

General Certificate of Education
June 2008
Advanced Level Examination



ECONOMICS **EC4W**
Unit 4 Working as an Economist: The European Union

Friday 6 June 2008 1.30 pm to 3.10 pm

For this paper you must have:

- an 8-page answer book.

You may use a calculator.

Time allowed: 1 hour 40 minutes

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is EC4W.
- Answer the compulsory question.
- **At the very start of the examination**, tear along the perforations in order to detach the question on page 2 from the extracts.
- **The extracts** are printed on pages 3, 4, 5, 6 and 7, which can be unfolded.

Information

- The maximum mark for this paper is 84.
Four of these marks will be awarded for using good English, organising information clearly and using specialist vocabulary where appropriate.

Advice

- You are advised to spend the first 20 minutes reading the Case Study.

Answer the compulsory question.

You may detach this page by tearing along the perforations.

Case Study:

THE EUROPEAN UNION

You are advised to spend the first 20 minutes thoroughly reading the Case Study before writing the report. The instructions below set the scene of the Case Study and explain what you should include in your report. The whole report will be marked out of 84.

Setting the scene

It is November 2008 and following an unexpected general election, the incoming UK government has decided to conduct a new assessment of the Eurozone economy and to reconsider UK policy towards the Single European Currency (the euro).

As an economic adviser to the Treasury, you have been asked to start this process by considering the positive and negative aspects of the euro. Your report will be used as a starting point by a full committee of enquiry.

When writing your report, you should make use of the information in **Extracts A to I**, together with any other relevant knowledge you possess.

Requirements of the report

You are to write a report entitled: 'How should the UK now act towards the euro?'

Your report should:

- suggest economic reasons why the UK did not adopt the euro at its launch;
- discuss why the euro might be unpopular among some consumers and workers;
- assess the impact of **both** the recent strength **and** stability of the euro on the macroeconomic performance of the Eurozone's economies;
- make a recommendation as to whether the UK should now join with the countries of New Europe in adopting the euro. Justify your recommendation.

Use economic concepts and principles where appropriate. You will be given credit for demonstrating your ability to analyse, comment critically on, and make effective use of, the data provided.

(84 marks)

Extract A: UK ‘not ready yet’ for the euro

Extract A has been removed due to third-party copyright constraints.
It was adapted from an article on the BBC website on 9 June 2003.

Extract B: Europe’s problems make UK wary of the euro

Extract B has been removed due to third-party copyright constraints.
It was adapted from an article on the BBC website on 28 April 2005.

Extract C: Five-year-old euro rivals other currencies

Extract C has been removed due to third-party copyright constraints.
It was adapted from an article on Yahoo! Finance on 29 December 2006.

Extract D: Euro still shining in the East

Extract D has been removed due to third-party copyright constraints.
It was adapted from an article in The Observer on 17 December 2006.

Extract E: Non, nein, no: Europe turns negative on the euro

Extract E has been removed due to third-party copyright constraints.
It was adapted from an article in The Sunday Times on 13 December 2006.

Extract F: Hain pushes the euro case

Extract F has been removed due to third-party copyright constraints.
It was adapted from an article on the BBC website on 29 July 2003.

Turn over for the next extract

Extract G: Pound and euro behave as if they are the same currency

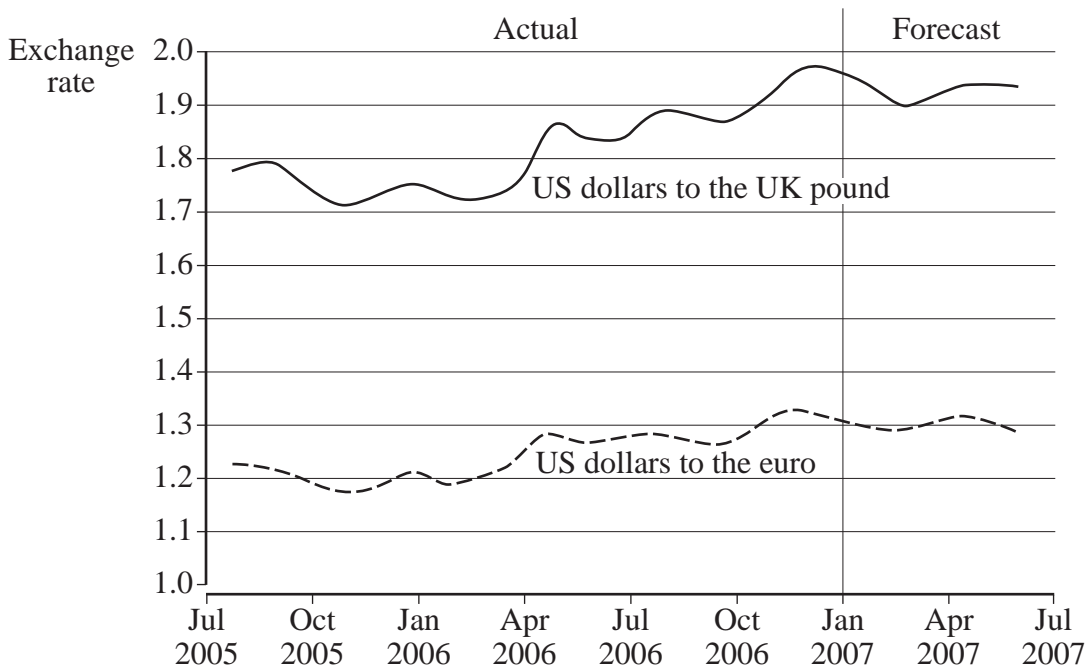
A new analysis of data from foreign exchange markets shows that the pound sterling and the euro have always behaved as if they are the same currency. Surprisingly, these revelations are not the work of economists or bankers, but a pair of physicists who analysed fluctuations in exchange rates using a technique usually employed to spot patterns in DNA sequences and climate records.

The physicists' analysis reveals that the exchange rates of sterling and the euro, and before that the Deutschmark and French franc, have been 'locked' together for years. This follows an announcement by the Organisation for Economic Co-operation and Development (OECD) last week that the British economy is already performing as if it were close to the heart of the Eurozone, and removes a key economic argument for Britain staying out of the single currency.

Source: adapted from an article by MICHAEL BROOKS, *New Scientist*, 5 December 2001, accessed on 8 February 2007

Extract H: Exchange rates: past trends and future projections

(1)



(2) Euros to the UK pound (forecast)

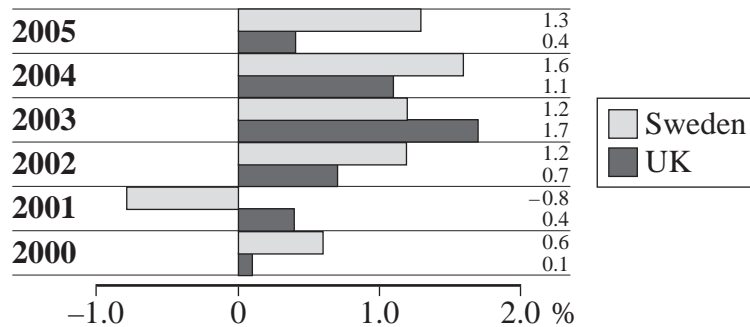
Jan 2007	Feb 2007	Mar 2007	Apr 2007	May 2007	Jun 2007
1.50	1.50	1.48	1.48	1.48	1.50

Source: Financial Forecast Center (US), www.forecasts.org, 11 January 2007, accessed on 8 February 2007

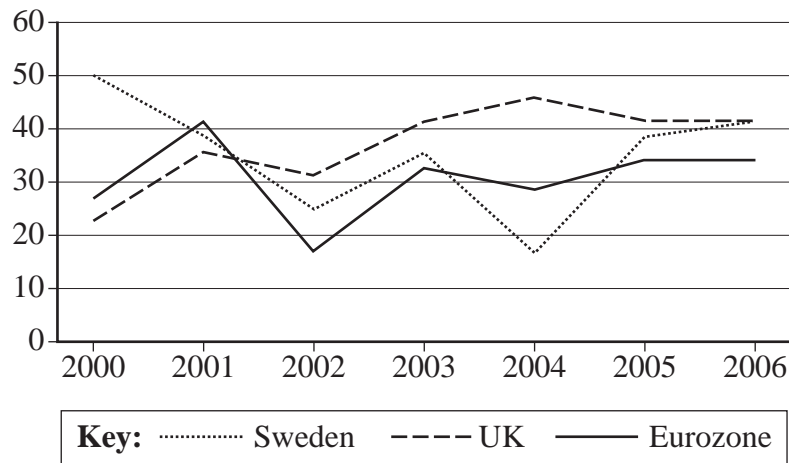
Extract I: Economic growth: Eurozone versus non-Eurozone

The two graphs enable us to compare business performance and expectations in Eurozone countries with those outside the euro (Sweden and the UK) between 2000 and 2005/6. The relatively weak economic performance of the Eurozone does not necessarily reflect a failure of the single currency project; it might simply indicate continuations of trends that were already occurring for various other reasons.

GDP growth – Sweden and UK
(difference compared to Eurozone in percentage points)



Investment expectations: plant and machinery (% balance*)



* The 'balance', a measure of business confidence, is the difference between the proportion of businesses planning an increase in investment and those planning a decrease.

Source: 'Focus on EU Business Trends', 2006, www.granthorntonibos.com, Grant Thornton International Business Owners Survey (IBOS) 2006, accessed on 11 February 2007

END OF EXTRACTS

There are no extracts printed on this page

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Extract D: © Guardian News and Media Ltd 2006

Extract G: from: New Scientist Magazine