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Pearson Centre Number Candidate Number

Edexcel GCE

Economics

Advanced Subsidiary

Unit 2: Managing the Economy

Wednesday 21 May 2014 – Afternoon Time: 1 hour 30 minutes	Paper Reference 6EC02/01
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You do not need any other materials.	Total Marks
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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.
- Check your answers if you have time at the end.

Turn over ►

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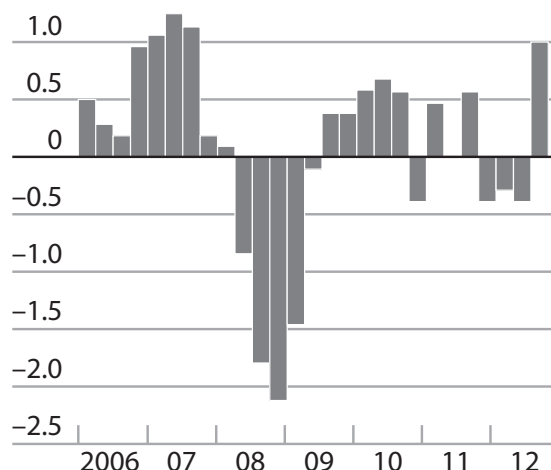
Answer EITHER Question 1 or Question 2.

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

1 Growth, Productivity and Unemployment

Figure 1

UK Growth, percentage change in real GDP from previous quarter



Extract 1

Exceptional effects on growth

The 1% growth rate in real GDP in the third quarter of 2012 from the previous quarter was the strongest in five years. However, the economy is still no bigger than it was a year ago, and is 3% smaller than it was before the financial crisis hit in 2008. One-off factors such as the Queen’s Diamond Jubilee and the London Olympics also improved the third quarter figure, which was better than the 0.6% economists predicted.

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But few believed the better data signalled the start of a strong economic recovery. Employment is rising, real disposable incomes are recovering and retail sales are picking up. However, the global economy is slowing, the government plans to reduce its budget deficit further next year and confidence among businesses and households remains fragile.

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(Source for Figure 1 and Extract 1: © The Financial Times Ltd 2013)

Extract 2

UK unemployment and employment

UK ILO unemployment is at 2.51 million, up 55% since 2007, a similar increase to the US and the eurozone, according to the OECD. That eurozone average disguises huge variations, however, from rises of well over 100% in Greece and Spain to a fall of 33% in Germany.

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In past recessions, the proportion of the unemployed out of work for more than 12 months in the UK has typically increased to 40–50%. This time it has reached only 35%. This has been partly attributed to the welfare-to-work policies of current and previous governments which try to push people quickly back into whatever jobs are available.

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The UK’s strength in creating jobs, taking the number employed back above the pre-crisis level, has been balanced by concern about the quality of those jobs – a lot of them self-employed, part-time or temporary – and a poorer productivity performance than the average for developed countries.

(Source for Figure 1 and Extract 2: © stats.oecd.org)



- (a) (i) With reference to Figure 1, explain how the growth rate in the third quarter of 2012 can be “the strongest in five years” (Extract 1, line 2) while the economy is “smaller than it was before the financial crisis hit in 2008” (Extract 1, line 3). (6)
- (ii) With reference to Extract 1 and your own knowledge, explain **two** likely benefits of economic growth. (8)
- (iii) Using the concept of the multiplier, assess the contribution of “one-off factors such as the Queen’s Diamond Jubilee and the London Olympics” (Extract 1, lines 3 and 4) to economic growth. (12)
- (b) (i) Explain how ‘UK ILO unemployment’ (Extract 2, line 1) is measured. (4)
- (ii) Explain **two** possible problems for the UK economy of 35% of the unemployed being “out of work for more than 12 months” (Extract 2, lines 5 – 6). (8)
- * (iii) According to Extract 2 (lines 11 – 12) the UK has a “poorer productivity performance than the average for developed countries.” Assess the likely impact of the UK’s relatively poor productivity performance on its economy. (12)
- * (c) With reference to the information provided and your own knowledge, evaluate the policies that the UK government could adopt to improve productivity. (30)



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(b) (i) Explain how 'UK ILO unemployment' (Extract 2, line 1) is measured.

(4)

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(Total for Question 1 = 80 marks)



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

2 Inflation, living standards and monetary policy

Figure 1

UK Consumer Price Index (CPI)

	UK CPI (Annual Average) 2005 = 100	UK CPI percentage change over 12 months
2008	108.5	3.6%
2009	110.8	2.2%
2010	114.5	3.3%
2011	119.6	4.5%
2012	123.0	2.8%

(Source: adapted from data from the Office for National Statistics licensed under the Open Government Licence v.1.0.)

Extract 1

Living standards fall in the UK and inequality rises between generations

According to the Institute for Fiscal Studies the standard of living in Britain has fallen as the average household income fell by 2.4% over the period 2008–9 to 2010–11.

This has coincided with rising inequality of income between different generations. Using data from government income surveys of more than 750 000 households, analysis by the Financial Times shows that the average real household disposable income for people aged 20–29 fell 6.3% between 2008–09 and 2010–11. This figure takes account of CPI inflation reducing the purchasing power of money. If housing costs are included, the fall was even larger, at 9%. 5

In contrast, households with people in their 60s, 70s and 80s saw average real disposable incomes rise by about 1% over the same two-year period. That finding supports a longer-term study by the Office for National Statistics showing that pensioners saw the fastest growth in living standards for any group in Britain during the past 35 years. 10

According to Robert Joyce of the Institute for Fiscal Studies, the government's planned changes to the tax and benefit system up to 2015 will mean pensioner households will lose less on average than younger adults aged 20–29, who will see their living standards squeezed further. This latter age group is particularly affected by a high rate of unemployment, annual benefit rises capped at 1% in nominal terms and falling real wages. 15

(Source: © The Financial Times Ltd 2013)
(Source: Adapted from www.ifs.org.uk/comms)



Extract 2

Inflation

Recessions are normally associated with falling inflation rates. However, since the recession started in 2008 the Bank of England's Monetary Policy Committee (MPC) has overseen several periods in which inflation has exceeded the upper limit of the target inflation rate's tolerance. There have been four sources of inflationary pressure. First, oil prices rose sharply because of popular unrest in many Arab nations which led to the development of uncertainty around the security of supply. Secondly, a period of bad weather resulted in harvest failure in many areas and wheat prices soared. In addition, the sterling exchange rate has weakened and since 2008 it has fallen by around 25% against the U.S. dollar. A final factor was the increase in VAT from 15% to 17.5% in January 2010 and then in January 2011 it was raised to 20%.

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The monetary tools available to the MPC of the Bank of England have most impact on the demand side of the economy, which has been weak and was not the source of the inflationary shocks. The danger with raising interest rates to achieve the inflation target in the short term is that they might weaken the economy further.

(Based on a variety of media sources)

- (a) (i) Figure 1 shows that in 2008 average prices were lower than in 2012. Calculate, in percentage terms, how much **higher** prices were in 2012 than in 2008. (4)
- (ii) Explain **two** reasons why the government has a low rate of inflation as a macroeconomic objective. (8)
- (iii) With reference to the information provided, evaluate the significance of **two** likely causes of UK inflation over the period 2008 to 2012. (12)
- (b) (i) Explain how the standard of living may be measured. (6)
- (ii) With reference to Extract 1 and your own knowledge, analyse **two** likely reasons why living standards have fallen for people aged 20–29. (8)
- *(iii) Evaluate possible changes in government spending and taxation aimed at increasing living standards for younger adults in the UK. (12)
- *(c) With reference to the information provided and your own knowledge, to what extent might monetary policy help the UK government achieve its macroeconomic objectives? (30)



(a) (i) Figure 1 shows that in 2008 average prices were lower than in 2012. Calculate, in percentage terms, how much **higher** prices were in 2012 than in 2008.

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TOTAL FOR PAPER = 80 MARKS



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