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Centre Number	Candidate Number												
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Edexcel GCE

Economics

Advanced Subsidiary

Unit 2: Managing the Economy

Friday 25 May 2012 – Morning Time: 1 hour 30 minutes	Paper Reference 6EC02/01
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<p>You do not need any other materials.</p>	<p>Total Marks</p>
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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.
- 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 Real Income and Unemployment

Extract 1 UK households' real disposable incomes

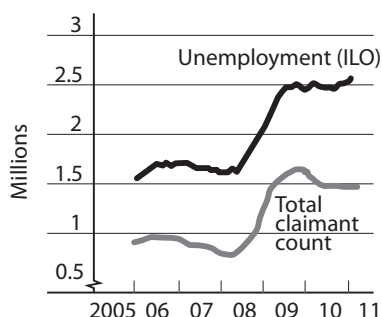
New GDP figures show real household disposable incomes falling by 0.8% in 2010. This is the first time the measure has fallen since 1981.

Nominal wage growth edged up with average earnings rising 2.3% in the year to January 2011. This annual growth rate for workers' pay was mainly driven by bonus payments in the finance and business services sector. Meanwhile, CPI inflation was 4.0% in January 2011.

5

(Source: Adapted from an article by Brian Groom from the Financial Times on 16 March 2011 © The Financial Times Limited 2011)

Figure 1 UK unemployment at 17-year high, millions



(Source for Figure 1: Adapted from the Financial Times on 16 March 2011 © The Financial Times Limited 2011)

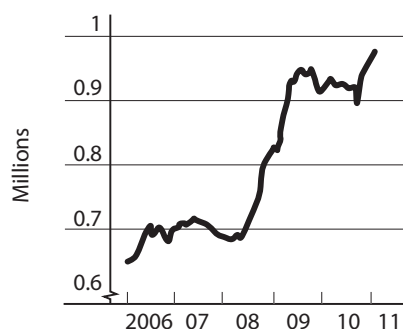
Extract 2 Unemployment measurements diverge

The unemployment rate, as measured by the International Labour Organisation (ILO), for the three months to January 2011 was 8.0% of the economically active population. The total number of unemployed people, using the ILO measure, increased by 0.1% (27,000) over the three months to January 2011 to reach 2.53 million, the highest figure since 1994. The number of people claiming Jobseeker's Allowance (the claimant count) fell by 10,200 between January and February 2011 to reach 1.45 million.

5

(Source for Extract 2: Adapted from the Office of National Statistics 16 March 2011 © Crown Copyright)

Figure 2 ILO survey of youth (aged 16-24) unemployment, millions



(Source: Adapted from the Financial Times on 16 March 2011 © The Financial Times Limited 2011)



Extract 3 Youth unemployment

The ILO unemployment level for those aged from 16 to 24 reached 974,000 in the three months to January 2011, the highest figure in percentage and absolute terms since comparable records began in 1992. Chris Grayling, the employment minister, has questioned the accuracy of the ILO figure and the survey method used.

Grayling claimed that youth unemployment had fallen if young people in education were excluded from the figures. The ILO survey should make sure that full time students who cannot find a part-time job while they study are not included in this measure of unemployment.

5

(Source: Adapted from © Guardian News & Media Ltd 2011, April 13 2011)

- (a) (i) With reference to Extract 1, explain the difference between real and nominal incomes. (4)
- (ii) With reference to the extracts and your own knowledge, explain **two** possible causes of falling real disposable income in the UK during 2010. (8)
- (iii) Assess the likely impact of falling real incomes on the price level and equilibrium output. Illustrate your answer with an aggregate demand and aggregate supply diagram. (12)
- (b) (i) With reference to Figure 1 and Extracts 2 and 3, distinguish between the claimant count and the ILO measures of unemployment. (6)
- (ii) With reference to Figure 1 and Extracts 2 and 3, outline **two** possible reasons why the trends in the claimant count rate and the ILO measure of unemployment differ after 2009. (8)
- *(iii) With reference to the information and your own knowledge, examine **two** factors which might explain the rise in UK unemployment since 2008. (12)
- *(c) Evaluate macroeconomic policies which may be used to reduce the level of unemployment in the UK. (30)



(a) (i) With reference to Extract 1, explain the difference between real and nominal incomes.

(4)

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(ii) With reference to the extracts and your own knowledge, explain **two** possible causes of falling real disposable income in the UK during 2010.

(8)

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*(iii) With reference to the information and your own knowledge, examine **two** factors which might explain the rise in UK unemployment since 2008.

(12)

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*(c) Evaluate macroeconomic policies which may be used to reduce the level of unemployment in the UK.

(30)

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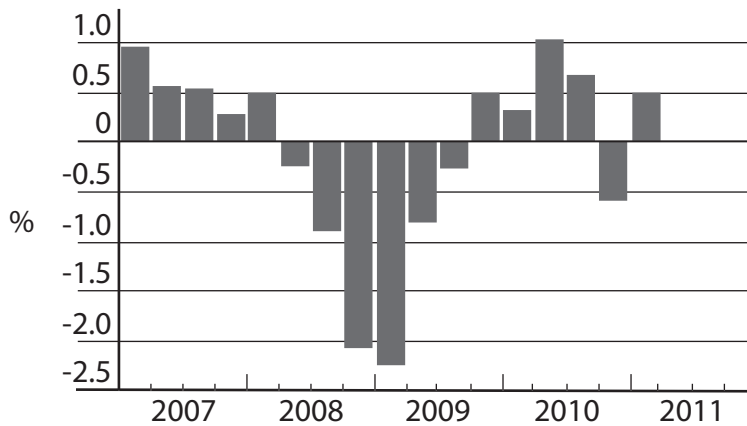
(Total for Question 1 = 80 marks)



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

Question 2 UK Growth and the Balance of Payments

Figure 1 UK Real GDP growth, quarter on quarter



Source: ONS, Thomson Reuters

(Source: Adapted from the Financial Times © The Financial Times 2011)

Figure 2 UK Balance of Payments Current Account 2009-10 (£ billions)

	2009	2010
Trade in goods	-82.4	-97.8
Trade in services	52.7	49.3
Subtotal: Trade in goods and services	-29.7	-48.5
Income (interest, profits and dividends)	20.6	31.8
Current transfers	-4.9	-19.7
Total: Current account balance	-14.0	-36.4
Current account balance as % of GDP	-1.7%	-2.5%

(Source: Adapted from the Office of National Statistics © Crown Copyright)



Extract 1 For many the real recession starts now

The economy is still showing only very limited signs of the hoped-for rebalancing of aggregate demand away from debt financed consumption and government spending to investment and exports.

The government's deflationary fiscal policy will start to reduce its budget deficit. The Office for Budget Responsibility forecasts that in order to maintain their living standards, households will have to reduce their savings and increase their borrowing further. Household debt is forecast to grow from 160% of disposable income to a record 175%, or £2.1trillion, by 2015. 5

Exports are growing, but not as strongly as those of some other European countries. What is more, the 20% plus depreciation in the pound since 2008 seems to be having virtually no impact on imports. This has contributed to the UK's largest ever recorded trade in goods deficit in 2010. As the Bank of England's Monetary Policy Committee (MPC) said in minutes to its last meeting, it's possible "that domestic substitutes for some imported goods and services are not available". 10

Britain's manufacturing base is so depleted that the economy may no longer be capable of responding to gains in competitiveness. The recent decisions of the MPC to maintain a record low 0.5% base interest rate have not yet led to the hoped-for increase in business investment. Some economists now predict an early rise in this base rate to act against inflation being above the target rate. 15

(Source: Adapted from © Copyright Telegraph Media Group Limited 2011, 25th April 2011)

- (a) (i) Using the data in Figure 1, explain what is meant by a recession. (6)
- (ii) With reference to Figure 1, explain why economists might consider that a negative output gap existed in 2008-9. Use an appropriate diagram in your answer. (8)
- (iii) With reference to Extract 1, assess **two** factors likely to affect the level of aggregate demand in the UK. (12)
- (b) (i) With reference to Figure 2, explain why the UK current account balance in 2010 was a net withdrawal from the UK's circular flow of income. (4)
- (ii) Explain **two** possible problems for the UK economy of its persistent and increasing current account deficit. (8)
- *(iii) Examine **two** possible causes of the "largest ever recorded trade in goods deficit in 2010" (Extract 1, lines 11-12). (12)
- *(c) Evaluate the benefits of economic growth for the UK. (30)



(a) (i) Using the data in Figure 1, explain what is meant by a recession.

(6)

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(ii) With reference to Figure 1, explain why economists might consider that a negative output gap existed in 2008–9. Use an appropriate diagram in your answer.

(8)

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(iii) With reference to Extract 1, assess **two** factors likely to affect the level of aggregate demand in the UK.

(12)

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(b) (i) With reference to Figure 2, explain why the UK current account balance in 2010 was a net withdrawal from the UK's circular flow of income.

(4)

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(ii) Explain **two** possible problems for the UK economy of its persistent and increasing current account deficit.

(8)

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*(iii) Examine **two** possible causes of the “largest ever recorded trade in goods deficit in 2010” (Extract 1, lines 11-12).

(12)

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*(c) Evaluate the benefits of economic growth for the UK.

(30)

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(Total for Question 2 = 80 marks)

TOTAL FOR PAPER: 80 MARKS



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