

General Certificate of Education
June 2008
Advanced Subsidiary Examination



ECONOMICS **ECN2/2**
Unit 2 Part 2 Data Response: The National Economy

Wednesday 4 June 2008 1.30 pm to 2.30 pm

For this paper you must have:

- an 8-page answer book
- the question paper for Part 1 (ECN2/1).

You may use a calculator.

Time allowed: the total time for papers ECN2/1 and ECN2/2 together is 1 hour

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 ECN2/2.
- Answer **EITHER** Question 1 **OR** Question 2.

Information

- The maximum mark for this paper is 25.
- The marks for questions are shown in brackets.
- You will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

Advice

- You are advised to spend at least 45 minutes on paper ECN2/2.

Answer **EITHER** Question 1 **OR** Question 2.

EITHER

Total for this question: 25 marks

1 AN AMERICAN DOWNTURN

Study **Extracts A and B**, and then answer **all** parts of Question 1 which follows.

Extract A: Real GDP growth in the US economy, 2003 to 2006 (% change, quarter on quarter)

Extract A has been removed due to third party copyright constraints.

It was adapted from a graph on www.dallasfed.org on 20 February 2007.

Source: www.dallasfed.org, accessed on 20 February 2007

Extract B: Is the future bright for the UK as the American economy slows?

The primary reason for worrying about 2007 is the prospect of a major downturn in the US economy, driven by weakness in the housing market. US house prices are falling and will continue to fall. This will affect consumer expenditure but, by also discouraging house building, will have significant multiplier implications. 1

It has always been said that when the US sneezes, the world catches a cold. US investment to the UK would decline, the dollar would weaken and falling business and consumer confidence in the US would affect UK exports. The UK exports about 17% of its goods and services to the US, about 5% of its GDP. A weaker dollar would be of benefit to US exporters and to the US economy as a whole by creating higher overseas demand for American goods, and hence more jobs and growth. However, it would tend to strengthen the euro and the pound and further damage UK exports to the US market. 5 10

A crucial issue, therefore, is whether the UK can prosper as the US economy slows. Steady increases in house prices and employment growth in the UK need to be set against growing consumer debt and a fear of rising interest rates, given that inflation has been above target for seven months. UK exporters also need to bear in mind that a US slowdown could affect other parts of the world which are important markets for the UK. 15

Nevertheless, with UK inflation looking as if it will fall markedly later in 2007, interest rates will then be cut to give a boost to the economy. We may also find that the US downturn is not as severe as some anticipate. For the UK, it looks as if the sustainable rate of growth has risen, perhaps to as much as 3.25% per annum, not least due to the influx of immigrants from the new members of the European Union. So, for the UK economy, there is every chance that the future is bright. 20

Source: adapted from an article by ROGER BOOTLE, *The Daily Telegraph*, 1 January 2007

Question 1

- 1 (a) Using **Extract A**, identify **two** main features in US real GDP growth for the period 2003 to 2006. (4 marks)

- (b) **Extract B** (lines 8–9) states that a ‘weaker dollar would be of benefit to US exporters and to the US economy as a whole’.

Explain how a weaker dollar might benefit US exporters **and** the US economy. (6 marks)

- (c) ‘...when the US sneezes, the world catches a cold’ (**Extract B**, line 5).

Using the data and your economic knowledge, evaluate the possible economic consequences for UK macroeconomic performance of a slowdown in the US economy. (15 marks)

OR

Total for this question: 25 marks

2 UK TRADE

Study **Extracts C and D**, and then answer **all** parts of Question 2 which follows.

Extract C: Value of UK trade in goods and services, 2003–2006, £ billion

Year	Export of goods (£bn)	Import of goods (£bn)	Export of services (£bn)	Import of services (£bn)	Balance of trade in goods and services (£bn)
2003	188	237	97	78	-30
2004	191	252	108	82	-35
2005	212	280	114	90	-44
2006	244	328	123	95	-56

Source: *www.statistics.gov.uk*, accessed on 20 February 2007

Extract D: Is there any hope for the UK trade deficit?

For 2006 as a whole, the UK deficit on goods and services with the rest of the world rose to £56 billion compared to a deficit of £44 billion in 2005. The other members of the European Union (EU) remain the most important trading partners of the UK. There will be some concern, therefore, that the UK's trade deficit with the other members of the EU widened to £2.8 billion in December. 1
5

While such figures are no longer surprising, reasons for the persistently weak external performance and possible remedies continue to occupy economists.

On the export side, there is a need for further supply-side reforms which should, for example, help to improve labour productivity and therefore price competitiveness. The strong pound and weaknesses in non-price competitiveness, such as in design and quality, have also played their parts in poor export performance. 10

Inevitably, as the manufacturing sector continues to contract, consumers have little choice but to import consumer durables, such as washing machines, vacuum cleaners and cars, in increasing quantities. Rising average earnings, the 'wealth effect' of rising house prices, as well as cheap credit, allow such consumption. Also, while the strong pound creates problems for exporters, it is good news for consumers. Higher interest rates and taxes could slow down the inflow of consumer durables by squeezing spending power, but the effect would prove to be temporary. 15

It seems to be the case that, whereas some economists and politicians might feel reasonably satisfied with UK performance in terms of economic growth, inflation and unemployment, improvement in our external performance continues to be difficult to achieve. 20

Figures in text taken from *www.statistics.gov.uk*, accessed on 23 February 2007

Question 2

- 2 (a) Using **Extract C**, describe **two** main features of UK trade in goods and services for the period 2003 to 2006. (4 marks)

- (b) **Extract D** (lines 13–14) refers to the import of consumer durable goods 'in increasing quantities' into the UK economy.

Explain **two** reasons for this increase. (6 marks)

- (c) '...improvement in our external performance continues to be difficult to achieve' (**Extract D**, line 21).

Using the data and your economic knowledge, evaluate the government policies which might improve the UK balance of trade in goods and services. (15 marks)

END OF QUESTIONS

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