Please write clearly in block capitals.

Centre number | | | | | | Candidate number | | | | |

Surname ______________________

Forename(s) ______________________

Candidate signature ______________________
I declare this is my own work.

GCSE
ECONOMICS

Paper 2 How the Economy Works

Thursday 22 May 2025 Afternoon Time allowed: 1 hour 45 minutes

Materials
You may use a calculator.

For Examiner's Use	
Section	Mark
A	
B	
TOTAL	

Instructions
- Use black ink or black ball-point pen. Draw diagrams in pencil.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write on blank pages.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- Questions should be answered in continuous prose. You will be assessed on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Section A

Answer **all** questions in the spaces provided.

For questions with four responses, only **one** answer per question is allowed.

For each question, completely fill in the circle alongside the appropriate answer.

CORRECT METHOD WRONG METHODS

If you want to change your answer you must cross out your original answer as shown.

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.

0 1 Monetary policy would involve changes in which of the following?

[1 mark]

A Government spending

B Interest rates

C Investment in training

D Taxation

Do not write outside the box

0 2 **Table 1** shows the unemployment rate in an economy between 2020 and 2024.

Table 1

Year	Unemployment rate (%)
2020	6.2
2021	5.9
2022	4.5
2023	4.9
2024	5.1

Using **Table 1**, the average (mean) unemployment rate over this period to **one** decimal place is:

[1 mark]

A 5.1%

B 5.2%

C 5.3%

D 5.4%

0 3 Which of the following is **not** a role of a high street bank?

[1 mark]

A Ensuring funds are available for investment.

B Keeping inflation at its target rate.

C Lending funds to those wishing to borrow.

D Providing a place for savers to securely deposit their money.

Turn over for the next question

Do not write outside the box

0 4 Which pair of policies is most likely to increase income inequality?

[1 mark]

A Less progressive income taxes and increased unemployment benefits.

B Less progressive income taxes and reduced unemployment benefits.

C More progressive income taxes and increased unemployment benefits.

D More progressive income taxes and reduced unemployment benefits.

0 5 ‘Transactions between buyers and sellers are made easier if money is widely accepted.’

Which function of money does the above statement most closely relate to?

[1 mark]

A Means of deferred payment

B Medium of exchange

C Store of value

D Unit of account

0 6 Which of the following pairs of changes is most likely to reduce inflation?

[1 mark]

	Tax rates	Exchange rate
A	Decrease	Decrease
B	Decrease	Increase
C	Increase	Decrease
D	Increase	Increase

0 7 Which of the following combinations would lead to the fastest increase in globalisation?

[1 mark]

	Trade barriers	Communications efficiency	Cost of transportation	
A	Increase	Increase	Increase	⬭
B	Increase	Decrease	Decrease	⬭
C	Decrease	Decrease	Increase	⬭
D	Decrease	Increase	Decrease	⬭

0 8 **Table 2** shows data from the current account of the balance of payments for an economy.

Table 2

	£ million
Exports	12.5
Imports	11.1
Primary income balance	–4.3
Secondary income balance	–2.2

Based on this information, calculate the current account balance for this economy.

[1 mark]

A £5.1 million deficit ⬭

B £3.5 million deficit ⬭

C £7.9 million surplus ⬭

D £17.1 million surplus ⬭

Turn over for the next question

0 9 Which of the following identifies the most likely effects of a significant **decrease** in economic growth?

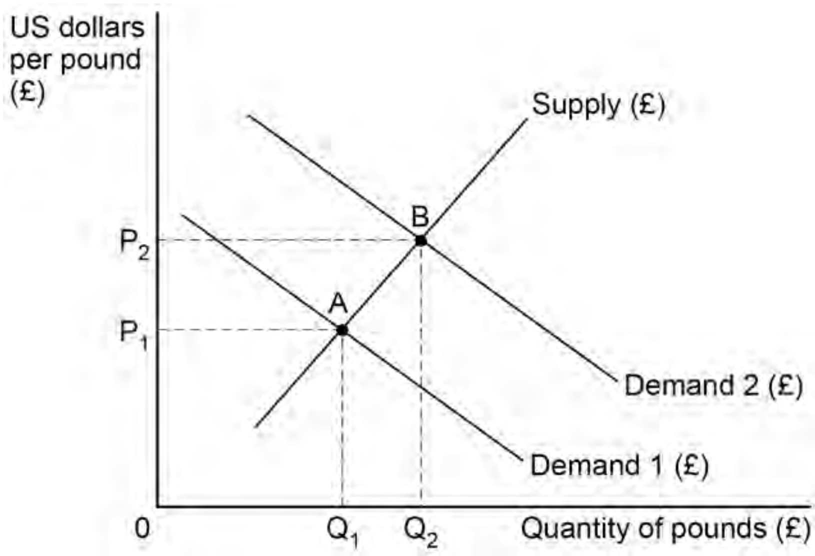
[1 mark]

	Effect on budget deficit	**Effect on inflation**	
A	Increase	Decrease	⬭
B	Increase	Increase	⬭
C	Decrease	Decrease	⬭
D	Decrease	Increase	⬭

Do not write outside the box

1 0 **Figure 1** shows the US Dollar ($) to the British Pound (£) foreign exchange market.

Figure 1



Which of the following could have caused the change in the equilibrium from point **A** to point **B**?

[1 mark]

A Decreased UK exports to the USA ⬭

B Decreased UK imports from the USA ⬭

C Increased UK exports to the USA ⬭

D Increased UK imports from the USA ⬭

Turn over for the next question

Do not write outside the box

1 1 State **two** policies that may be used to correct negative externalities.

[2 marks]

1

2

1 2 Explain **one** benefit of decreasing taxation rates for an economy.

[2 marks]

1 3 Explain **one** possible drawback of globalisation for producers in developed countries.

[2 marks]

Do not write outside the box

1 4 **Table 3** shows data for an economy.

Table 3

Government spending	£75 billion
Government revenue	£51 billion
GDP	£1041 billion

1 4 . 1 Using **Table 3**, calculate the budget balance as a percentage of GDP to **one** decimal place.

Tick **one** box to indicate whether it is a surplus or deficit.

Show your working.

[2 marks]

____

____

____

____

____________________%

Balance is in:

Surplus ☐ Deficit ☐

1 4 . 2 Explain **one** consequence to a government of operating a budget surplus rather than a budget deficit.

[2 marks]

____

____

____

____

Turn over for the next question

Figure 2 – Trade deals and the UK

Since leaving the European Union (EU), the UK government has been keen to form trade agreements with other countries. Trade agreements set out the rules between two or more countries that reduce restrictions on both imports and exports. This can help businesses that wish to sell goods outside their own country. It also helps consumers to buy cheaper goods more easily – though this may create more competition for local businesses.

Most agreements already signed are deemed 'rollover' deals, which means they just replicate the deals the UK had with other countries when it was part of the EU. The government hopes to sign more deals with countries it had no deals with when it was previously part of the EU.

1 5 Using **Figure 2**, analyse the impact of the UK completing more free trade agreements.

[6 marks]

Do not write outside the box

1 6 State **two** economic effects of increasing government spending.

[2 marks]

1 ______________________________

____

2 ______________________________

____

1 7 Explain **one** reason why interest rates on bank loans are normally higher than interest rates on loans for mortgages.

[2 marks]

____

____

____

____

1 8 Explain **one** possible consequence of rising UK inflation for UK households.

[2 marks]

____

____

____

____

Turn over for the next question

1 9 An individual decides to open a savings account with a deposit of £20 000. The annual interest rate paid on these savings is 2%. They close the account after 9 months.

1 9 . 1 Calculate how much interest they would receive on their account at the end of the 9 months.

[2 marks]

£ ____________

1 9 . 2 Explain **one** possible effect of a rise in interest rates on UK consumers.

[2 marks]

Do not write outside the box

Turn over for the next question

DO NOT WRITE ON THIS PAGE
ANSWER IN THE SPACES PROVIDED

2 0 **Table 4** shows government spending for one year.

[3 marks]

Table 4

Government spending	**£ billions**
Health services	1 500
Education	600
Welfare	1 200
All other government spending combined	300
Total government spending	**3 600**

Use **Table 4** to complete the pie chart to show the proportions of total government spending for each of the following categories of government spending:

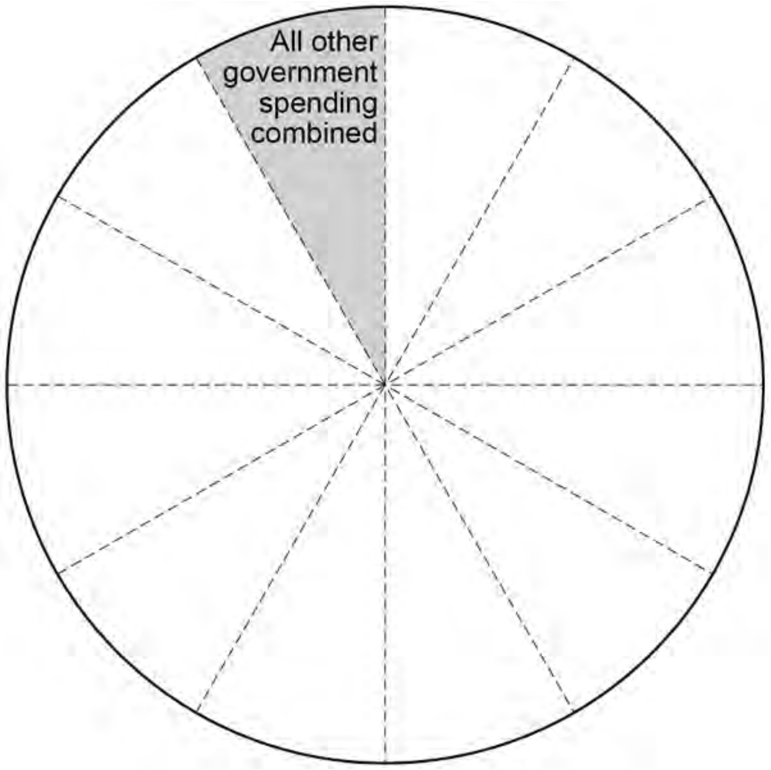
- Health services
- Education
- Welfare.

Additional information:

- The segment for '**All other government spending combined**' has already been completed.
- Each segment shown on the pie chart, on page 15, represents 30 degrees.
- Use of a protractor is **not** required.

Do not write outside the box

Categories of government spending as a proportion of total government spending



Space for working ______________________________

____

____

____

____

____

Turn over for the next question

Do not write outside the box

Figure 3 – Health issues and exercise

UK health problems are connected with many people not getting enough exercise. It is recommended that people should complete some physical exercise 2–3 times per week. Many people mistakenly believe that this only applies to overweight people and as long as people do not gain weight, then exercise may not matter. Gyms are popular but are mainly aimed at younger people and gym membership can be quite expensive. Some have suggested that governments could subsidise gym membership. However, there has been a growth in gyms that offer much lower monthly fees. These 'discount' gyms are often significantly cheaper and might lead to an increase in the number of people joining gyms.

Another approach would be for the government to launch advertising campaigns to encourage people to take more exercise. These would not only persuade people to exercise more but can also provide information about fitness, such as the different types of exercise and how these can be beneficial. However, previous advertising campaigns launched by the government have not always changed behaviour significantly. It is estimated that the National Health Service (NHS) spends up to £10 billion each year treating people who are severely overweight, with the costs to wider society likely to be over £30 billion each year.

Table 5 – Estimated monthly UK gym membership fees in 2024

	£
Average monthly fee for all gyms	57
Average monthly fee for 'discount gyms'	28

2 1 Using **Figure 3** and **Table 5**, assess whether governments providing more information on fitness can solve the market failure caused by lack of exercise.

[9 marks]

Do not write outside the box

Extra space

48

Turn over for Section B

Do not write outside the box

Section B

Answer **all** questions in the spaces provided.

Item A – UK unemployment

Unemployment creates problems for individuals, local communities and for the whole economy. Individuals may be more likely to suffer from mental health problems if they remain unemployed for an extended period of time. Governments benefit from reducing unemployment as the more people working, the more tax revenue they will collect from those earning incomes.

Data for UK unemployment at December 2023 is shown in **Table 6**.

Table 6 – UK labour market data as at December 2023

	Numbers of people (in millions)
Population of working age	42.3
Economically inactive	9.3
Employed (part-time and full-time)	31.8

Source: ONS

Although unemployment is relatively low, the government still uses policies to maintain low unemployment. These include maintaining a high level of spending through the use of both monetary policy and fiscal policy. Supply-side policies are also used. All these policies have their uses and limitations.

There are various causes of unemployment. Reducing unemployment therefore requires a range of policies to be used. Supply-side policies are best used to reduce frictional and structural unemployment. Fiscal and monetary policies can be used to reduce cyclical unemployment. Seasonal unemployment is not usually a problem for governments to worry about.

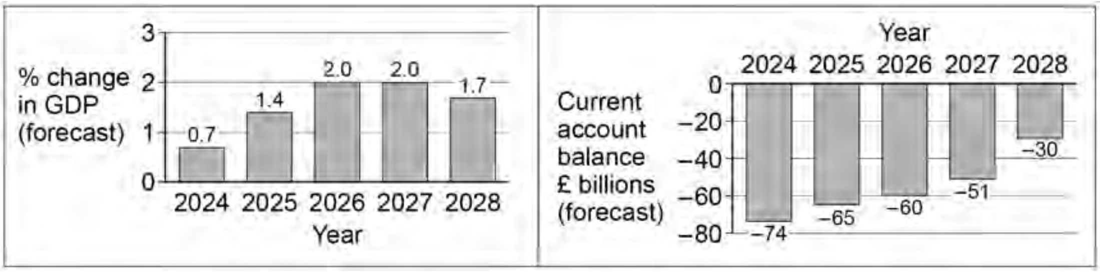
Do not write outside the box

Item B – Conflicts in achieving other objectives

Governments have a number of economic objectives they wish to achieve. Using monetary and fiscal policy to keep unemployment low can also help achieve other objectives. Economic growth and unemployment are closely connected. Increased growth often leads to falling unemployment.

However, attempts to reduce unemployment can generate conflicts with achieving other objectives. Other objectives are economic growth, low inflation and achieving balance on the current account of the balance of payments. As we can see in **Figure 4**, the UK current account is often in deficit. Some blame this deficit on UK productivity being lower than in other countries, whereas some blame the current account deficit on other problems, such as the exchange rate or economic growth.

Figure 4 – Forecasts for UK economic growth and current account balance, 2024–2028



2 2 Define the term 'seasonal unemployment'.

[2 marks]

2 3 Using **Table 6**, calculate the UK unemployment rate for December 2023 to **one** decimal place.

[3 marks]

%

Turn over ►

Do not write outside the box

2 4 Using **Item A** on page 18, explain **two** policies that can help to reduce unemployment.
[6 marks]

Policy 1

Policy 2

2 5 Using **Item B**, analyse why the UK current account of the balance of payments is normally in deficit.
[6 marks]

Do not write outside the box

2 6 Do you think that maintaining full employment should continue to be an economic priority for the UK government?

Use **Item A** and **Item B** and your own economic knowledge to justify your view.

[15 marks]

Extra space

Do not write outside the box

Turn over ►

Do not write outside the box

32

END OF QUESTIONS

There are no questions printed on this page

DO NOT WRITE ON THIS PAGE
ANSWER IN THE SPACES PROVIDED

Question number	Additional page, if required. Write the question numbers in the left-hand margin.

Do not write outside the box

Question number	**Additional page, if required. Write the question numbers in the left-hand margin.**

Question number	**Additional page, if required. Write the question numbers in the left-hand margin.**

Copyright information

2 5 6 G 8 1 3 6 / 2

IB/H/Jun25/8136/2