



*Rewarding Learning*

**ADVANCED SUBSIDIARY (AS)**  
General Certificate of Education  
2018

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# Economics

Assessment Unit AS 2

*assessing*

Managing the National Economy

**MV18**

**[SEC21]**

**THURSDAY 17 MAY, MORNING**

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## **Time**

1 hour 30 minutes, plus your additional time allowance.

## **Instructions to Candidates**

Write your Centre Number and Candidate Number on the Answer Booklet provided.

Answer **all** questions in section **A** and **B** and one question in section **C**.

You are permitted to use a calculator in this paper.

## **Information for Candidates**

The total mark for this paper is 80.

- Section A: 25 Marks
- Section B: 35 Marks
- Section C: 20 Marks

Figures in brackets printed at the end of each question 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. In questions involving calculations, you are advised to show your workings.

Quality of written communication will be assessed in Questions **3(b)**, **4**, **5(b)**, **(c)** and **(d)**, **6** and **7**.

Quantitative skills will be assessed where appropriate.

## Section A

### Answer all questions (25 marks)

- 1 In 2014 the Gini coefficient for Northern Ireland was calculated to be 0.33, while the figure for the UK was 0.39.

Explain what this data tells us about the Northern Ireland economy compared to the UK economy. [2 marks]

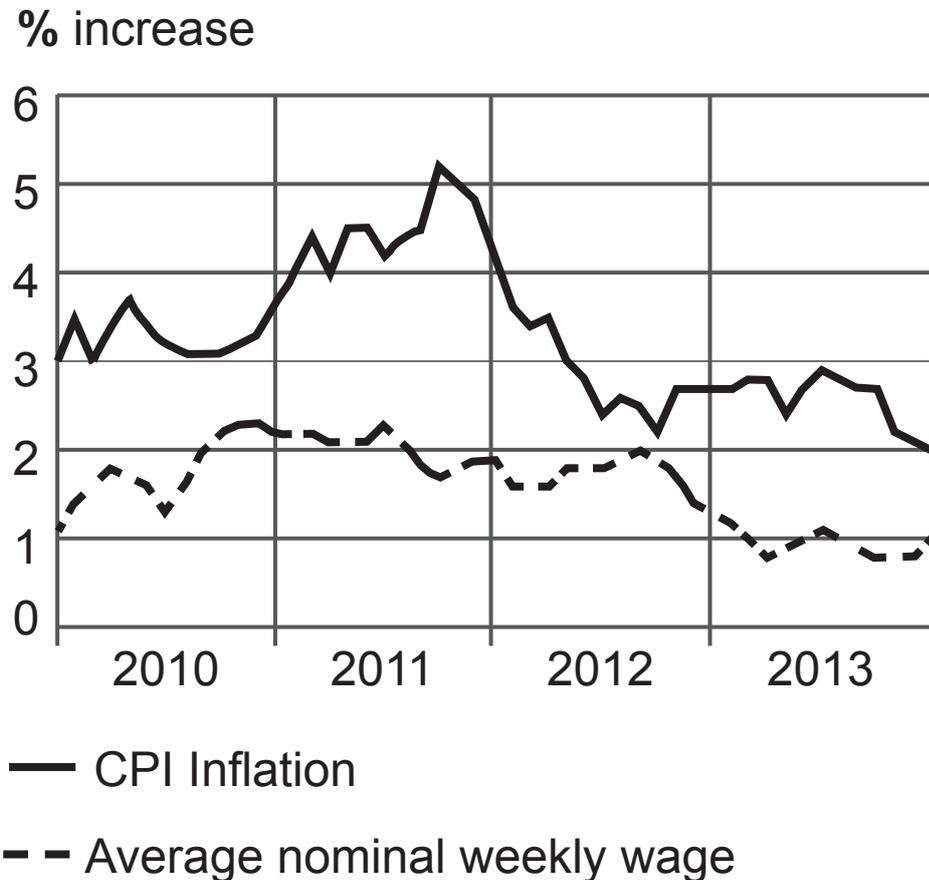
- 2 The Economic and Social Research Institute calculated Gross Domestic Product (GDP) for the Republic of Ireland economy in 2016 to be €232bn while Gross National Product (GNP) was calculated to be significantly lower at €200bn.

(a) Explain the term GDP. [3 marks]

(b) Calculate how much smaller in percentage terms GNP is compared to GDP. [2 marks]

(c) Explain why GNP in the Republic of Ireland is so much lower than GDP. [4 marks]

- 3 The graph below charts the changes in the average nominal weekly wage and inflation in the UK between January 2010 and December 2013.



- (a) Using the information in the chart, explain what has happened to real wages in the UK economy over the period shown. [2 marks]
- (b) With the aid of an appropriate diagram, explain what classical economists believe would be the likely impact of this change in real wages on an economy with a significant negative output gap. [6 marks]

- 4 Economists in the US claim that, as a result of deliberate government intervention in the foreign exchange markets, the Chinese yuan is approximately 40% undervalued against the US dollar.

Analyse the likely impact of this undervalued currency on the **Chinese** economy. [6 marks]

## Section B: Data Response

### Answer all questions (35 marks)

Read the following passage carefully and answer the questions which follow.

#### 5 UK economic growth slows

UK economic growth slowed significantly in the first quarter of 2016, official figures have revealed. UK GDP grew by just 0.4% between January and March 2016, down from 0.6% in the last quarter of 2015.

1

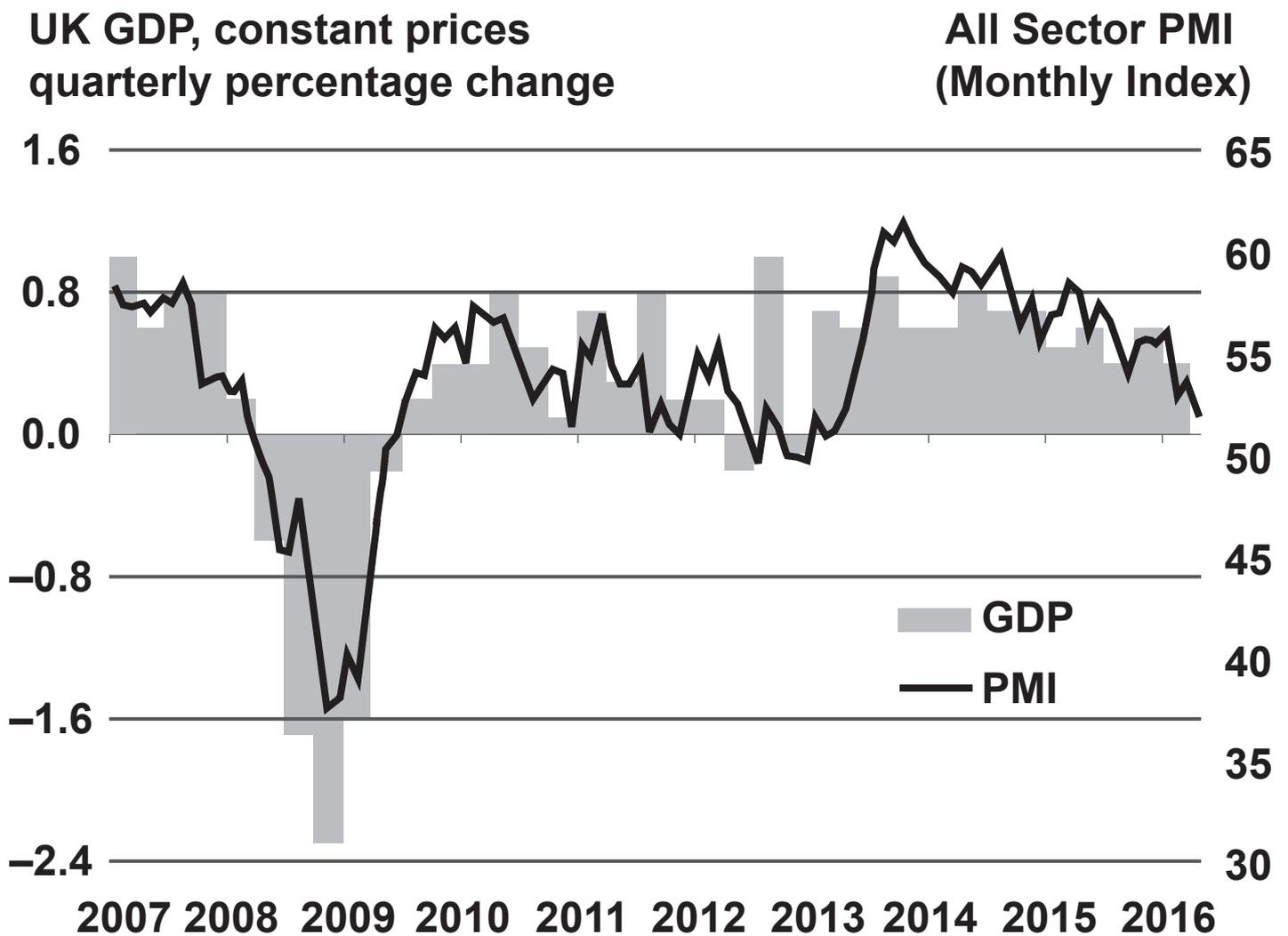
The Purchasing Managers Index (PMI), shown in **Fig. 1** opposite, is widely regarded as an excellent leading indicator for the state of the economy. Derived from surveys of private companies, it often gives earlier warnings about the state of the economy than other measures of economic performance. Worryingly for the government, the PMI fell in April 2016 to its lowest level since January 2013, which suggests that economic growth in the second quarter is unlikely to be much above 0.1%. Leading economic commentator Declan Brown stated that the decline in the PMI since 2014 has many economists and politicians worried that the current economic slowdown could become a full-blown recession.

2

Chancellor George Osborne blamed the slowing growth on concerns over the UK's potential withdrawal from the EU, commonly referred to as "Brexit", stating, "the threat of Brexit means that investments and building are being delayed and this is weighing on our economy."

3

## UK PMI and GDP compared



**Fig. 1: Monthly PMI and quarterly economic growth in the UK, January 2007 to April 2016**

Samuel Tombs, chief economist with Pantheon Macroeconomics, is not convinced that fears over Brexit are the whole story. He stated, “concerns about Brexit likely played a role in the first quarter slowdown and they will probably take a greater toll on GDP growth in the second quarter. But the downward trend in GDP growth since 2014 suggests that the EU referendum cannot be blamed for all the economy’s ills. Poor productivity, weak exports and falling industrial production and construction figures are more than a short-run reaction to a vote on the 23rd June.”

4

Some economists have used the poor growth figures to call on the Monetary Policy Committee of the Bank of England to consider a further cut in interest rates to 0.25%. Economist Declan Brown stated, “with inflation close to zero, and little hope of fiscal stimulus from our hawkish Chancellor, the Monetary Policy Committee must step up and give the UK economy the boost it requires. Failure to do so would risk the UK economy falling into another damaging and long-lasting recession.”

5

However, not everyone is convinced that lower interest rates are the answer, with one prominent economist stating, “cutting interest rates from their already historically low levels is unlikely to make any real difference to aggregate demand. If you wouldn’t borrow money at 0.5% are you really going to borrow at 0.25%?”

6

- (a) To what extent does the data in **Fig. 1** support the claim that the PMI is an excellent leading indicator for the state of the UK economy? [5 marks]
- (b) With reference to **Fig. 1**, explain the difference between an economic slowdown and an economic recession. [6 marks]
- (c) Analyse how concerns over Brexit might have led to slower growth in the UK. [9 marks]
- (d) Critically examine the suggestion by Declan Brown, in paragraph 5, that cutting interest rates from 0.5% to 0.25% was the most appropriate policy to boost the UK economy in April 2016. [15 marks]

## Section C: Essays

### Answer one question (20 marks)

- 6** In July 2016, the Office for National Statistics reported that there were 1.65 million unemployed people in the UK, while an additional 8.87 million were recorded as being economically inactive. This means that over 25% of the UK's potential labour force is not in any form of employment. Economists have called on the government to take direct action to increase the level of employment in the UK.

Critically examine the range of policies the UK government could use to reduce unemployment and economic inactivity.  
[20 marks]

- 7** In May 2016, French trade unionists and students staged a number of protests at the government's attempt to introduce supply side reforms. The reforms aim to support business by reducing environmental regulations, increasing the maximum working week from 35 hours and making it easier for firms to make workers redundant for economic reasons. Opponents of the reforms claim they are an attack on workers' rights and the environment.

Critically examine the view that supply side policies benefit large firms at the expense of workers and the environment.  
[20 marks]

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**THIS IS THE END OF THE QUESTION PAPER**

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Q5 ..... Fig. 1 © IHS Markit / Graph © IHS Markit, ONS, CIPS

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