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Surname	Other names

Pearson Edexcel
International
Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Economics

Unit 2: Managing the Economy

Thursday 23 January 2014 – Morning
Time: 1 hour 30 minutes

Paper Reference
6ECA2/01

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 answer in the spaces provided in this question paper.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

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.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
  – *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- Check your answers if you have time at the end.

Turn over ▶

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Answer EITHER Question 1 or Question 2.

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

1 Employment, Growth and Exports

Extract 1 Unemployment 'set to soar' if economy does not recover soon

GDP data released in July 2012 revealed that the UK economy contracted by 0.7% between April and June. This is now the third consecutive quarterly fall and the longest "double dip" recession in half a century. The situation looks unlikely to improve markedly for the rest of the year, with the Bank of England last week cutting its annual growth forecast for 2012 to zero, from 0.85%.

In August 2012, the ILO measurement of UK unemployment was 7.9% and it has remained above 6% since 2009. Moreover, in its latest report on the employment market, the Chartered Institute of Personnel and Development (CIPD) has found that one in three businesses is keeping more staff than needed to avoid losing skills, but would enforce redundancies if economic growth did not return soon. Two thirds of private sector companies told the CIPD that they would have to cut staff if the economy did not begin to recover, with large businesses more concerned about Britain's economic outlook than smaller companies.

The opposition Labour Party suggested that the Bank of England's report added to doubts about the government's economic strategy of reducing the budget deficit without delaying the recovery. The Labour Party argued the strategy was already weakened by disappointing growth figures earlier this year. Rachel Reeves, opposition spokesperson, said that these figures show the government's policies were not only causing short-term pain, but also long-term damage to the UK economy. She added that even the national infrastructure plan announced by ministers recently would not provide the expected stimulus, since most projects will not start until 2014. "We are crying out for investment that begins now," Ms Reeves said.

(Source: adapted from © Times Newspapers Limited, 13 Aug 2012 and © The Financial Times Ltd, August 8 2012)

Extract 2 Exports plunge in fresh blow to economy

The UK's hopes of export-led growth were set back as exports fell sharply in the second quarter of 2012, highlighting the difficulty the economy faces as it tries to recover at a time of slowing global growth. In the same quarter exports of goods fell 3.1% in volume terms and the UK recorded its biggest trade deficit in 15 years.

(Source: © The Financial Times Ltd, August 9 2012)

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Figure 1 Share of UK exports to selected trading partners and forecast real Gross Domestic Product growth in these countries

	China	India	United States	Eurozone
Percentage share of UK goods and services exports in 2011	3%	2%	16%	42%
Real GDP growth (%) forecast in 2012	8.7%	7.7%	1.5%	-0.5%

(Source: © Compare Infobase Ltd and © www.bankofengland.co.uk)

(a) (i) With reference to Extract 1, outline how ILO unemployment is measured.

(4)

(ii) With reference to Extracts 1 and 2 and your own knowledge, assess **two** possible reasons why unemployment has remained above 6% since 2009.

(12)

(iii) Explain **two** costs for the UK economy of the unemployment rate remaining high for a long time.

(8)

(b) (i) With reference to Figure 1, explain what is meant by "real Gross Domestic Product growth".

(6)

(ii) Explain **two** factors that may cause a rising trade deficit in goods and services.

(8)

*(iii) Assess the likely impact on the UK economy of a rising trade deficit in goods and services. Use an aggregate demand and aggregate supply diagram in your answer.

(12)

***(c)** With reference to the data and your own knowledge, evaluate the policies that the government could adopt to reduce unemployment.

(30)

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(Total for Question 1 = 80 marks)

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

2 UK Income, House Prices and Government Policy

Extract 1 Falling wealth, income and investment

After the financial crisis of 2008 household wealth fell. In addition, by the first quarter of 2012 real household income per head had reached its lowest level since the second quarter of 2005. Real household expenditure per head fell by 0.2 % in the first quarter of 2012 compared with the fourth quarter of 2011, to its second lowest level since the third quarter of 2003. Furthermore UK private sector investment in the second quarter of 2012 fell by 2.7% on the previous quarter.

(Source: © IFS Living Standards and Inequality, June 2012 and © Bank of England Inflation Report November 2012)

Extract 2 UK house prices continue to slide

Robert Gardner, Chief Economist at Nationwide Building Society, said: "UK house prices declined for the fourth time in five months in July 2012, with prices falling by 0.7%." This pushed the annual pace of price change down to -2.6% – the largest fall since August 2009. House prices are currently 13% below their 2007 peak.

(Source: © adapted from the Nationwide Housing Index Report of July 2012)

Extract 3 Bank of England cuts UK growth forecast again

Inflation is expected to increase in 2013. Graeme Leach, Chief Economist at the Institute of Directors, warned that the fall in global commodity prices would not continue at the same pace all year. "Brent crude oil prices have edged back up above $100 per barrel and America's scorching summer has pushed up global corn and wheat prices sharply." In addition to external cost pressures, some economists remain concerned that domestically generated inflation remains consistently above the 2.0% target. They point to service sector inflation, which held steady at 3.3% in June 2012. The service sector accounts for 77% of UK GDP. Some of the possible reasons for the persistently high level of inflation in this sector are that many services are not internationally tradable, face limited competition and have few opportunities to increase productivity.

For the fourth year in a row the Bank of England's forecasts of output's recovery to pre-recession levels have been put back another year. The Bank's governor said that the Monetary Policy Committee "will do all it can" to bring about recovery. He did not rule out either additional purchases of gilts – known as quantitative easing – beyond the current £375bn programme, or the possibility of a further cut in the Bank's 0.5% base rate. However, he questioned whether the latter would make much economic difference, and said it might even be counter-productive. He identified the big issue as stagnating output. Growth prospects are uncertain because the future of the Eurozone remains in doubt and UK incomes are being squeezed by falling real wages.

(Source: © The Financial Times Ltd, July 17 2012 and August 8 2012)

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(a) (i) Explain the difference between income and wealth, as referred to in Extract 1.

(4)

(ii) With reference to Extract 1 and using the circular flow of income model, explain the likely impact on aggregate demand of a fall in investment.

(8)

(iii) With reference to Extract 2, assess the likely impact on the UK economy of the fall in house prices since 2007.

(12)

(b) (i) Explain **one** reason why a rate of inflation consistently above the 2% target (Extract 3, lines 6–7) might be a cause for concern.

(6)

(ii) With reference to Extract 3, explain why the UK's inflation rate was "expected to increase in 2013" (Extract 3, line 1).

(8)

*(iii) Assess the likely impact on the UK economy of the further expansionary monetary policy referred to in Extract 3, lines 14–17. Use an aggregate demand and aggregate supply diagram in your answer.

(12)

***(c)** With reference to paragraph 1 of Extract 3 and your own knowledge, evaluate the use of supply side policies as a means of controlling UK inflation.

(30)

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(30)

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(Total for Question 2 = 80 marks)

TOTAL FOR PAPER = 80 MARKS

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