentage of GDP



Source: www.statistics.gov.uk 7 April 2008

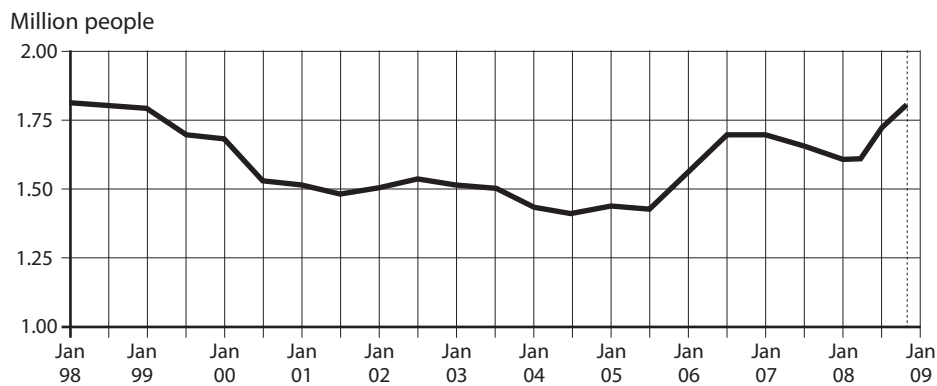


Extract 2 Government budget deficit

Provisional estimates show that for the calendar year 2007 the UK recorded a government budget deficit of £39.4 billion, which was equivalent to 2.8 per cent of gross domestic product (GDP).

Source: www.statistics.gov.uk 7 April 2008

Figure 3 Unemployment in the UK



Source: ONS

- (a) (i) What is meant by an *inflation target* (Extract 1, line 9)? (4)
- (ii) Using the evidence from Extract 1 and Figure 1, analyse **two** possible reasons why the MPC took the decision to cut the official interest rate in February 2008. (10)
- (iii) Assess the likely impact of a cut in interest rates on the distribution of income. (8)
- With reference to Extract 2 and Figure 2,
- (b) (i) Explain the phrase *government budget deficit*. (4)
- * (ii) Evaluate why a change in the government budget deficit may lead to a more than proportional change in aggregate demand. Use an aggregate demand and supply diagram to illustrate your answer. (14)
- (c) With reference to Figure 3, explain **two** costs of unemployment. (10)
- * (d) To what extent do demand-side policies lead to conflicts between macroeconomic objectives? (30)



(a) (i) What is meant by an *inflation target* (Extract 1, line 9)?

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(4)



(ii) Using the evidence from Extract 1 and Figure 1, analyse **two** possible reasons why the MPC took the decision to cut the official interest rate in February 2008.

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(10)



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(14)



* (d) To what extent do demand-side policies lead to conflicts between macroeconomic objectives?

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(30)

(Total for Question 2 = 80 marks)

TOTAL FOR PAPER: 80 MARKS

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