



Centre Number

71

Candidate Number

General Certificate of Secondary Education
2012

Economics

Paper 1

[G9271]

FRIDAY 18 MAY, AFTERNOON



G9271

TIME

1 hour.

INSTRUCTIONS TO CANDIDATES

You should write your report in the spaces provided in this question and answer booklet. If you do not have enough space to complete your answer, extra lined pages are provided at the back of the booklet.

INFORMATION FOR CANDIDATES

The total mark for this paper is 60.

The task and marking criteria are described on page 2.

Your quality of written communication will be taken into account in assessing your report.

This paper is accompanied by a Case Study.

ADVICE TO CANDIDATES

You are advised to spend at least 10 minutes:

- Reading the task
- Reading through the Case Study
- Identifying parts of the Case Study that you might use in writing your report.

Writing your report should take about 45 minutes. You may include diagrams where appropriate.

For Examiner's
use only

Question Number	Marks
AO1	
AO2	
AO3	

Total Marks	
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The Task

As an economics student, you have studied information about the UK budget deficit. You have been asked to write a report on this topic for the economics section of the school website.

Using the Case Study, any other relevant information you have studied and your own knowledge and understanding of economics, write a report which clearly explains the problems of the UK's budget deficit and examines ways in which the situation could be improved.

In your report, you should:

1. give a brief introduction setting out what your report is about
2. describe how the government's income and expenditure changed between 2000 and 2010
3. explain how the government that was elected in May 2010 planned to reduce the budget deficit
4. consider how these measures might affect different households and businesses
5. evaluate and recommend possible policies that the government could use to help the economy to grow.

Assessment

Your report will be assessed on your ability to:

- recall, select and communicate your knowledge and understanding of economic concepts, issues and terminology **(15 marks)**;
- apply economics skills, knowledge and understanding about the budget deficit **(18 marks)**; and
- analyse and evaluate evidence, make reasoned judgements and present appropriate conclusions **(27 marks)**.

Examiner Only	
Marks	Remark



Rewarding Learning

General Certificate of Secondary Education
2012

Economics

Case Study

for use with

Paper 1

The UK Budget Deficit

[G9271]

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You must use **this** clean copy of the Case Study in the examination and not your own annotated copy.

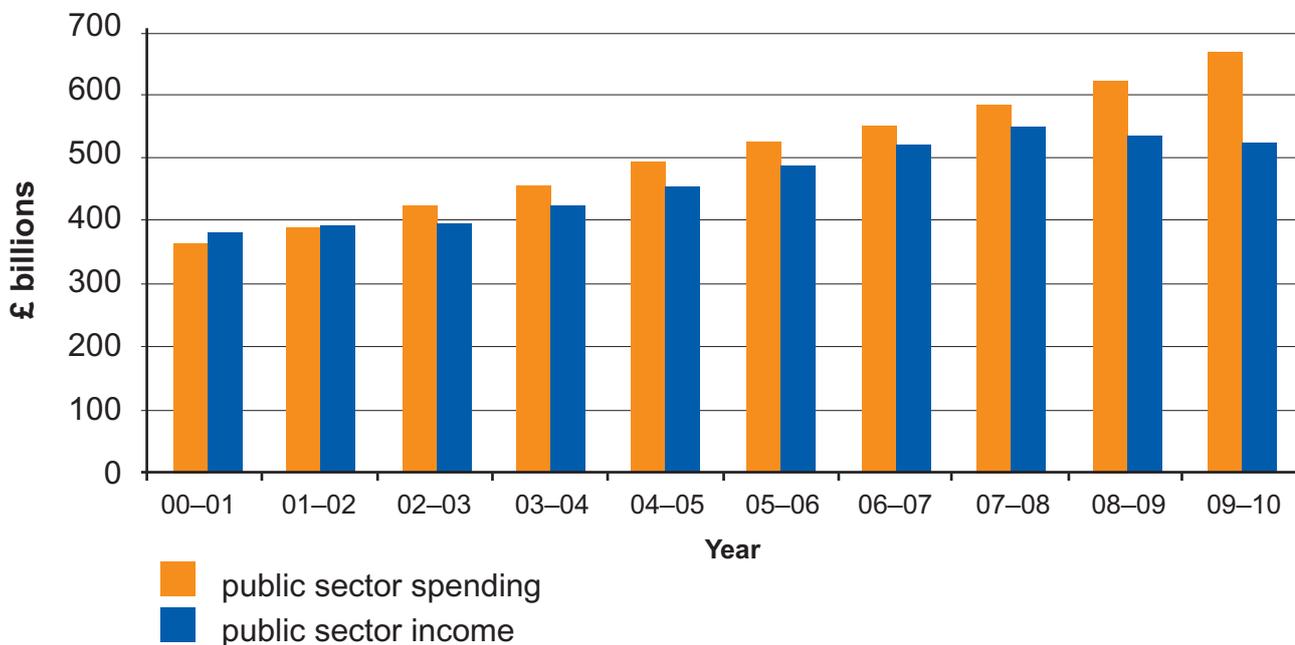
Case Study: The UK Budget Deficit

Introduction

In recent years the UK economy has developed a serious debt problem. By 2010, it was estimated that the government's annual deficit had reached £149 billion and that for every £4 spent by the government, £1 had to be borrowed. Just like any household that has debts, the government has to pay interest on the money it borrows.

In May 2010, the UK elected a new government. In June 2010, the Chancellor introduced an emergency budget. In this he announced the government's plans to reduce the budget deficit by increasing taxes and cutting public spending. It was hoped that public sector finances would improve as the economy recovered from the 2008–2009 recession and started to grow. He explained that the government had to reduce borrowing but also invest in the future growth of the economy.

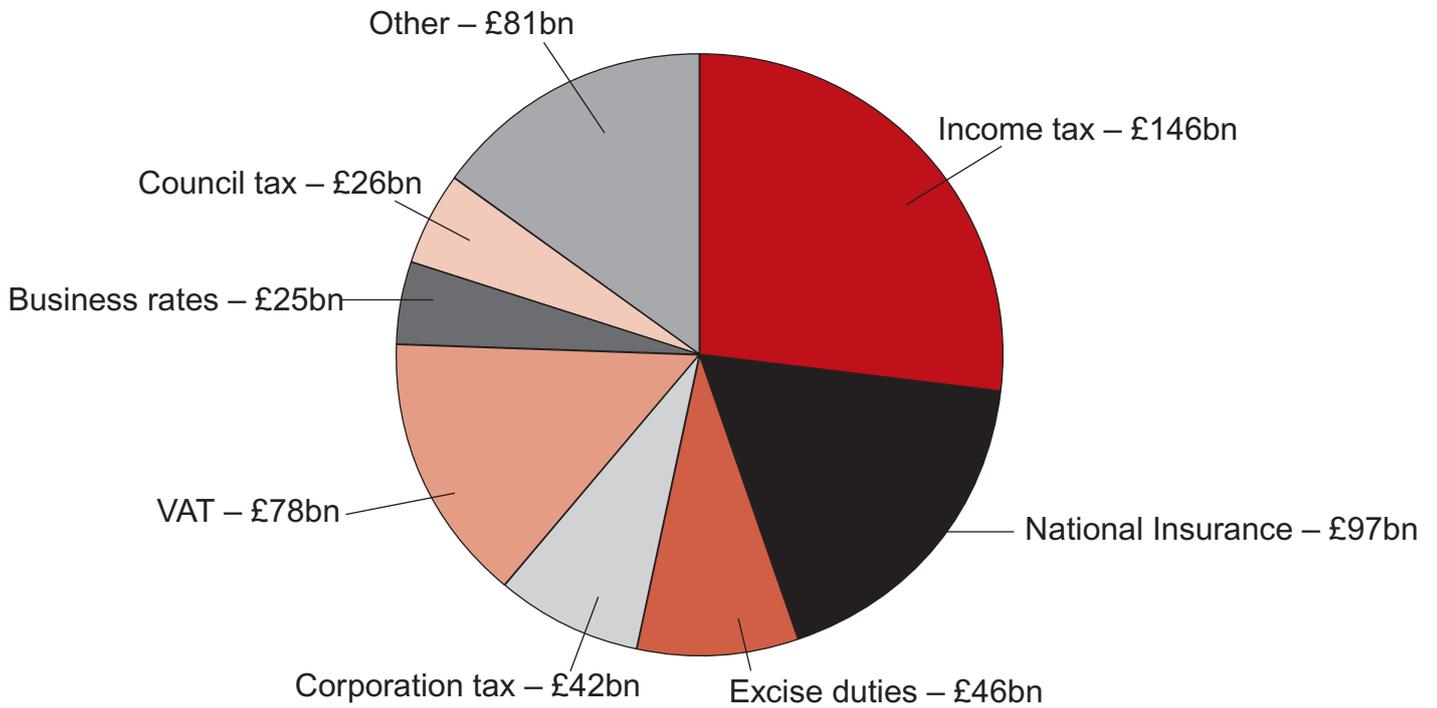
Source 1: The UK Government's spending and income since 2000



© Crown copyright – Office for National Statistics

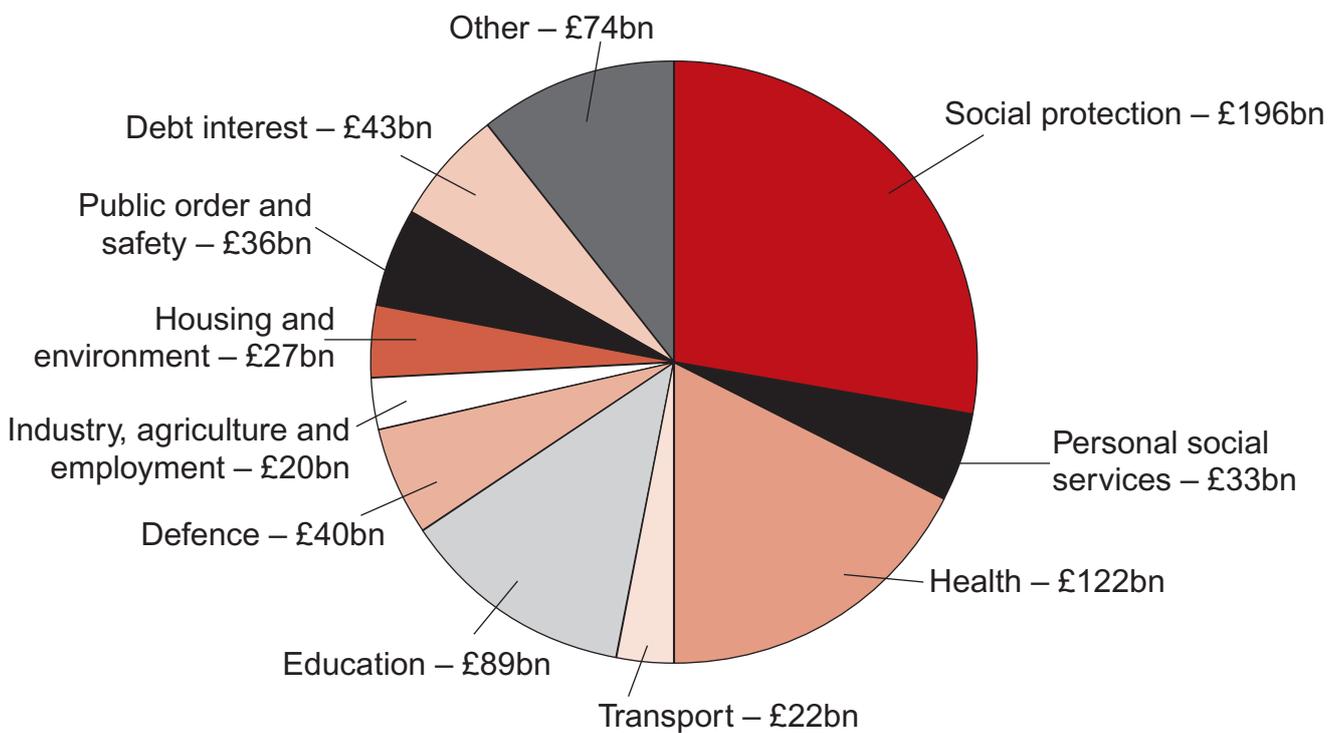
Source 2: The UK Budget 2010–2011

Total receipts: £541 billion



© Crown copyright – HM Treasury

Total expenditure: £702 billion



© Crown copyright – HM Treasury

Source 3: Changes to Taxation in 2010

In June 2010, the Chancellor announced plans to balance the budget within four years. These were designed to bring in more revenue while reducing public spending and trying to help the economy to recover from the recession.

Some of the main taxation measures are listed below.

TAXES ON SPENDING
<ul style="list-style-type: none"> • VAT rose from 17.5% to 20% on 4 January 2011 and the government expected that this would increase tax revenue by several billion pounds each year. • Tax on most insurance policies increased from 5% to 6% on 4 January 2011. • No increases in additional taxes were announced on cigarettes, alcohol and fuel. • The previous government's plan to increase tax on cider by 10% above inflation was scrapped.
TAXES ON INCOME
<ul style="list-style-type: none"> • Personal income tax allowance rose by £1,000 in April 2011 to £7,475. It was estimated that nearly one million of the lowest paid workers would not have to pay any income tax and those paying the basic rate of income tax would have £170 more disposable income each year. • The starting point for the 40% higher rate of income tax was frozen at £37,500. It was expected that more people would be pushed up into this tax band. • Earnings of over £150,000 were taxed at 50%.
BUSINESS TAXES
<ul style="list-style-type: none"> • Corporation Tax was cut to 27% in 2011 and will be cut by a further 1% each year until it reaches 24%. The rate applied to small companies' profits was reduced to 20%. • From April 2011, the threshold at which employers start to pay National Insurance rose by the rate of inflation plus £21 per week. • Capital Gains Tax Entrepreneurs' Relief was extended. • From January 2011, a new Banking Levy was expected to raise £2 billion per year.

© BBC News at bbc.co.uk/news

Source 4: Changes to Government Spending

The Chancellor described the tough measures outlined in the Budget as “unavoidable” given the state of the government’s finances. Two areas of government spending, the National Health Service and International Development, were spared cuts but most government departments were expected to make savings of 25% on average.

The Treasury also introduced changes to the way it calculated cost of living increases to benefits. Instead of using the Retail Prices Index (RPI), they switched to using the Consumer Prices Index (CPI) which nearly always shows a lower rate of inflation than RPI. From 2011, all benefits except for the State Pension and Pension Credit would rise in line with the CPI. As a result of this change, it was estimated that spending on benefits would be reduced by £5.8 billion each year until 2014–2015.

Some of the main changes to government spending are listed below.

BENEFITS AND TAX CREDITS
<ul style="list-style-type: none"> • There were reductions in tax credits for families earning over £40,000. • Universal Child Benefit was withdrawn from higher rate tax payers. • New maximum monthly limits of Housing Benefit were set for different sized properties. It was estimated that this could save £1.8 billion within four years. • The Health in Pregnancy Grant was abolished in April 2011 and single parents were expected to seek work once their youngest child started school. • From 2013, people claiming Disability Living Allowance, which costs £11 billion per year, will have to undergo a medical assessment. • The State Pension age will rise to 66 by 2020, four years earlier than planned in order to save the government £5 billion per year.

The government announced some other important changes to the way it spends public money.

- A two-year pay freeze was introduced for most public sector workers, representing a real decrease in income.
- Funding to universities was cut by 40% and they were allowed to charge higher fees. Critics expressed concerns that fewer people will progress to higher education and that this will have an adverse effect on the quality of the workforce.
- The £4.6 billion annual spend by government on scientific research would continue but real increases are not guaranteed.
- A new “green” investment bank will receive £1 billion. The purpose of this bank is to work in partnership with the private sector to stimulate investment for “green” business projects and to make the transition to a low-carbon economy.

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Source 5: Winners and Losers

Families

Changes to Child Benefit and subsidies for childcare costs will reduce the income of many families with children. The removal of Child Tax Credits for households with income of more than £40,000 will also be a loss to many middle income families. Previously families with income of £58,000 were eligible for this benefit. Couples without children have been less affected by the budget measures.

Pensioners

The charity, Age UK, is pleased that in future years the State Pension will increase in line with earnings or inflation, or by 2.5%, whichever is higher. This “triple” guaranteed increase, and the similar increase in Pension Credit for those who are eligible, was welcomed as a big help to many poor pensioners. However, this benefit will be offset by the rise in VAT that will affect pensioner households just like every other household. Other universal benefits such as winter fuel payments, free eye tests and free TV licences for the over 75s will continue.

Business

The Confederation of British Industry (CBI) has welcomed the changes to Corporation Tax and the increase in entrepreneurs’ relief from Capital Gains Tax.

Women

Women make up a large proportion of the public sector workforce and there are expected to be severe cuts in public spending that will affect jobs in caring and other key public services. Plans to change the state pension age will also mean that many women will have to work longer before they receive the State Pension.

Disabled people

The government plans to cut £2 billion from schemes that support the employment of disabled groups. In addition, with local authorities expected to lose one quarter of their budget over the next four years, disabled people and their families expect to see drastic cuts to the services and support they receive.

Adapted from © The Guardian 23 June 2010

Source 6: Threat of joint strike action over jobs, pay and pensions

Following the government's announcement that nearly half a million public sector jobs were expected to be cut, trade unions responded with plans to organise co-ordinated strike action. Those who will still have jobs will be expected to pay considerably more towards their pensions. The government has stated that the job cuts will be spread over four years and that they will be achieved mainly through natural wastage.

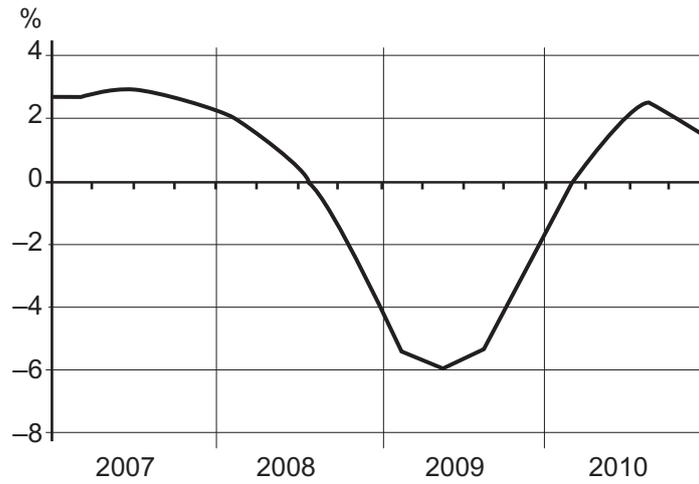
A spokesperson for the Trades Union Congress (TUC) stated that while the recession in 2008–2009 was the most severe since the 1930s, unemployment did not rise as much as was feared because the government, employers and trade unions worked together. However, this time it looked increasingly likely that unemployment would rise as a direct result of government policies. The TUC warned that the private sector would struggle to create jobs quickly enough to make up for the public sector job losses, with women and young people likely to be the most affected.

The TUC also voiced its fears that government policies would not do enough to promote economic growth. It argued that the economic situation could not be improved by market forces alone and called on the government to act urgently to support job creation, especially for young workers. In August 2010, youth unemployment increased by 14,000 and at that point, over 200,000 people aged between 18 and 24 had been unemployed for over a year.

Source: The Guardian (Polly Curtis) 21 October 2010 and TUC website <http://www.tuc.org.uk/economy/tuc-18763-f0.cfm>

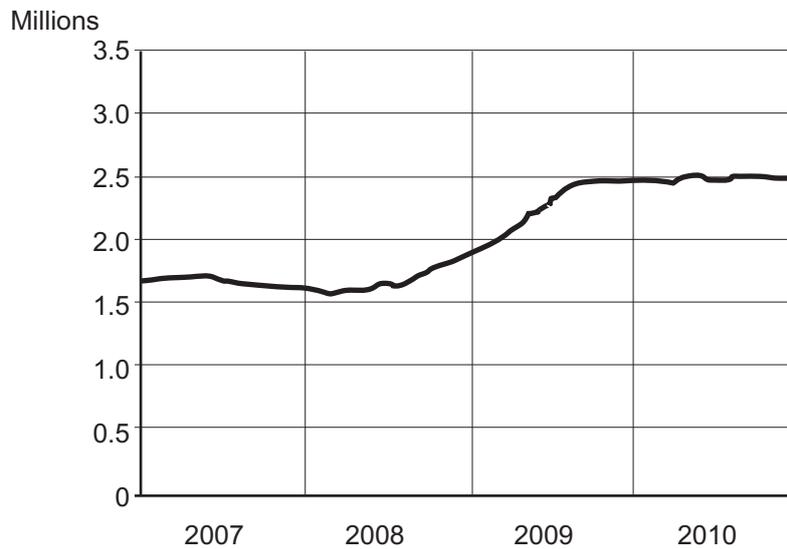
Source 7: The performance of the UK economy

GDP Growth



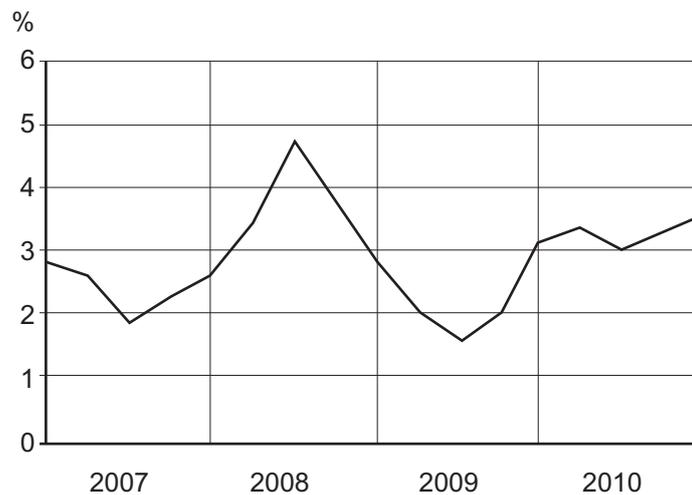
© Crown copyright – HM Treasury

Unemployment in the UK 2007–2010



© Crown copyright – HM Treasury

Rate of Inflation



Adapted from: © Bank of England Inflation Report 2011 page 45 Chart 5.13

Source 8: Doubts expressed over recovery

The Organisation for Economic Co-operation and Development (OECD) has predicted that growth in the UK will be slower than the Office for Budget Responsibility (OBR) estimate. The OECD predicted that the economy would grow by 1.7% in 2011.

Other surveys of the economy highlight that consumers are reducing their spending due to fears of job losses. After allowing for tax rises and inflation, take home pay was estimated to be falling at a rate of 3% per year. One economist expressed concerns that the government's policies were squeezing too much life out of the economy and affecting its ability to recover and pay its debts.

Source: OECD slashes UK growth forecast to 1.7% by Philip Inman in The Guardian 19 November 2010

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