



Rewarding Learning

**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
January 2011**

Economics
Assessment Unit AS 2
The National Economy
[AE121]



WEDNESDAY 19 JANUARY, MORNING

TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **Question 1** and **one** question from **Questions 2, 3 or 4**.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.
Quality of written communication will be assessed in all questions **except 1(d)(i)**.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

Question 1: Data response

The following article was written in **October 2009**.

Study it carefully and answer the questions which follow.

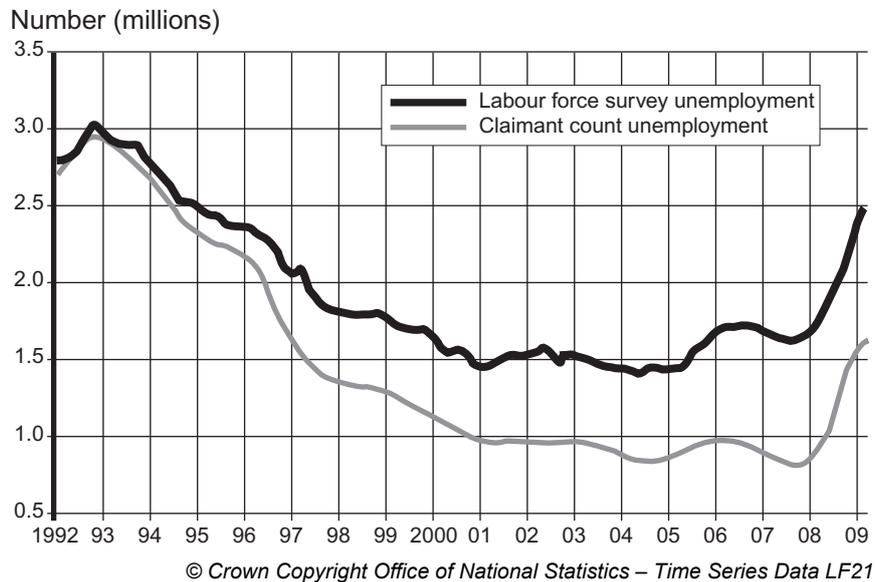
Unemployment on the rise again

Fig. 1: Unemployment in the UK 1992–2009

Whilst unemployment continues to rise the most recent figures show that it is doing so at a much slower rate, giving rise to hopes that the end of the recession may be in sight. The jobless total for the June/August 2009 period was up by 88,000, less than a third of its 281,000 rise in the previous quarter. 1

The Northern Ireland economy showed a similar picture with the unemployment rate standing at 7.0 per cent, compared with 4.3 per cent at the same time last year. However, the month on month rise was only 1100. This was the smallest increase for 15 months and the local unemployment rate was still below the UK average of 7.9 per cent. 2

However, this image of a relatively successful Northern Ireland economy, in terms of unemployment, may be misleading. The region has the highest level of economic inactivity of any UK region. It stands at 29.3 per cent as opposed to the UK average of 21.0 per cent. The economically inactive are those who are not looking for work for reasons such as sickness, disability and domestic responsibilities. 3

Indeed, many economists view economic inactivity as a much greater problem than unemployment. The UK Labour Force Survey unemployment figures are swelled by over a quarter of a million full-time students who are seeking part-time work to supplement their student loans. Obviously this does not constitute unemployment in any meaningful sense, whereas economic inactivity carries a real economic cost. At a time when government spending and borrowing are at record levels, it is not surprising that increasing scrutiny is falling on the benefits paid to single parents and the long-term sick. The annual bill for these benefits is now £74 billion. 4

The Conservative Party estimates that twenty per cent of incapacity benefit claimants are not entitled to the payment. The Tories recently unveiled proposals to take 500,000 off incapacity benefit at a rate of £89.90 and place them on jobseekers allowance paying £64.30 a week. Once on jobseekers allowance claimants would have to show that they were actively seeking work.

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The Labour Government is no less determined to clamp down on the massive cost of benefits paid to the economically inactive. It has changed the criteria for benefit claimants from an assessment based on what they cannot do to one based on what work they might be capable of doing. Under these new rules, introduced in October 2008, seven out of ten claimants were turned down for full payment. The government plans to reassess all those currently in receipt of incapacity benefit, starting in 2010.

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Former Labour Minister, Frank Field, argued for a much more radical shake-up of the welfare system. He recently suggested that all benefits should be limited to a specific period of time and that the only real test of availability for work was the acceptance of a job offer. Those turning down an offer of employment would automatically come off benefits. Not surprisingly, many of his political opponents described these ideas as “an attack on the poor”.

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- 1 (a) Using the information in **Fig. 1** describe the trends in the two measures of UK unemployment between 1992 and mid 2009. [6]
- (b) Explain why the Labour Force Survey measure of unemployment is usually higher than the Claimant Count measure. [6]
- (c) Explain the main reasons why Northern Ireland’s unemployment rate was below the UK average in 2009. [6]
- (d) (i) Explain the difference between unemployment and economic inactivity. [4]
- (ii) Explain the main causes of economic inactivity. [6]
- (e) Critically examine the reforms to the welfare system proposed by Frank Field in paragraph 7. [12]

Essays:

Answer **one** question from **Questions 2, 3 or 4.**

2 “Credit crunch leads to recession”

- (a) Outline the main components of aggregate demand in an economy. [10]
- (b) Analyse the impact of the credit crunch upon aggregate demand in the UK. [15]
- (c) Critically examine the response of the UK Government and the Bank of England to the recent credit crunch. [15]

3 “Economic growth a mixed blessing”

- (a) Explain the difference between nominal and real gross domestic product (GDP). [10]
- (b) Explain the main factors which determine the long-term growth rate of real GDP. [15]
- (c) Evaluate the view that economic growth should no longer be the main objective of government policy. [15]

4 “Inflation target is no longer important”

- (a) Explain the difference between a rise in the general price level and a rise in the rate of inflation. [10]
- (b) Analyse the main causes of inflation. [15]
- (c) Critically examine the view that setting a target for the rate of inflation does more harm than good. [15]