EXPERT TUITION

Economics Questions By Topic:

Economic Growth (2.1.1 & 2.5)

A-Level Edexcel Theme 2

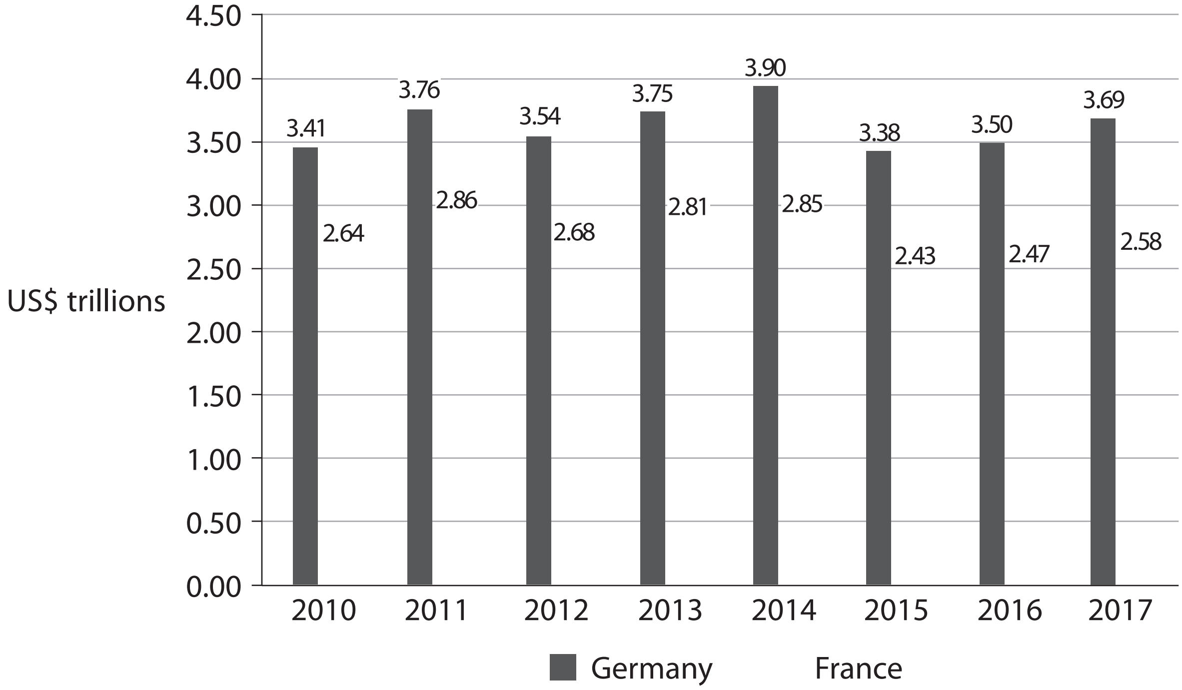
0207 060 4494
www.expert-tuition.co.uk
online.expert-tuition.co.uk
enquiries@expert-tuition.co.uk
The Foundry, 77 Fulham Palace Road, W6 8JA

Table Of Contents

SECTION A

Write your answers in the spaces provided.

1 GDP at Purchasing Power Parities, Germany and France (nominal, trillions of US dollars) 2010–2017.



(Source: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2017&locations=DE&start=1970&view=chart)

(a) From the data in the graph above, which **one** of the following may be deduced?

(1)

☒ **A** France's rate of inflation was lower than Germany's in 2017

☒ **B** Germany's GDP is smaller than France's in every year shown

☒ **C** In every year that France's GDP fell compared to the previous year, Germany's GDP did too

☒ **D** The GDP of both Germany and France fell between 2015 and 2016

(b) Calculate the percentage change in Germany's nominal GDP from 2016 to 2017.

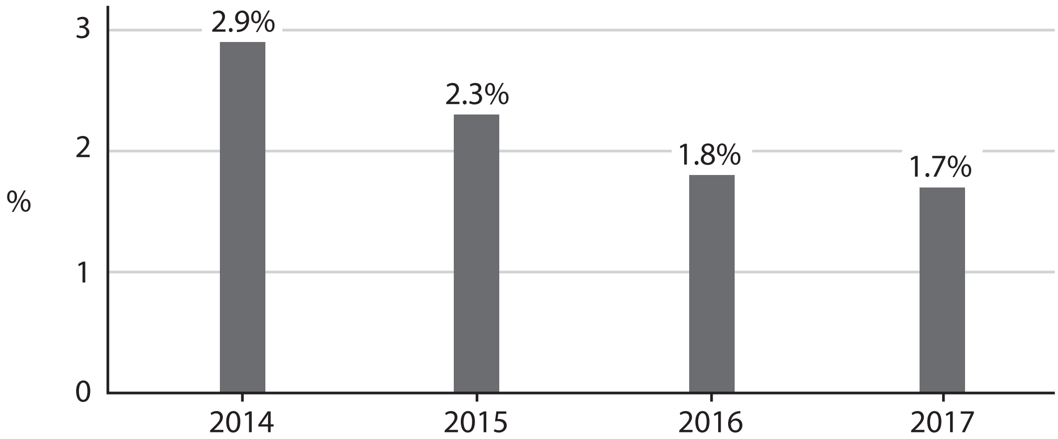
(2)

(c) Explain **one** reason why Purchasing Power Parities are used.

(2)

(Total for Question 1 = 5 marks)

2 UK real Gross Domestic Product (GDP), annual percentage change 2014–2017



(Source: https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyp/qna)

(a) Total real UK GDP in 2016 was £200 000 million. With reference to the chart above, calculate the total real UK GDP for 2017. You are advised to show your working.

(2)

....

....

....

....

....

....

(b) Explain the term 'real gross domestic product'.

(2)

....

....

....

....

....

....

(c) With reference to the chart on page 2, which **one** of the following is correct over the period shown?

(1)

☒ **A** GDP per capita was highest in 2014

☒ **B** Inflation rose in 2015

☒ **C** The UK economy grew at the fastest rate in 2014

☒ **D** The UK economy was in recession in 2015

(Total for Question 2 = 5 marks)

3 The Hong Kong-Zhuhai-Macau Bridge is the world's longest sea bridge. It reduces the journey time from Hong Kong to Zhuhai from 4 hours to just 30 minutes. It cost the equivalent of $18.8 billion and was government funded.

(Source adapted from: www.theguardian.com)

(b) Which **one** of the following would be most likely to solve a negative output gap problem in a domestic economy?

An increase in

(1)

☒ **A** government funding to the World Bank

☒ **B** government spending on foreign aid

☒ **C** government spending on public transport

☒ **D** income tax

(Total for Question 3 = 1 mark)

4 The table below shows the UK's Gross National Income (GNI) between 2014 and 2017.

Year	Gross National Income (£ million)
2014	1 806 468
2015	1 852 845
2016	1 920 116
2017	2 008 593

(Source: adapted from www.ons.gov.uk/economy/ © Crown Copyright)

(a) Define the term 'Gross National Income'.

(1)

....

....

....

....

(b) Which **one** of the following represents the ratio of Gross National Income in 2015 to Gross National Income in 2017?

(1)

☒ **A** 1 : 1.03

☒ **B** 1 : 1.05

☒ **C** 1 : 1.08

☒ **D** 1 : 1.11

(c) Using 2014 as the base year, calculate the index number for 2016. You are advised to show your working.

(2)

(Total for Question 4 = 4 marks)

5 The table below shows average UK house prices between July 2014 and July 2017.

Year	Average house prices (£)	Index numbers of average UK house prices (2014 is the base year)
2014	189 709	100
2015	200 141	
2016	215 127	
2017	226 185	119.2

(Source: adapted from http://landregistry.data.gov.uk/app/ukhpi/explore - Crown Copyright)

(a) Which **one** of the following is the most likely impact of an increase in average UK house prices on existing homeowners?

(1)

☒ **A** Greater confidence

☒ **B** Higher income

☒ **C** Lower consumption

☒ **D** Negative wealth effect

(b) Using 2014 as the base year, calculate the index number for

(2)

(i) 2015

....

....

....

....

(ii) 2016.

....

....

....

....

(c) Define the term 'index number'.

(1)

....

....

....

....

(Total for Question 5 = 4 marks)

6 The table below shows the UK Gross Domestic Product (GDP) and population, 2013 to 2015.

Year	GDP (£ millions)	Population (millions)
2013	1 739 563	64.1
2014	1 822 480	64.6
2015	1 872 714	65.1

(Source: ONS, https://www.ons.gov.uk/)

(a) Define the term 'Gross Domestic Product'.

(1)

....

....

....

(b) Calculate the UK's GDP per capita in 2015. You are advised to show your working.

(2)

....

....

....

....

....

....

....

....

(c) Which **one** of the following is the most likely effect of an increase in real GDP per capita?

(1)

☒ **A** Increase in living standards

☒ **B** Increase in unemployment

☒ **C** Lower consumer confidence

☒ **D** Lower purchasing power

(Total for Question 6 = 4 marks)

7 (a) Define the term 'recession'.

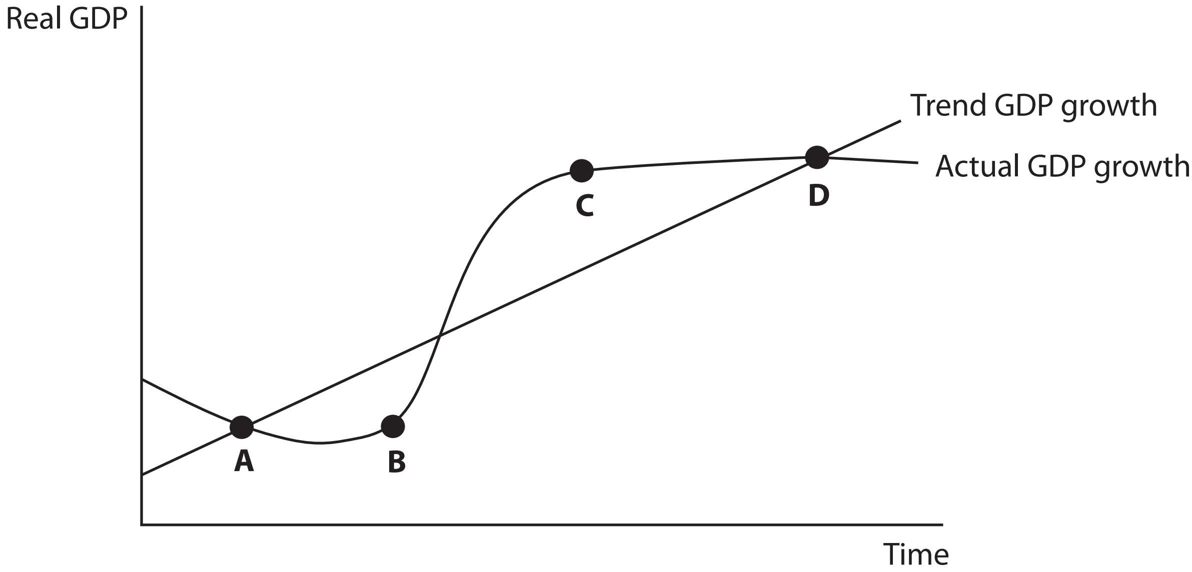
(1)

(b) Explain **one** characteristic of a recession.

(2)

(c) Which point on the trade cycle diagram illustrates a negative output gap?

(1)



☒ **A**

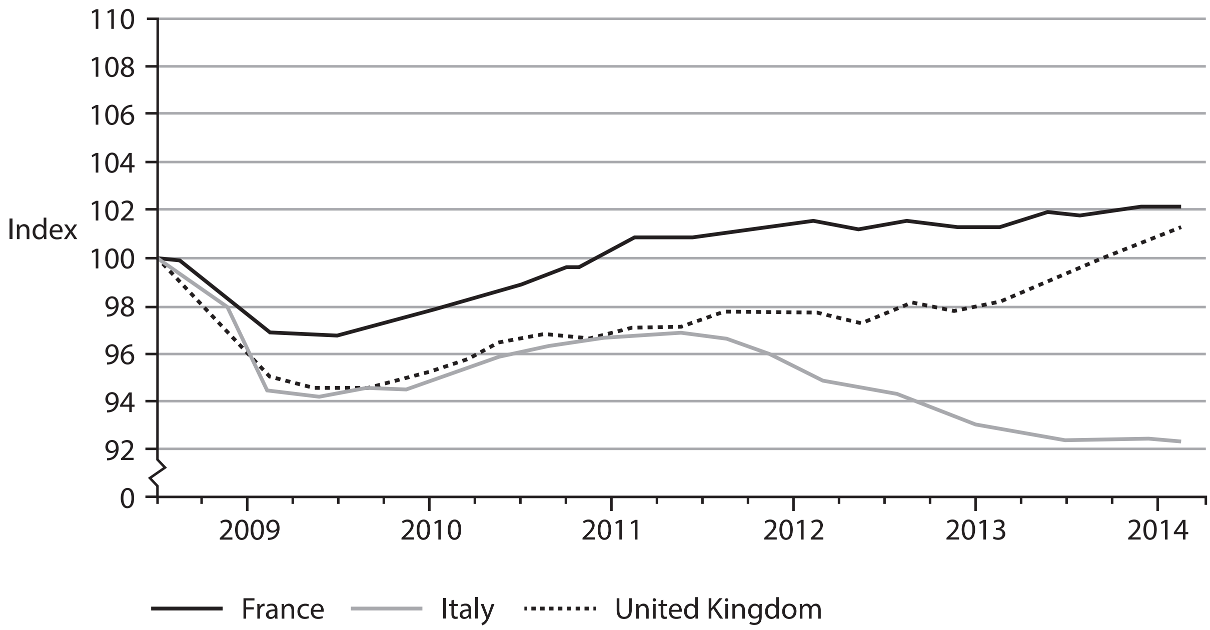
☒ **B**

☒ **C**

☒ **D**

(Total for Question 7 = 4 marks)

8 Real GDP in selected economies (the base year 2008=100)



(Source: http://www.ons.gov.uk/ons/rel/elmr/gdp-and-the-labour-market/q1-2014--may-gdp-update/sty-gdp-g7-economies.html?format=print)

(a) Which **one** of the following can be inferred from the chart?

(1)

☒ **A** The UK's real GDP is smaller in 2014 than it was in 2008

☒ **B** Between 2008 and 2014 France's real GDP growth rate was higher than Italy's

☒ **C** Between 2008 and 2014 inflation was lower in France than in the UK

☒ **D** France experienced a greater fall in real GDP than the UK in 2014

(b) Define the term 'real GDP'.

(2)

....

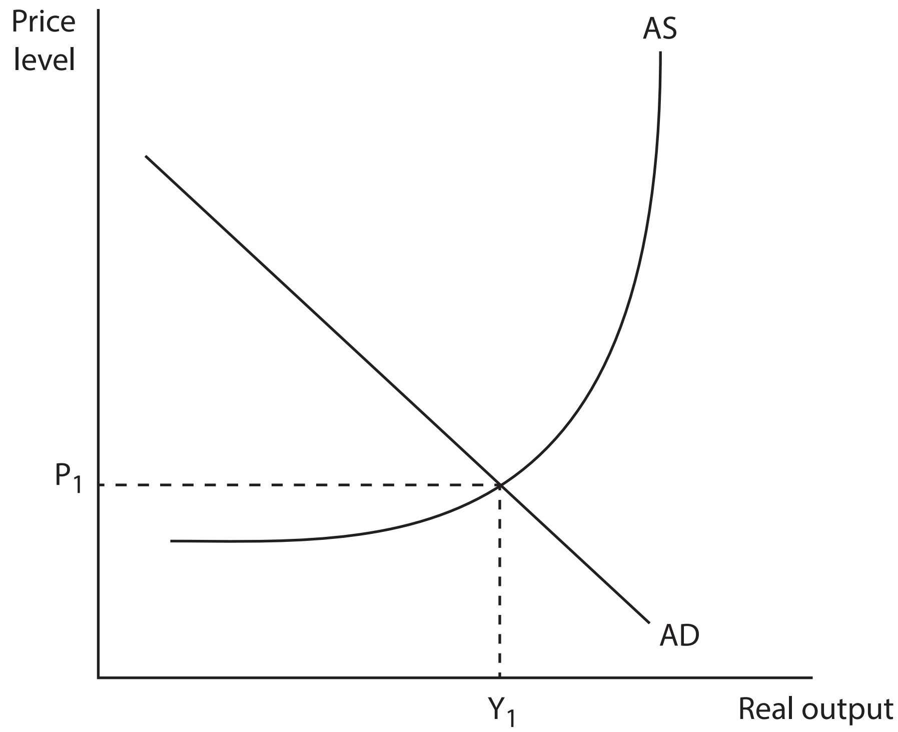
....

....

....

(c) Illustrate a negative output gap on the diagram below.

(1)



(Total for Question 8 = 4 marks)

9 The table below shows GDP per capita at purchasing power parities (PPPs) for a selection of European countries in 2013.

Country	**GDP per capita (US$, at PPPs, 2013, rounded)**
UK	38 500
Spain	33 000
Italy	35 500

(Source: http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD)

(a) Define the term 'purchasing power parities'.

(2)

....

....

....

....

(b) The Office for National Statistics estimates that the UK population was 64 million in 2013. Using the data, what was the UK's total GDP in 2013?

(1)

☒ **A** \$2 464 000 million

☒ **B** \$2 272 000 million

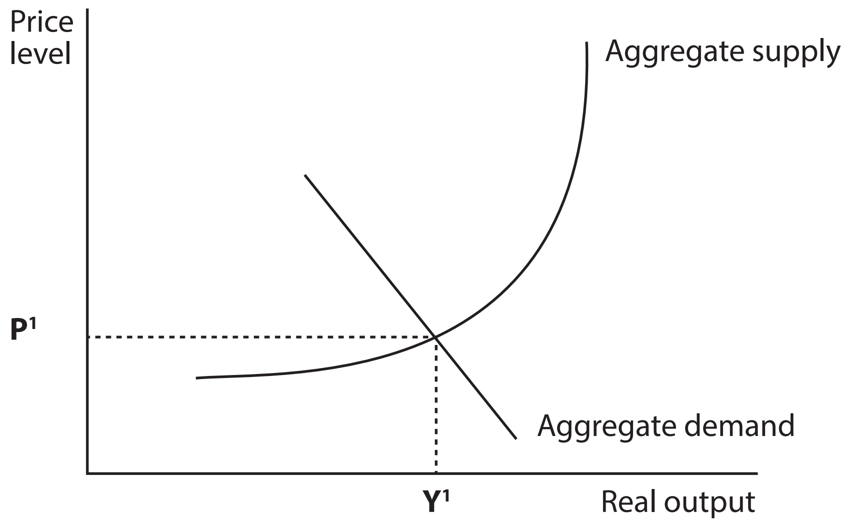
☒ **C** \$1 662 000 million

☒ **D** \$2 112 000 million

(c) Diagram A shows the aggregate demand and aggregate supply for a country. Illustrate actual economic growth on Diagram A.

(1)

Diagram A



(Total for Question 9 = 4 marks)

END OF SECTION A

SECTION B

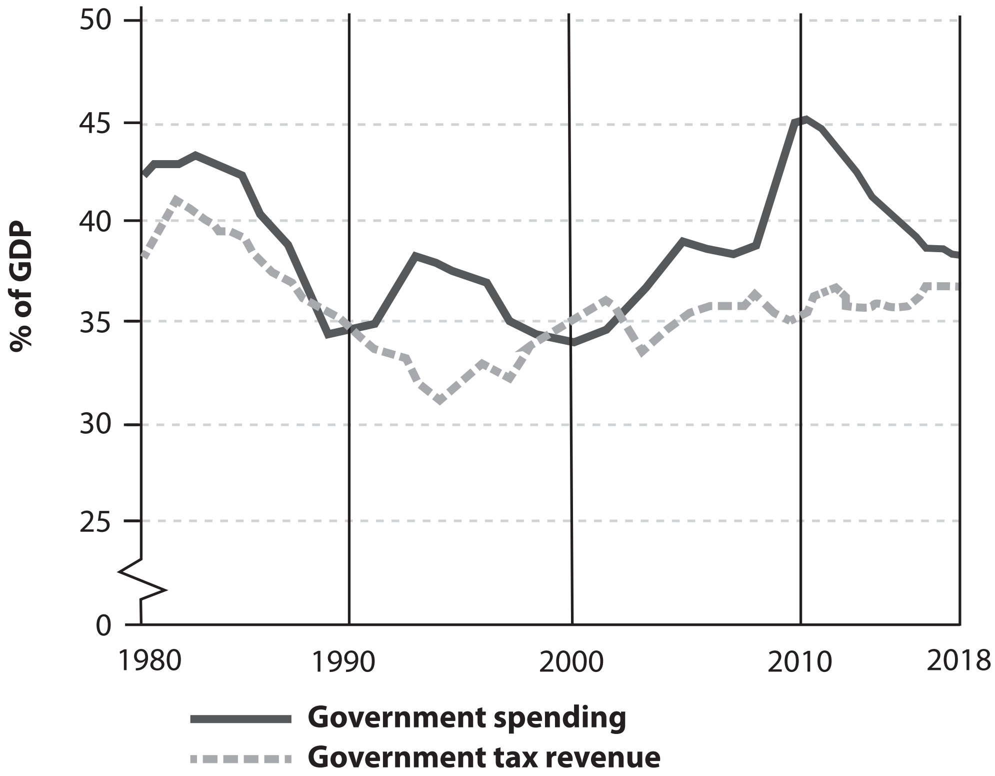
Read all extracts/figures before answering.

Write your answers in the spaces provided.

Question 10

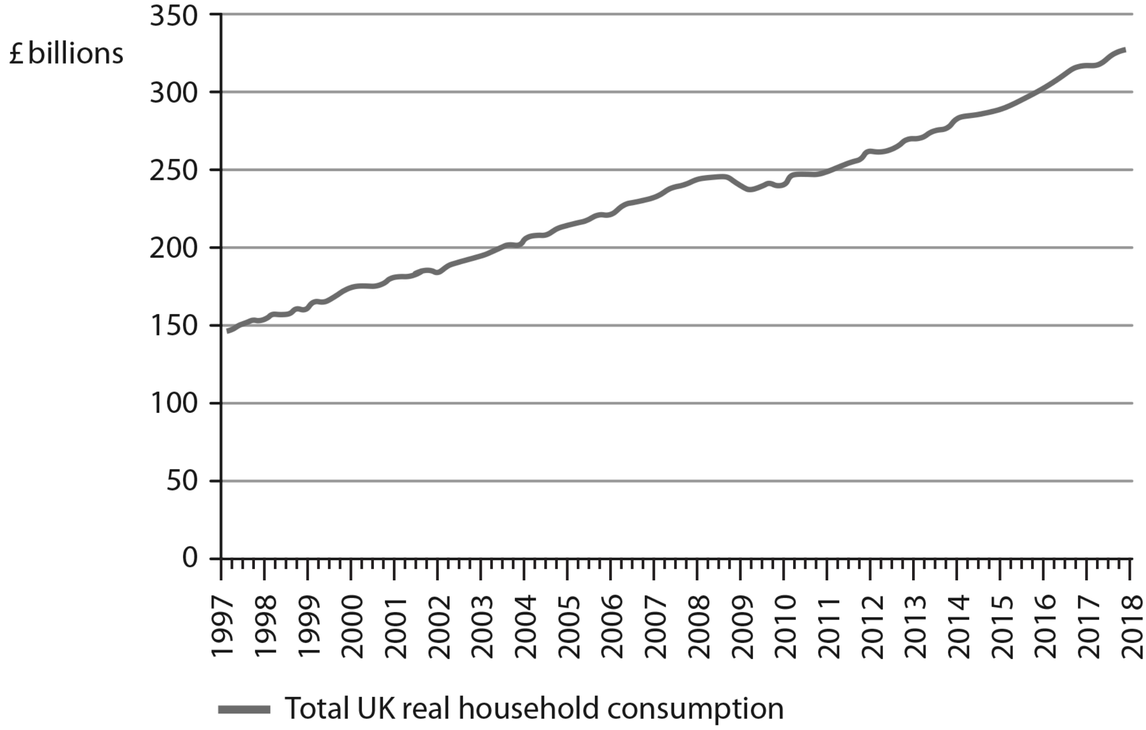
UK government budget and household consumption

Figure 1: UK government spending and tax revenue as % of GDP, 1980–2018



(Source: adapted from Office for Budget Responsibility (OBR), http://cdn.obr.uk/EFO-MaRch_2018.pdf © Crown copyright 2018)

Figure 2: UK real household consumption, quarterly, £ billions, 1997 to 2018



(Source: adapted from ONS, www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/bulletins/consumertrends/apriltojune2018)

Extract A

UK household consumption

Despite the slow growth in real household disposable incomes, consumer spending rose in 2017. Annual spending per person increased by £589, when compared with 2016. This may have reflected UK households' delay in adjusting to the increase in inflation that was associated with the fall in the exchange rate of the British pound. The increase in consumption has also been driven by low interest rates. In 2017 UK house prices increased by an average of 5.1%.

UK consumers have financed most of their spending by borrowing on credit cards in order to maintain their living standards. In 2017 borrowing on credit cards rose by 9.6%, the second-highest level since before the financial crisis. This has increased the Bank of England's concerns about the sustainability of borrowing, given the slow growth in real incomes. The Bank has also indicated that the base interest rate was likely to rise faster than previously expected. More expensive credit could therefore constrain the ability of households to spend.

(Source: adapted from 'Consumer Trends UK', ONS, https://www.ons.gov.uk/economy/ nationalaccounts/ satelliteaccounts/bulletins/consumertrends/octobertodecember2017 and © Crown copyright 2018)

Extract B

Reduction of the UK's budget deficit

Since 2010 many economists have believed that the biggest problem facing the government was the rising budget deficit. In late 2017, the UK's Chancellor of the Exchequer announced that the government would continue with its plans to decrease its budget deficit. To address this issue, the government further reduced welfare payments and introduced extra spending cuts in the public sector.

The UK government had estimated that the fall in UK productivity since the financial crisis was only temporary. However, it has now accepted that this fall in the level of productivity is a long-term issue. Subsequently, the UK's forecast long-term trend rate of growth was reduced. Slower growth means lower tax receipts, higher spending and a bigger budget deficit.

Some economists have suggested that the government should not pursue additional reductions in the budget deficit. They have also claimed that the responsibility of the government is not to balance the budget but to balance the economy by moving it to full employment.

(Source: adapted from 'Philip Hammond must ditch deficit reduction and invest. But will he?', The Guardian, https:// www.theguardian.com/politics/2017/nov/19/philip-hammond-must-ditch-deficit-reduction-and-invest-but-will-he')

10 Discuss the factors that might explain why 'the UK's forecast long-term trend rate of growth was reduced' (Extract B lines 9–10).

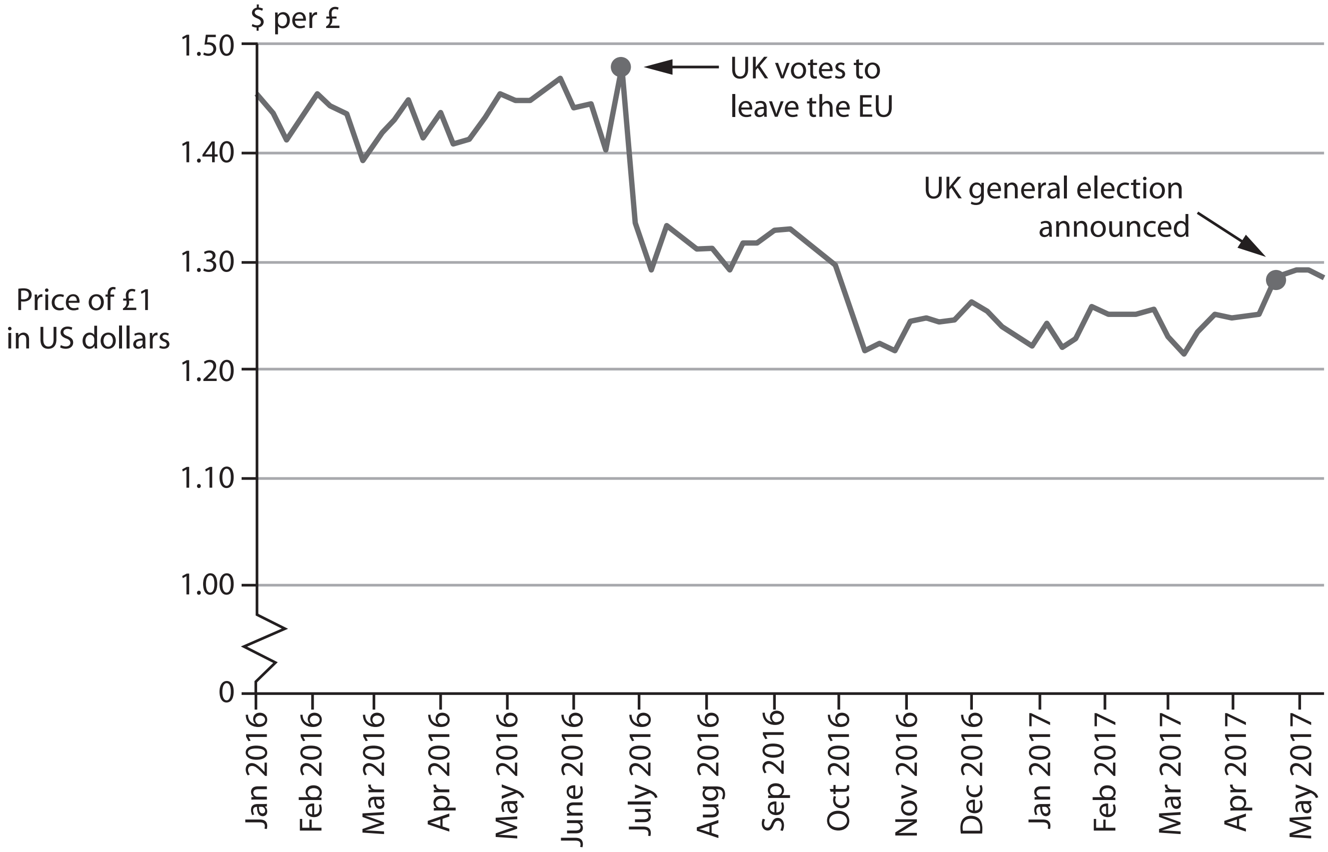
(15)

(Total for Question 10 = 15 marks)

Question 11

The UK economy since the financial crisis

Figure 1: Pound sterling to US$ exchange rate, 2016-17



(Source: adapted from https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec)

Extract A

UK companies use forward currency market

The Norfolk-based picture frames maker Nielsen Bainbridge recently made forward contracts in the foreign exchange market to reduce the impact of currency fluctuations. The pound's post-Brexit referendum depreciation has been a test of nerve for Nielsen Bainbridge and many other importers. At present the company's suppliers are located in Europe or China. "Currency therefore has a big impact on our business and the margins we can obtain," says Ms Burdett, the Finance Director. Forward contracts enable institutions, businesses and individuals to lock in an exchange rate over a certain period of time regardless of how the rate moves during that time. Ms Burdett buys currency as soon as Nielsen Bainbridge confirms a large order as a way to fix costs. One third of UK business managers are considering shifting from EU to UK suppliers.

(Source: adapted from 'UK companies use pound strength to hedge forex risk' by Roger Blitz, Markets, © FT.com, 16 May 2017. https://www.ft.com/content/d50ce580-3968-11e7-ac89-b01cc67cfeec)

Extract B

Bank of England seeking to prevent future bank bailouts

The Bank of England has ordered big lenders in the UK to find £116 billion of funding to ensure that taxpayers will never again have to bail out the banking sector. The Bank intends to publish details of how each of the big lenders would cope in the event they find themselves in a situation similar to Royal Bank of Scotland and Lloyds Banking Group, which needed £65 billion of taxpayer bailouts during the 2008 Global Financial Crisis. This had a significant negative impact on the UK government's national debt and, many would argue, increased the need for contractionary fiscal policy. Having said that, the UK government sold all its shares in Lloyds Banking Group in 2017 and, according to the Chancellor of the Exchequer, "recovered every penny of its investment in Lloyds".

Sir Jon Cunliffe, the deputy governor at the Bank responsible for financial stability, said regulators needed to let banks fail in a similar way that traditional companies collapse. This has not been possible in the past because of the risk that savers lose their money and because a system did not exist to allow banks to be put into insolvency.

"Just like when other businesses fail, losses arising from bank failure would be imposed on shareholders and investors. This protects the public from loss and incentivises banks to operate more prudently," said Cunliffe.

(Source: adapted from 'Bank of England tells lenders to find £116bn to help prevent bailouts', by Jill Treanor, 02 October 2017, Copyright The Guardian News and Media Ltd https://www.theguardian.com/business/2017/oct/02/bank-of-england-bailouts-rbs-lloyds and 'Lloyds bank bailout repaid in full, Philip Hammond claims', by Jill Treanor, Larry Elliott, 21 April 2017, Copyright Guardian News & Media Ltd 2017 https://www.theguardian.com/business/2017/apr/21/lloyds-bank-bailout-repaid-in-full-philip-hammond-claims)

Extract C

Bank of England tells lenders to increase capital reserves

The Bank of England has told lenders they will need to build a special reserve worth £11.4 billion by the end of 2018 as it tries to make banks more resilient to the risk posed by mounting consumer debt. This reserve of assets that can be readily turned into cash is a way of forcing banks to set aside capital reserves in good times in order to keep lending to the wider economy at a steady level, even during an economic downturn. In 2017 the Bank of England told UK banks it would raise the reserve ratio, relative to all assets, from zero to 0.5% and also forecast a further increase to 1% by the end of 2017.

The move is not intended to directly reduce consumer demand for credit, which in 2017 grew by 10.3% on an annual basis, but it may well lead to banks becoming less willing to lend to consumers. Since the Bank of England has recently become increasingly concerned about consumer borrowing, including rising car loans and credit card debt, this may be no bad thing as far as the Bank of England is concerned, even if it does have a negative impact on the wider economy.

Analysts are concerned about the impact on consumer confidence of rising inflation, partly caused by a falling pound. With falling real incomes consumers could become more vulnerable to falling behind with their credit card and personal loan repayments. Despite these concerns the UK economy recently recorded the lowest rate of unemployment since 1975.

(Source: adapted from 'Bank of England tells lenders to increase capital buffers by £11.4bn' by Caroline Binham, Gemma Tetlow and Martin Arnold © Financial Times 2017 https://www.ft.com/content/9bc99294-5b1b-11e7-9bc8-8055f264aa8b)

11 With reference to the last paragraph in Extract C, assess the impact of a fall in real incomes on subjective happiness.

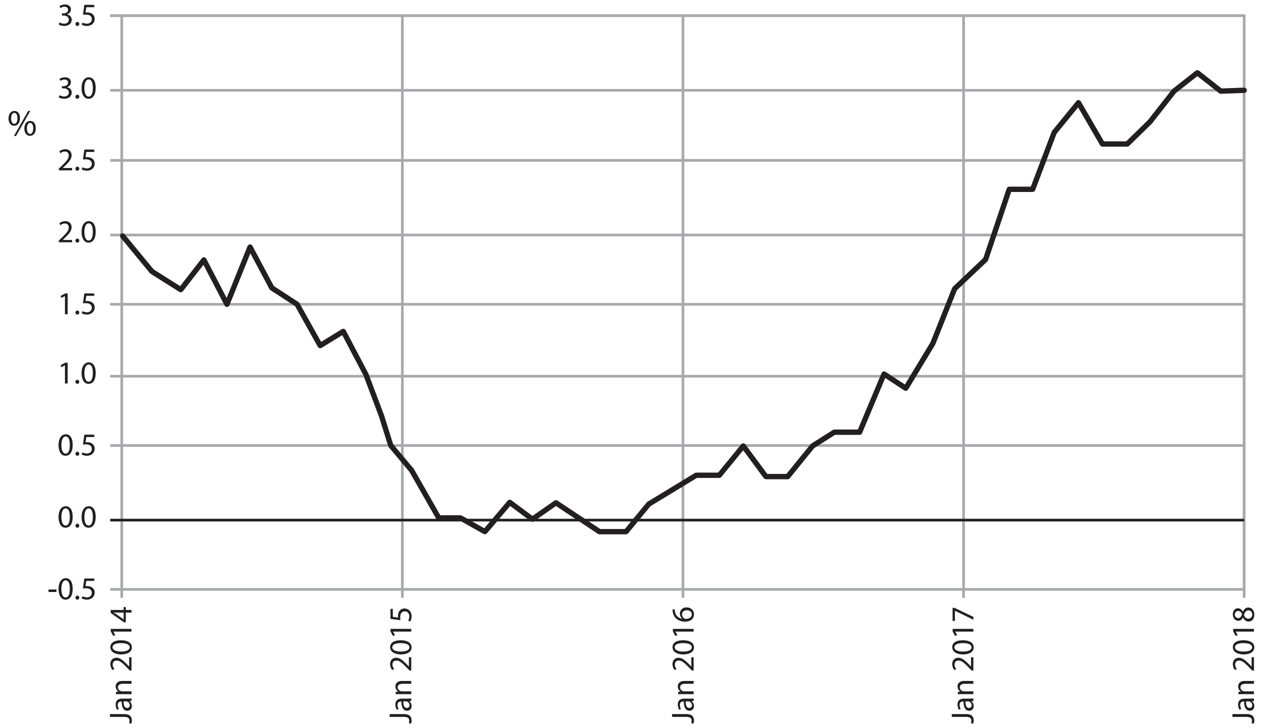
(10)

(Total for Question 11 = 10 marks)

Question 12

UK inflation and economic growth

Figure 1: UK inflation rate as measured by annual percentage changes in the Consumer Price Index (CPI), January 2014 to January 2018



(Source: www.bankofengland.co.uk/publications/Pages/inflationreport/2017/aug.aspx)

Figure 2: Selected changes to the CPI basket of goods and services, 2017

IN	OUT
Non-dairy milk	Apple cider
Jigsaw puzzles	Menthol cigarettes
Child scooters	Child swings
Cycling helmets	Basic mobile phones

(Source: www.theguardian.com/business/2017/mar/14/uk-inflation-ons-basket-goods-gin-cycling-helmets)

Figure 3: UK exports, £ billions per month, January 2014 to January 2018

(Source: Trading Economics, ONS - https://tradingeconomics.com/united-kingdom/exports)

Figure 4: Annual percentage change in real Gross Domestic Product (GDP), 2014-2017

	2014	2015	2016	2017
United Kingdom	3.1	2.2	1.8	2.0
Developing countries (average)	4.7	4.2	4.1	4.5

(Source: IMF, World Economic Outlook 2017)

Extract A

Rising inflation

After January 2017, the inflation rate, as measured by the Consumer Price Index (CPI), in the UK has exceeded the Bank of England's 2% target. Sharp increases in food prices as a result of the fall in the exchange rate of the pound have contributed to rising inflation. Between January and September 2017, food prices have increased by 3.5 percentage points.

The Office for National Statistics (ONS) has identified that the rapid increase in food prices affected people on low fixed incomes the most. It leaves them with very little money to spend on relatively more expensive items. Moreover, the Bank of England has observed a rise in the size of personal debt relative to income. In order to maintain their standard of living, many consumers on low fixed incomes are using their credit cards and taking out short-term loans to fund their spending.

Inflation rose to over 3% at the end of 2017 leading to the Monetary Policy Committee increasing the base rate of interest by 0.25 percentage points to 0.5% in November 2017. Wage growth has been lagging behind price rises and this is expected to continue. Basic wage increases are expected to be only around 1%. This has heaped considerable pressure on households.

The ONS has updated the shopping basket that is used in the measurement of UK inflation, to reflect the lifestyle of households in the country. Technological advancements, changes in consumer tastes and a move towards health, fitness and gluten-free products have made it essential to revise the 2017 basket.

(Source: adapted from 'UK inflation tipped to rise again with wages forecast to stagnate', The Guardian, https://www.theguardian.com/business/2017/aug/13/uk-inflation-tipped-to-rise-again-with-wages-forecast-to-stagnate#img-1)

Extract B

Economic growth and living standards

Economic growth is expected to accelerate again as foreign demand for UK exports increases due to the global economic recovery. According to some economists, consumer spending is no longer the engine of growth for the UK. The increase in exports, which is largely due to the fall in the exchange rate of the pound, is expected to be the most significant driver of the UK's economic growth.

Some economists have proposed that the quality of economic growth needs to be measured and not just the quantity. This will allow governments to understand how GDP growth affects the living standards of its citizens. They want governments to publish data on the quality of life alongside GDP data as economic growth varies across the country with jobs and wages distributed unevenly. Economic growth figures also hide differences that are not considered in GDP calculations. In 2017, it was estimated that the relative size of the informal economy of developing countries was nearly five times greater than that of the UK.

(Source: adapted from 'Growth to accelerate as UK economy bounces back', The Telegraph, http://www.telegraph.co.uk /business/2017/08/01/growth-accelerate-uk-economy-bounces-back/; 'GDP is not enough: economists and businesses demand new measure of inclusive growth', The Telegraph, http://www.telegraph.co.uk/business/2017/03/07/gdp-not-enough-economists-businesses-demand-new-measure-inclusive/)

12 With reference to Figure 4, Extract B and your own knowledge, discuss the limitations of using GDP data to compare living standards between the UK and developing countries.

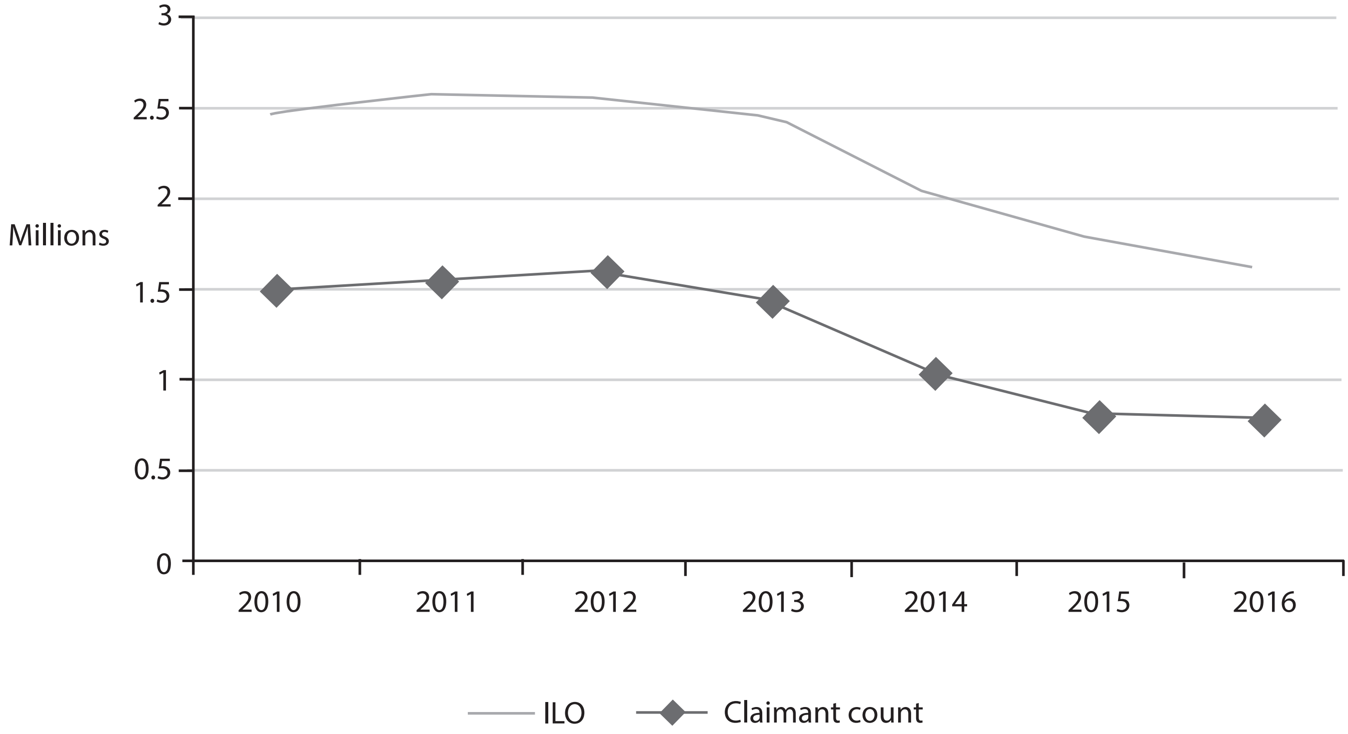
(15)

(Total for Question 12 = 15 marks)

Question 13

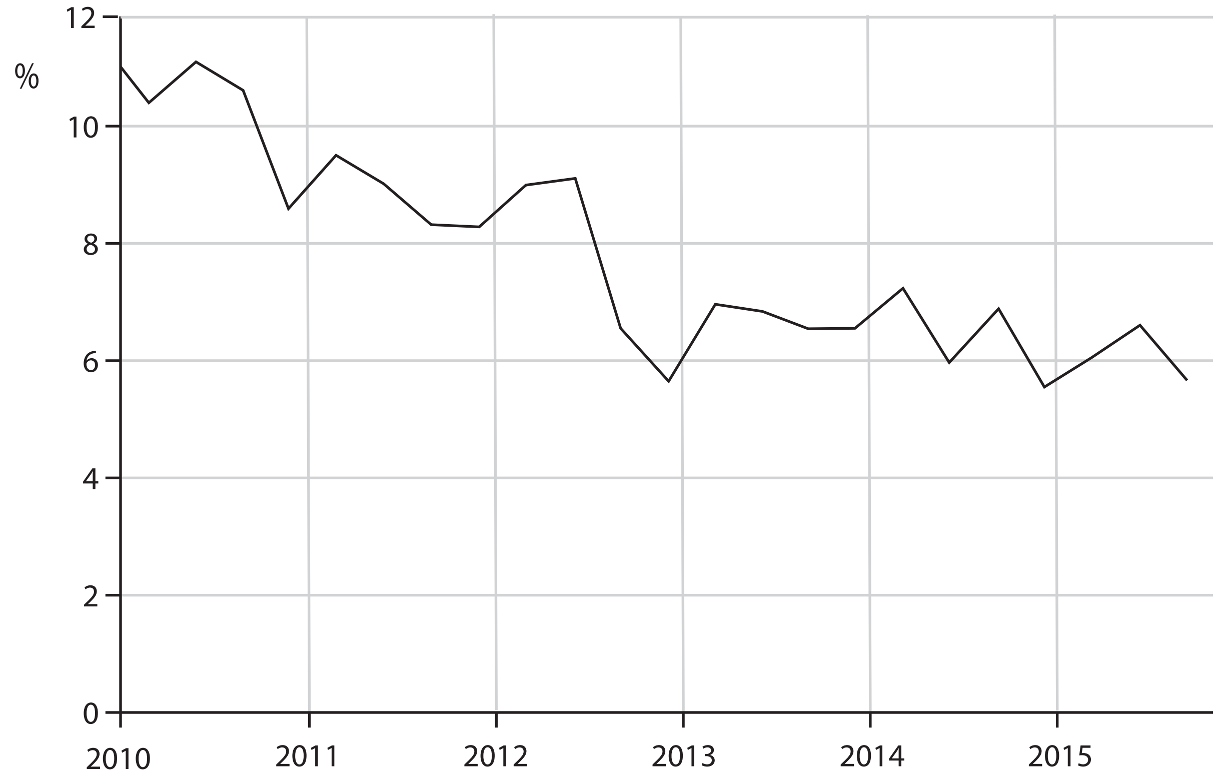
The UK economy

Figure 1: Unemployment – International Labour Organisation (ILO) and the claimant count, millions, 2010-2016



(Source: ONS Datasets, https://www.ons.gov.uk/)

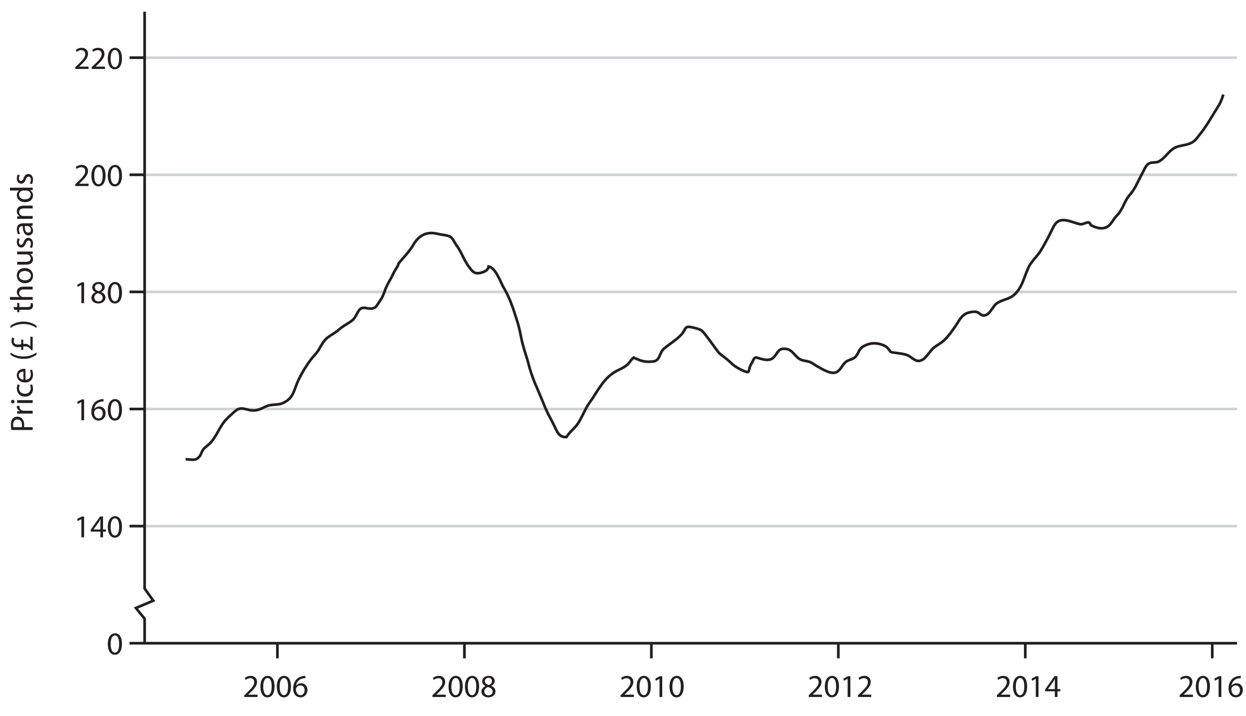
Figure 2: Household savings*, 2010-2015



* Savings as a percentage of household disposable income

(Source: http://www.tradingeconomics.com/united-kingdom/personal-savings)

Figure 3: UK average house prices, 2005–2016



(Source: http://www.telegraph.co.uk/property/house-prices/the-state-of-the-uk-housing-market-in-five-charts/)

Extract A

Soaring house prices

House prices are still rising rapidly. The average UK house price was £214 000 in June 2016, according to the Office for National Statistics (ONS). This is £24 000 more than it was at its peak in September 2007, just before the economic downturn. First-time buyers have experienced the largest rise in house prices.

Even the loss of consumer confidence over Britain's vote to leave the EU did not stop house prices from rising – annual growth increased from 5.2% in July 2016 to 5.6% in August 2016. House price growth was the strongest in London, with annual average prices rising by 9.6%. However, in Wales average house prices actually fell by 0.5% during the same period. In its first post-Brexit referendum forecast, estate agency Countrywide said that house prices will fall by 1% across the UK in 2017, before rising by 2% in 2018.

Real household income in the UK fell by 10.4% in the years following the financial crisis. This increased the difference between real income and house prices. In 1997, a house cost little more than twice the average income. By early 2015, the average price of a house was five times the average annual income.

The rate of home ownership for 25 to 34-year-olds has fallen to 35.8% over the last twenty-five years as houses became less affordable. First-time buyers have to wait longer to save up for a house deposit. Conversely, home ownership has risen to 78.6% among those aged 65 to 74.

(Source: adapted from 'The state of the UK housing market in five charts', The Telegraph, http://www.telegraph.co.uk/property/house-prices/the-state-of-the-uk-housing-market-in-five-charts/; 'UK house price growth slows as demand cools after Brexit vote', The Guardian, https://www.theguardian.com/business/2016/sep/30/uk-house-price-growth-slows-demand-cools-brexit-vote-nationwide)

Extract B

UK migration trends in the year ending June 2016

Inward migration levels are among the highest ever recorded with an estimated 650 000 people moving to the UK. This is an increase of around 11 000 from the previous year.

Employment remains the most common reason for long-term migration (312 000) to the UK, with around 182 000 of these coming with a definite job and 130 000 looking for work.

Long-term migration to the UK for study was estimated to be 163 000. In addition, 80 000 long-term migrants arrived in the UK to accompany their families. There were 41 280 refugees applying for asylum, including dependants, of which 10 547 people were granted asylum. Asylum applicants cannot usually accept offers of employment while their case is being processed.

(Source: adapted from 'Migration Statistics Quarterly Report: December 2016', ONS, https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/dec2016)

13 With reference to Extract A, assess the likely macroeconomic effects of an increase in house prices. Use an aggregate demand and aggregate supply diagram in your answer.

(10)

(Total for Question 13 = 10 marks)

Question 14

UK economic recovery

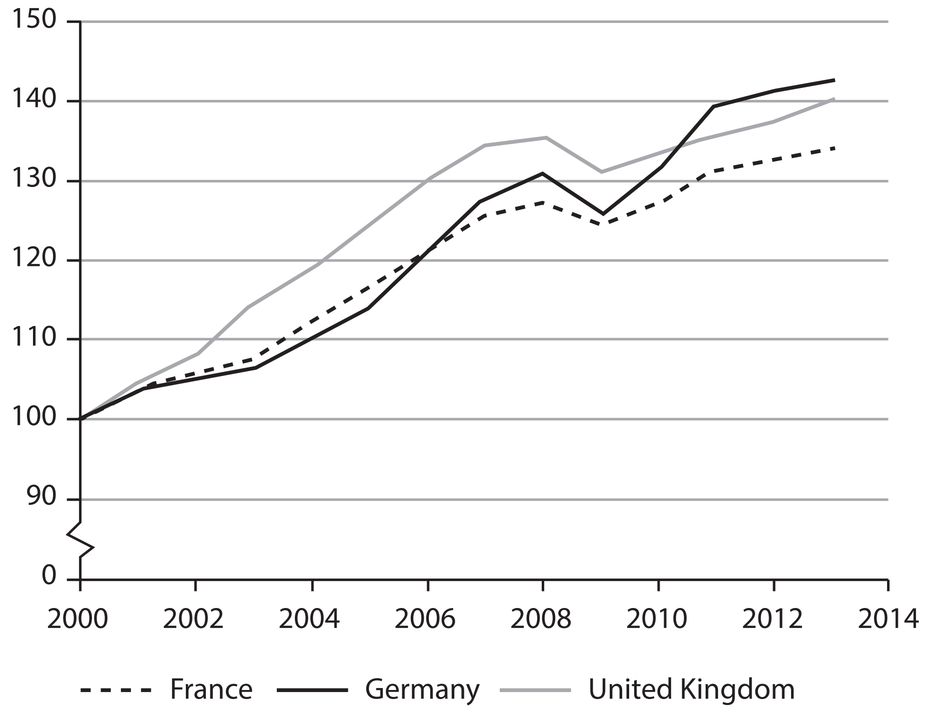
Figure 1: Components of aggregate demand in selected countries 2014

Country	Consumption	Investment	Government spending	Exports - Imports
UK	66%	14%	21%	–2%
Germany	57%	17%	19%	6%
France	57%	20%	25%	–2%
China	34%	49%	14%	3%

NB: Figures may not add up to 100% due to rounding calculations.

(Source: World Bank 2014)

Figure 2: Nominal GDP per capita at Purchasing Power Parities (PPPs) (the base year 2000=100)



(Source: https://www.imf.org)

Extract A

The UK economy – a strange recovery

At the Autumn Statement in November 2015, the Chancellor of the Exchequer had good reason to cheer his economic record. The UK economy appeared to have returned towards its long-term trend in the rate of economic growth.

GDP growth has remained strong, with output rising at the highest rate in the G7 group of seven major industrialised countries. Unemployment continued to drop and business investment grew by 5%.

However, a number of concerns remain, particularly in relation to the UK's current account deficit, which reached a record high of 6% of GDP in the third quarter of 2014. This was primarily a result of a sharp decline in the rate of return on UK investments overseas. Low export growth meant that the UK's trade deficit persisted.

In 2012, the Chancellor had announced a target for the UK to export £1 trillion of goods and services by 2020, which would require an annual growth rate of 8%. However, the annual growth in UK exports had reached just 2.7%. The Office for Budget Responsibility (OBR) forecast that UK exports will only reach £630 billion by 2020 – a third lower than the government's target.

Exports in services continued to grow in 2015, but the UK's goods industries were struggling. It was particularly concerning that data showed output in the UK's construction and manufacturing industries falling. Indeed, the output of the manufacturing sector remained 6.3% below its pre-recession peak.

Households, meanwhile, are set to become even more indebted over the coming years. It is projected that the household gross debt to income ratio will rise by 26 percentage points between 2015 to 2020, returning to levels last seen before the Global Financial Crisis. The economy did not appear to be rebalancing away from consumer driven growth towards export-led growth, making another recession almost inevitable.

Fundamental to this problem is the UK's low productivity, which in 2015 remains around 20 percentage points below the average for the rest of the G7. It is vital that the government tackles this problem, particularly in the sectors that are currently facing difficulties. This will require relaxing the planning system to promote more house-building, the removal of burdens on UK manufacturers such as carbon taxes, finally getting shale gas exploration going, and reforming apprenticeships to rapidly improve skills in construction, manufacturing and technology.

(Source: adapted from http://www.cityam.com/229481/chancellor-beware-uk-not-out-woods-yet, 25 November 2015 by Daniel Mahoney)

(a) With reference to Figure 2 and Extract A, explain **two** likely reasons why the growth of the UK's nominal GDP per capita at PPPs was slower than that of Germany after 2010.

(6)

(b) Evaluate the benefits of economic growth to the UK given that 'a number of concerns remain' in the UK economy (Extract A, line 7).

(20)

(c) Evaluate the view that another recession is 'inevitable' in the UK (Extract A, line 24).

(20)

(Total for Question 14 = 46 marks)

15 The East African Community (EAC)

	Burundi	Kenya	Rwanda	Tanzania	Uganda
GDP (US$ bn)	2.47	37.23	7.10	28.25	19.80
Population (mn)	16.14	62.78	18.21	58.43	48.89
GDP per capita (US$)	....	....	390	483.48	405
GDP per capita PPP (US$)	483	1 517	1 167	1 380	1 165
HDI	0.355	0.519	0.434	0.476	0.456
IHDI	no data	0.344	0.287	0.346	0.303

(Sources: www.tradingeconomics.com, United Nations)

Figure 1

Economic indicators for the five EAC member countries, 2012

Extract A

Burundi's economic growth

Burundi has maintained a stable macroeconomic environment and over recent years improved its performance in health, education and gender equality. However, in spite of this recent progress, Burundi's economic growth has been modest compared to neighbouring countries in the EAC.

Burundi is a small, land-locked country and is one of the most aid-dependent countries in the world. The country is vulnerable to external shocks, such as volatile food and energy prices, declining aid flows, and the adverse impact of climate change.

These factors are made worse by the high proportion of current expenditure in the government budget, and a high level of tax exemptions – counting for as much as 3% of GDP.

Coffee and tea make up almost 70% of Burundi's total export earnings. This lack of export diversity makes it difficult to widen the tax revenue base and finance public investments.

(Source: adapted from 'Burundi: more fiscal resilience will improve government effectiveness', All Africa, 19 December 2013, http://allafrica.com/stories/201312190925.html)

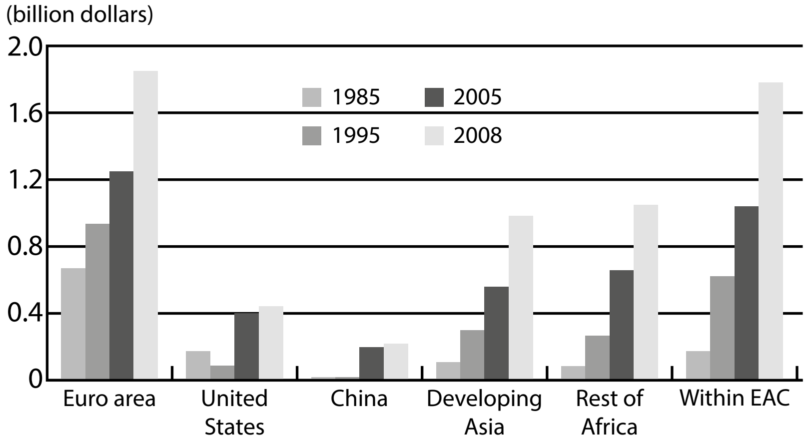


Figure 2

Value of EAC exports 1985–2008 (US$ billions)

Extract B

Trade in East Africa

The EAC was established as a free trade area in 2000 by Kenya, Tanzania and Uganda, with Burundi and Rwanda joining in 2007. Its objectives are the promotion of free trade and the free movement of capital and labour among its members. In 2013, an agreement was signed outlining plans for launching a monetary union by 2024.

Between 2000 and 2011, lower tariffs within the EAC boosted regional trade, offering the five member countries a route to faster growth. During 2000–10, intra-regional exports increased from US$700 million to US$2 billion. Rwanda's exports have grown the most during this period, from US$1.6 million to US$156 million, but are still a fraction of those of Kenya, the region's largest economy. Kenya's exports to the other EAC members were about US$1.2 billion in 2010. In contrast, export growth in Burundi – the poorest member – has remained constant and imports have declined, mainly because of civil war and inferior infrastructure, such as airports, roads, and docks.

(Source: adapted from 'Trade in East Africa', Finance & Development, IMF, December 2011, Vol. 48, No. 4, http://www.imf.org/external/pubs/ft/fandd/2011/12/data.htm)

Extract C

The costs and benefits of monetary union

There are major costs and benefits of a monetary union between EAC members. One of the issues is the different degrees of economic openness of their economies. The level of economic openness is measured by trade as a percentage of GDP. Kenya is the most open economy in the region (60.6%), followed by Tanzania (49.5%), Uganda (41.3%), Rwanda (35.4%) and Burundi (28.8%). However, economic openness has been increasing in all countries except Burundi where the situation deteriorated between 2006 and 2010.These differences in the degree of trade openness indicate that EAC countries may face asymmetric shocks, a situation which does not support the EAC monetary union in the current situation. However, if the observed trends continue, the increase in economic openness will contribute to building a solid foundation for the success of the EAC common currency, which would help to reduce the transaction costs for trade and investment between EAC members.

However, according to the EAC Trade Report, gross intra-EAC trade was only 3.1% of their GDP in 2010. In the EU, by contrast, the value of intra trade was 26% of GDP in 1998 in the area that would adopt the euro; by 2007 this had increased to 33%. Thus trade integration in the EU was much deeper than in the EAC. The benefits, in the form of reduced transaction costs, derived from a common currency were small in the European Monetary Union, and will thus be even smaller in the EAC monetary union.

(Source: adapted from 'Towards a common currency in the East African Community (EAC): issues, challenges and prospects', UNECA, 2012, http://www.uneca.org/sites/default/files/publications/towards_a_common_currency_in_the_eac-2012.pdf)

15 (a) With reference to Figure 1, calculate the ratio of Burundi's GDP per capita to Kenya's GDP per capita in 2012.

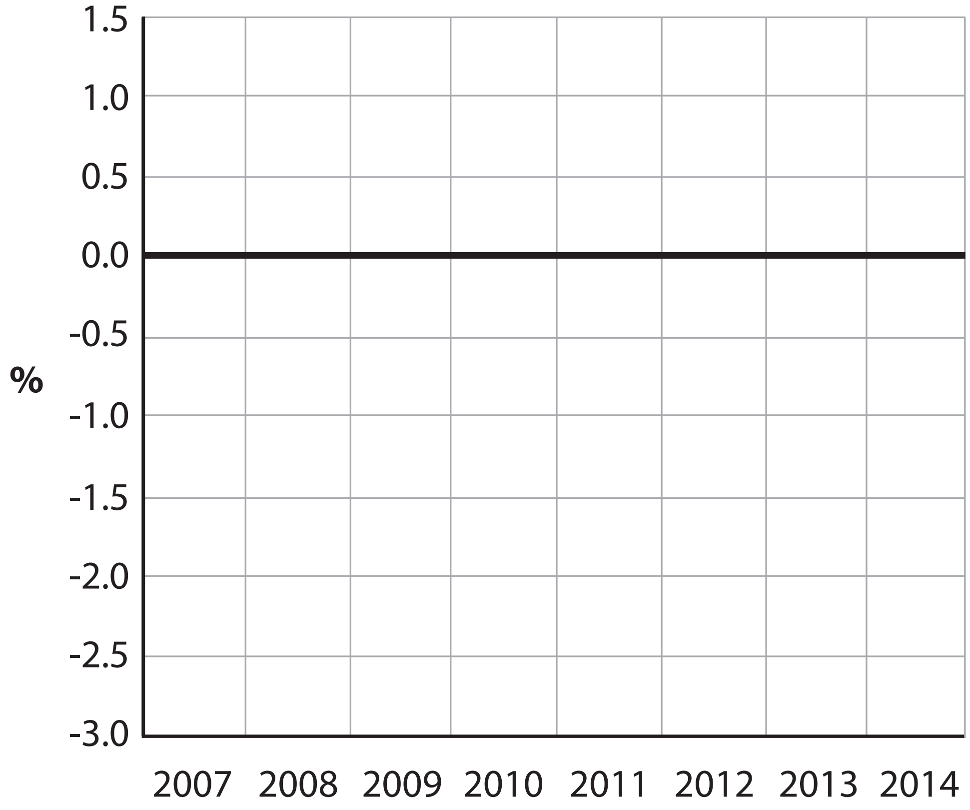
(5)

(b) With reference to Figure 1, discuss the use of GDP data as a means of comparing living standards among the five EAC member countries.

(12)

(Total for Question 15 = 17 marks)

Figure 1 UK real GDP growth, quarter on previous quarter



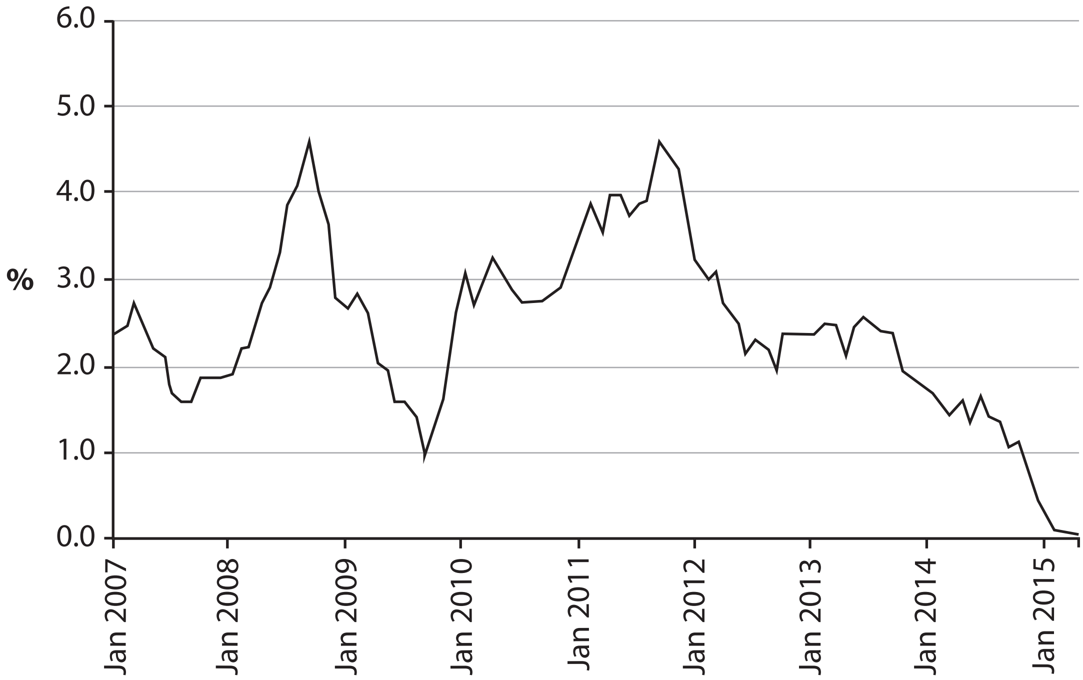
(Source: ONS, http://www.ons.gov.uk/ons/dcp171778_392909.pdf)

Figure 2 Top 5 countries in the Human Development Index (HDI)

HDI Rank	Country	Human Development Index 2013	Life expectancy at birth 2013 (years)	Mean years of schooling 2012	Expected years of schooling 2012	Gross national income per capita 2013 (2011 PPP US$)
1	Norway	0.944	81.5	12.6	17.6	63 909
2	Australia	0.933	82.5	12.8	19.9	41 524
3	Switzerland	0.917	82.6	12.2	15.7	53 762
4	Netherlands	0.915	81.0	11.9	17.9	42 397
5	United States	0.914	78.9	12.9	16.5	52 308

(Source: © United Nations Human Development Report, http://hdr.undp.org/en/content/table-1-human-development-index-and-its-components)

Figure 3 UK Consumer Price Index (CPI) Inflation



(Source: © Bank of England Inflation Report February 2015, http://ons.gov.uk/ons/rel/cpi/consumer-price-indices/april-2015/consumer-price-inflation-summary--april-2015.html)

Extract 1 Bank of England could raise interest rates next spring, says Monetary Policy Committee (MPC) member

A Bank of England policymaker, Ian McCafferty, has reinforced expectations that the first rise in interest rates will come as soon as Spring 2015, in remarks that pushed up the UK's exchange rate.

Under Governor Mark Carney, earlier this month the Bank overhauled its forward guidance policy on when rates would rise from their record low of 0.5%. At the time it said a view in the financial markets that rates could rise in the second quarter of 2015 was consistent with its goal of keeping inflation close to the Government-set 2% target.

"The exact timing of course is going to depend on events that have yet to unfold in terms of how the recovery proceeds over the course of the next six to 12 months or so" said Ian McCafferty. He added that he was watching for pressures on inflation from pay deals negotiated in coming months. After years above its target, inflation has now fallen below 2% to stand at 1.9% in January 2014.

"If we did see some inflationary pressure – more than we currently expect in our central case – that would if anything, I suspect, lead the Committee to consider slightly earlier rate rises."

(Source: adapted from © Guardian Newspaper Ltd., February 2014, http://www.theguardian.com/business/2014/feb/25/bank-england-raise-interest-rates-2015-mpc-mccafferty)

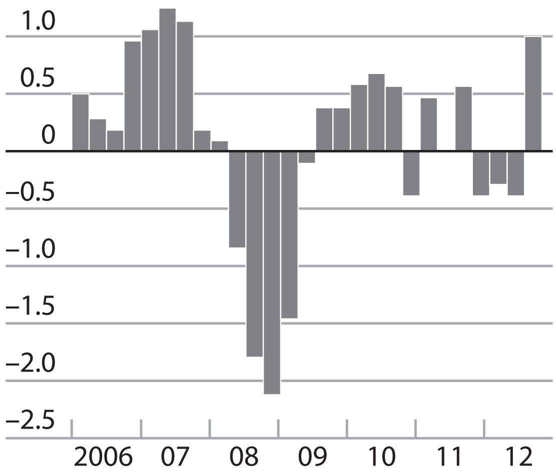
16 With reference to Figure 1, explain the term 'real GDP growth'.

(4)

(Total for Question 16 = 4 marks)

17 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.

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.

(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.

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.

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) 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)

(b) With reference to Extract 1 and your own knowledge, explain **two** likely benefits of economic growth.

(8)

(Total for Question 17 = 14 marks)

18 Real incomes, growth and monetary and fiscal policy

Extract 1 UK incomes fall more than 3.5% in real terms in 2011, ONS reveals

UK households are facing pay cuts in real terms of more than 3.5% as salary increases fail to keep pace with inflation, official figures reveal. The median salary for a full-time worker in the UK rose 1.4% in 2011 to £26 244, compared with a headline Consumer Price Index (CPI) inflation rate of 5%, according to the Office for National Statistics (ONS).

The General Secretary of the Trades Union Congress (TUC), Brendan Barber, said the latest figures showed the UK's sluggish economic growth was due to a squeeze on wages rather than the wider economic crises. "Today's figures confirm that 2011 has been a year of wage stagnation, with pay rises far outstripped by inflation, and low-paid employees being squeezed particularly hard," he said. "Falling wages and self-defeating austerity have been the main reasons for the UK's economic woes, rather than a eurozone crisis which has yet to fully show up in official statistics," he further added.

(Source: © The Guardian News and Media Limited, 23 November 2011)

Extract 2 UK growth for final quarter of 2011 revised down

Britain's struggle to shake off the effects of the recession has been set back by news that the economy shrank more than previously thought in the final quarter of 2011 and remains no bigger than in the autumn of 2010. The Office for National Statistics estimated that the Gross Domestic Product (GDP) fell 0.3% in the fourth quarter of 2011, down from its previous estimate of 0.2%. Though most think the economy is now growing again, the figures still provided fresh information for critics of the coalition government's fiscal (budget) deficit reduction policies of cuts in government spending and increases in tax. An opposition spokesman said the news showed the March 2012 Budget from Chancellor George Osborne "made the wrong choice in sticking to policies that are failing on jobs, growth and the deficit."

(Source: adapted from © Financial Times, 28 March 2012)

Extract 3 Outlook for the UK Economy 2012–3

Weak international demand, continued low household consumption and the needed reduction in the fiscal deficit has halted the recovery. Growth will start to pick up during 2012 as exports and household consumption recover, with further strengthening in 2013. Unemployment is rising and will reach 9% in 2013, while inflation is presently peaking as anticipated and is expected to fall below the 2% target in 2013 as the temporary inflationary effects from the increase in VAT and higher commodity prices diminish. Monetary policy is supporting economic recovery, with the Bank of England interest rate at 0.5% and quantitative easing being resumed. The ambitious fiscal deficit reduction programme has helped to keep market interest rates low by maintaining confidence in the money markets.

(Source: adapted from © OECD Outlook 90 database)

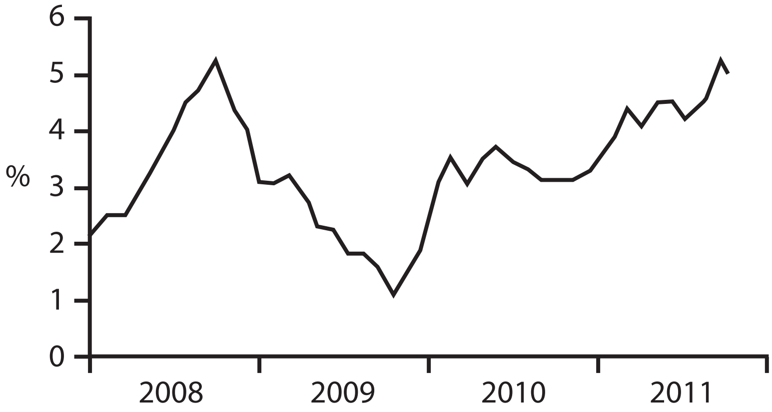
18 With reference to Extract 2, outline **one** possible reason why GDP estimates are frequently revised.

(4)

(Total for Question 18 = 4 marks)

19 Inflation and the Standard of Living

Figure 1 UK rate of inflation (annual percentage change as measured by the CPI)



Extract 1 The UK rate of inflation falls

A supermarket price war, cheaper air fares and lower petrol prices caused inflation to slow to 5% in October 2011, ending its recent upward trend and prompting economists to predict it will fall sharply in 2012. The annual increase in the consumer price index peaked at 5.2% in September 2011. With the cost of petrol, food and air travel all dropping in October, having risen in the same month in 2010, the overall rate of inflation was pushed down.

Even though the rate of inflation has begun to fall as economists had expected, the annual rate remains well above the Bank of England's 2% target, prompting another letter of explanation from Sir Mervyn King, Governor of the Bank of England, to George Osborne, Chancellor of the Exchequer. In November 2011, Sir Mervyn wrote that "inflation will fall back sharply in the next six months or so and continue falling thereafter to around target by the end of next year".

He could make the prediction because large price rises that occurred towards the end of 2010 were beginning to drop out of the inflation calculation, since they happened over a year previously. The rate of inflation would fall sharply as this process accelerated in early 2012 once the rise in value added tax to 20% no longer counted in the measure.

Even though Sir Mervyn pointed to lower inflation in the future, the average rate tolerated by the Bank of England over the previous four years had been 3.5%, far above the 2% target.

He said the Bank had used low interest rates and monetary expansion ('quantitative easing') to aid the economy's adjustment to higher energy and import prices. Without these policies, the economy would have been more vulnerable to a recession.

(Source for Figure 1 and Extract 1: adapted from 'Supermarket price war eases inflation', © Financial Times, 15 November 2011)

Figure 2 Selected data on living standards

	Human Development Index (HDI) 2011	Gross National Income per head 2011 (Constant 2005 PPP $)
Germany	0.905	34,854
Spain	0.878	26,508
United Kingdom	0.863	33,296
Fiji	0.688	4,145
China	0.687	7,476
Ethiopia	0.363	971

(Source: Data retrieved from the UNDP Human Development Report website: http://hdr.undp.org/en/statistics/ © UNDP

19 With reference to Figure 2, explain **two** difficulties of comparing living standards between countries.

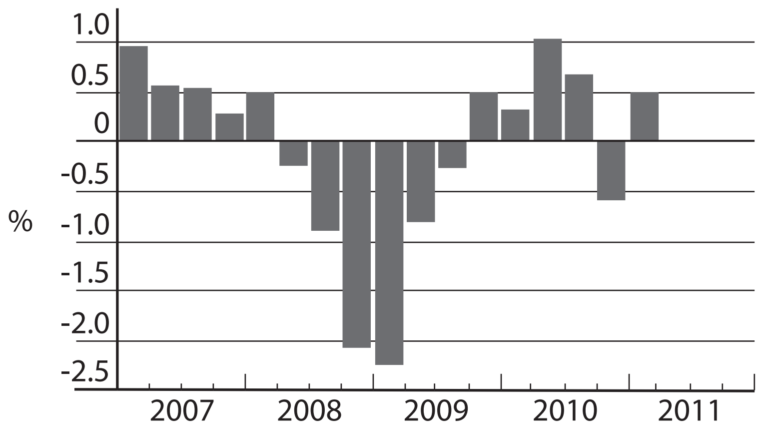
(8)

(Total for Question 19 = 8 marks)

Question 20

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.

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".

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.

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

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

(6)

(b) 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)

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

(30)

(Total for Question 20 = 44 marks)

21 Productivity, Investment, Trade and Employment

Figure 1 Annual average international labour productivity growth, %

	1995 – 2007	2007 – 2009
United States of America (US)	2.1	2.1
United Kingdom (UK)	2.2	-0.7
European Union (EU)	1.5	-0.5

(Source: http://www.mckinsey.com/mgi/publications/UK_report/pdfs/MGI_UK_growth_and_renewal_full_report.pdf)

Figure 2 UK Gross Investment and GDP Growth (percentage change over previous year), 2001–2009

Year	Gross investment	GDP Growth
2001	2.6	2.5
2002	3.6	2.1
2003	1.1	2.8
2004	5.1	3.0
2005	2.4	2.2
2006	6.4	2.8
2007	7.8	2.7
2008	–5.0	–0.1
2009	–15.0	–4.9

(Source: © Crown Copyright 2010/HMSO)

Extract 1 Trade risks are main threat to UK Economy, says Bank

According to the Governor of the Bank of England, Mervyn King, the biggest risk to growth in the UK is that if the economies of its trading partners suffer badly, demand for UK exports will slow and will make it difficult for the nation to undertake a rebalancing of its economy. Mr King said "the biggest risk that we face is bad news on the world economy and in particular in the euro area". He noted that more than 60% of UK exports were to the eurozone - including 7% to Ireland alone.

Mr King went on to say that the central issue facing the UK economy is to reduce its dependence on credit-fuelled household consumption and on the public sector, replacing it with demand for exported goods and services and increased investment.

Nearly three years after a 25% drop in the value of sterling, there has been little improvement in Britain's trade balance.

(Source: adapted from the Financial Times © The Financial Times Limited 2010
"Trade risks are main threat to UK, says Bank" By Norma Cohen and Daniel Pimlott
November 10 2010 http://www.ft.com/cms/s/0/e6a628a8-ecbf-11df-88eb-00144feab49a.html#)

Extract 2 Latest figures show the majority of claimants being found fit for work

The conditions for people to receive Job Seeker's Allowance have become more and more difficult. Some economists see a link between this and the increase in people claiming long term sickness benefit, or incapacity benefit (IB) over the same period. This increase could well be concealing many long term unemployed.

The Government has therefore started reassessing those on the old style IB for a replacement benefit, the Employment and Support Allowance (ESA) programme. This will be completed in 2011. According to official statistics from a pilot study, three-quarters of people applying for the new ESA were either found to be fit for work or withdrew their benefit claim before they completed a medical assessment.

The Employment Minister, Chris Grayling, commented that with over two million people trapped on incapacity benefits, this pilot study underlined how important it is to make sure that everyone who has the potential to work gets the right help to move off benefits and into a job. He also expressed his view that the medical assessment should be designed fairly and explained that an independent review is being undertaken with a number of charities representing disabled people and those with mental health issues.

The following day the Daily Mail's headline was "75% of incapacity claimants are fit to work" and the paper estimated this reform would slash the £12.5 billion spent on incapacity benefits a year to just over £4 billion.

(Source: © Crown copyright and '75% of incapacity claimants are fit to work', Gerri Peev © Daily Mail
27 October 2010)

(a) With reference to Extract 1, explain what is likely to be 'the biggest risk to growth in the UK.' (Lines 1 -2)

(6)

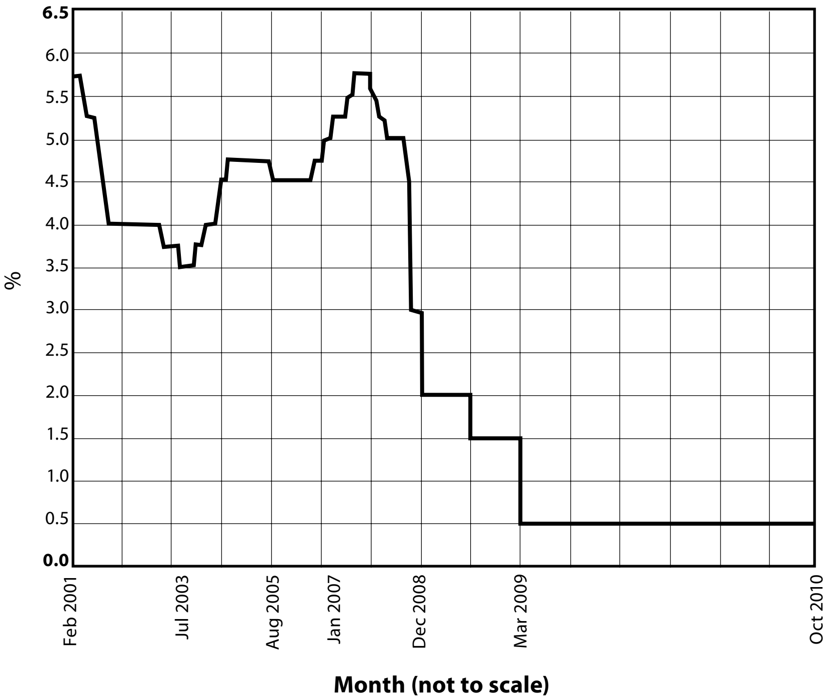
(b) With reference to Figure 2, discuss the significance of investment for economic growth. Illustrate your answer with an aggregate demand and supply diagram.

(12)

(Total for Question 21 = 18 marks)

22 Interest Rates, House Prices, Savings and Growth

Figure 1 UK base rate of interest, 2001–2010

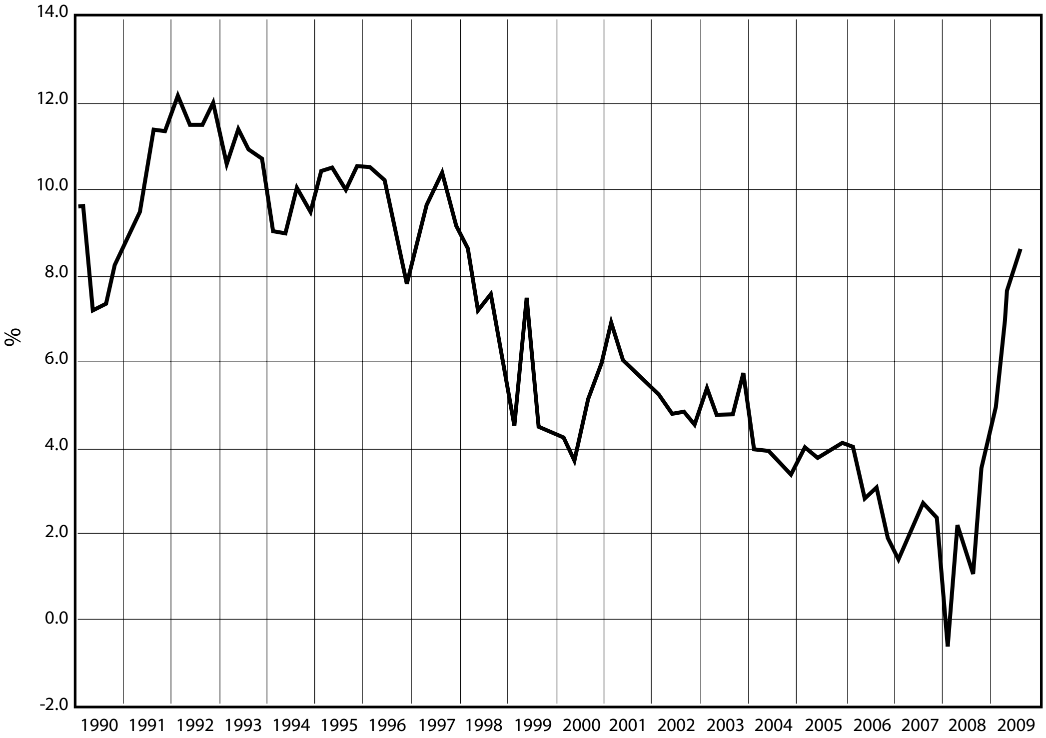


Source: http://www.thisismoney.co.uk/interest-rates

Figure 2 Quarterly percentage change in UK house prices, April 2007 to April 2010

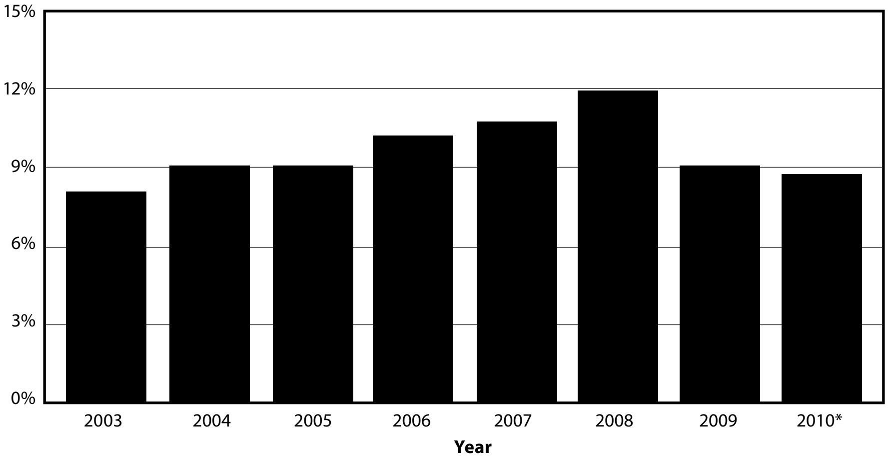
Source: http://www.nationwide.co.uk/hpi/historical/Apr_2010.pdf

Figure 3 UK Household Savings Ratio
(percentage of disposable income that is saved, using quarterly data)



Source: http://www.tutor2u.net/blog/index.php/economics/tagged/tag/savings+ratio

Figure 4 Real GDP growth rates in China, 2003–2010



* Forecast

Source: http://www.indexmundi.com/china/gdp_real_growth_rate.html

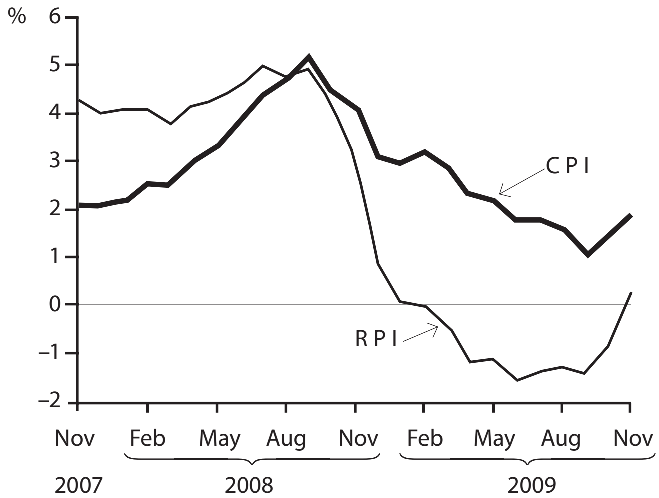
22 With reference to Figure 4, discuss **two** factors that might enable a country, such as China, to achieve a rapid rate of economic growth.

(12)

(Total for Question 22 = 12 marks)

23 Inflation and growth

Figure 1 Rates of Inflation in the UK, year on year percentage changes



Source: http://www.statistics.gov.uk/pdfdir/cpi1209.pdf produced on 15th December 2009.

Figure 2 Annual percentage change in Gross Domestic Product (GDP) at constant prices

				Forecast
Country	2007	2008	2009	2010
Germany	2.5	1.2	-5.0	1.2
United Kingdom	2.6	0.5	-4.9	1.3
United States	2.1	0.4	-2.4	3.1
Developing Economies	8.3	6.1	2.4	6.3

Source: www.imf.org (World Economic Outlook Database April 2010).

Extract 1   Recession to cause permanent damage

The effects of the 2008-09 financial crisis and recession (at least two consecutive quarters of negative growth) has similarities to the recessions of the 1920s, 1980s and 1990s: global output is on a persistently lower path than expected before the crisis; public finances are severely weakened; long term unemployment has increased and income inequality has risen.

Research by the International Monetary Fund (IMF) into previous recessions found three major forces which tended to prevent economies rebounding to their pre-crisis trends of output.

First, for a period of time after the recession there is likely to be high unemployment and misallocations of resources in several sectors of the economy. An example is residential construction. If unemployment remains high for some time, former employees may lose skills and the discipline of working.

Second, part of the capital stock is destroyed as some plant and equipment is scrapped prematurely. Other companies struggle to invest in viable and innovative projects because banks restrict credit to protect their finances.

Third, productivity falls because there is 'less innovation, as research and development spending tends to be scaled back in bad times', the IMF says.

Source: adapted from *The Financial Times*, the article 'Recession to leave permanent scars' by Chris Giles, 24th November 2009.

(a) With reference to Figure 2, explain what is meant by a **fall** in *Gross Domestic Product at constant prices*.

(4)

(b) Discuss **two** problems of comparing the economic growth of the UK and developing economies using GDP as a measure.

(12)

(c) Analyse **two** possible implications for macroeconomic policy of inaccurate forecasts of GDP growth data.

(8)

(d) With reference to Extract 1, analyse the possible impact on the distribution of income of negative economic growth.

(8)

(Total for Question 23 = 32 marks)

24 Economic Growth and Unemployment

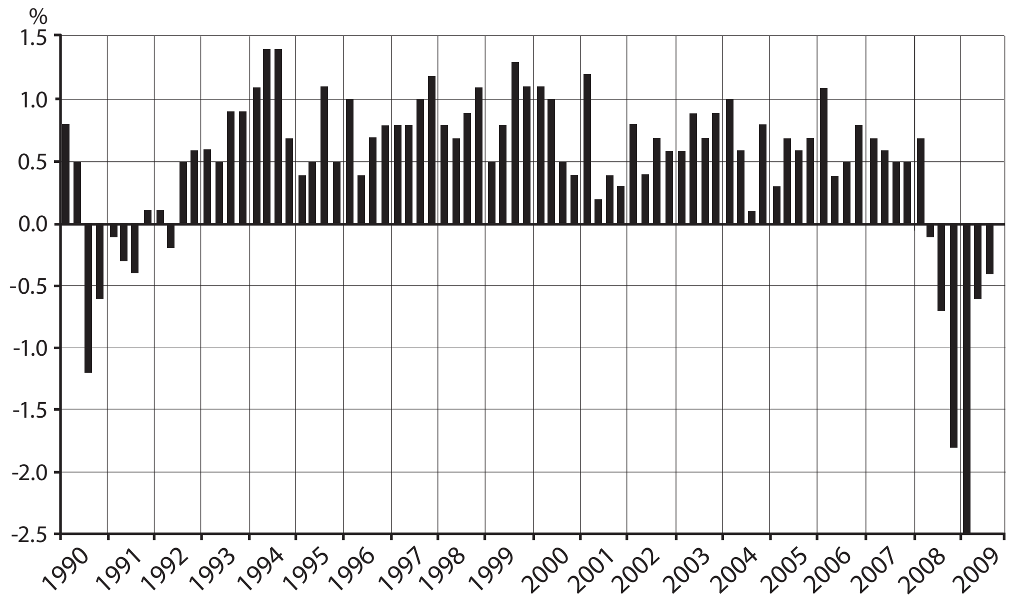
Extract 1 The World Economy – a glimmer of hope?

The worst of the economic downturn is over only in the sense that the pace of global decline has peaked. Thanks to expansionary – and unsustainable – fiscal and monetary policies, output growth will eventually become positive again. However, growth, when it comes, will be too feeble to stop unemployment and spare capacity rising. The increasing output gap will keep many individuals and firms dependant on the government.

Consider what that means. Much of the rich world will see unemployment rates that reach double figures, and then stay there. Inflation will become negative thanks to falling fuel costs and record economic spare capacity, pushing down prices and wages. Government borrowing will soar because of falling growth, prolonged fiscal spending and the growing costs of bailing out the banks and other firms. Continuing high unemployment, years of falling investment and higher government borrowing will limit economies' underlying potential. It is clear that rates of economic growth will be lower than the long-term trend for years to come.

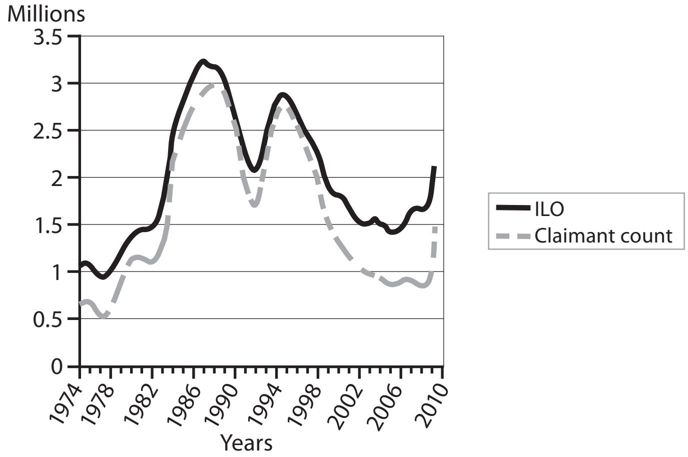
Source: adapted from *The Economist* 24 April 2009
http://www.economist.com/opinion/displaystory.cfm?story_id=13527685.

Figure 1 UK Growth rates at a 30-year low



Source: statistics.gov.uk

Figure 2 Unemployment: ILO and the Claimant Count



Source: www.statistics.gov.uk

Extract 2 Unemployment: ILO and the Claimant Count

ILO unemployment is now 6.7% (2.1 million). In some regions it is much higher, for example the West Midlands (8.4%) and the North East of England (8.3%). While ILO unemployment is still much lower, so far, than in the recent recessions of the 1980s and 1990s, it is forecast that the level will go above 3 million in 2010. The employment rate for people of working age is 73.8% as measured by the International Labour Organisation (ILO).

The claimant count has now increased continuously for 14 months. The claimant count rate in March 2009 was 4.5% (1.5 million), up 0.2% on the previous month and 2.1% higher than in March 2008.

Source: adapted from 'First Release labour market statistics' April 2009 ONS

Figure 3 Total immigration into the UK 1998 to 2007

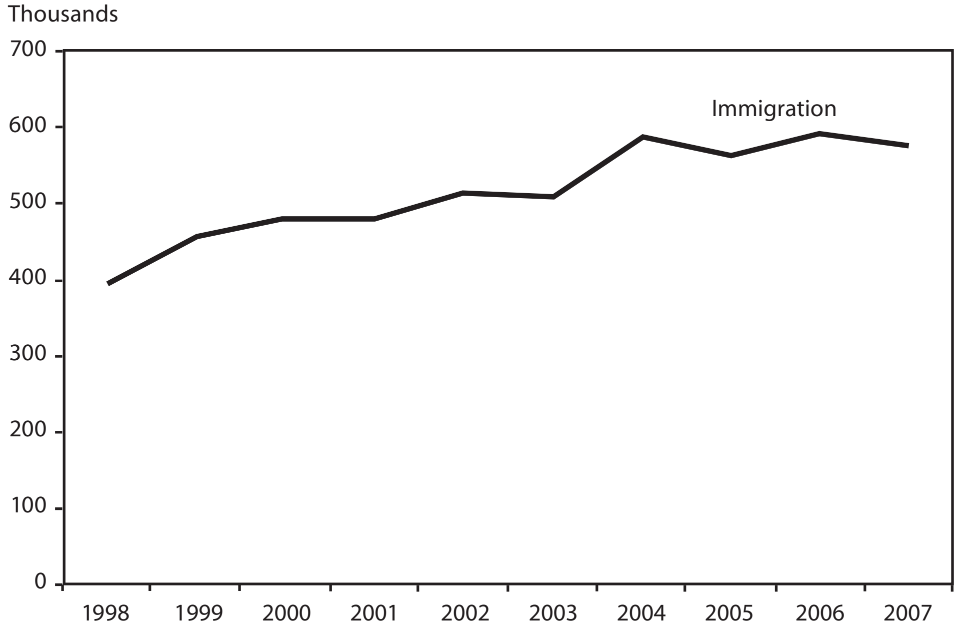
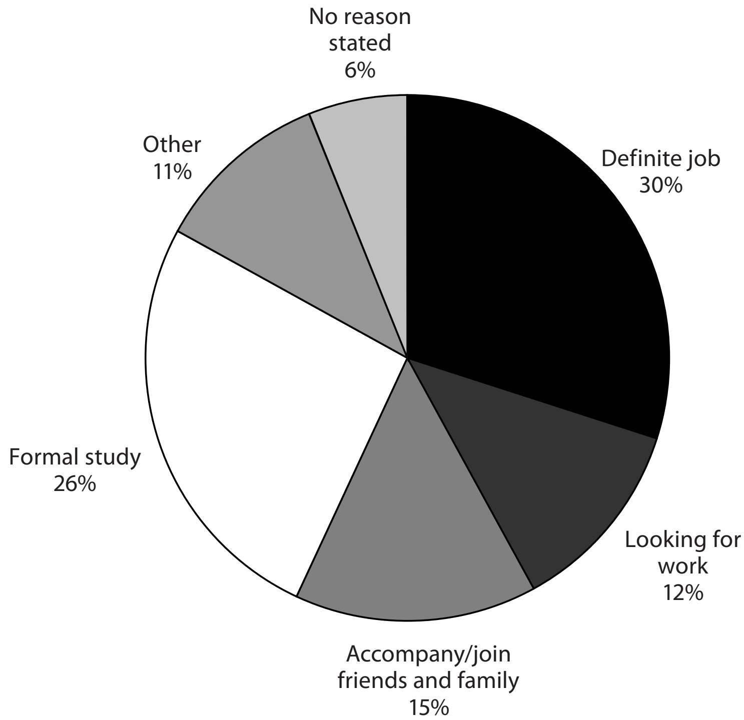


Figure 4 Estimates for the main reason for immigration to the UK, 2007



Source: http://www.statistics.gov.uk/pdfdir/tim1108/pdf

24 Evaluate the likely effects of a recession (negative economic growth) on the UK economy.

(30)

(Total for Question 24 = 30 marks)

Question 25

Measures of economic performance

Figure 1 Measures of economic performance, selected developed countries

	Economic growth % (2006)	Inflation (% increase in CPI) (2006)	Current account of the Balance of Payments (% of GDP) (2006)	Human Development Index (HDI) value (2005)
France	2.0	1.8	-1.8	0.952
Germany	2.0	1.8	5.1	0.935
Spain	2.7	2.8	-10.2	0.949
United Kingdom	2.3	2.0	-3.6	0.946

Source: www.imf.org (2007 report) and www.undp.org (2007 report of HDI based on 2005 values)

Figure 2 School enrolment figures and HDI ranks, selected developed and developing economies (2005)

Economy	Combined enrolment ratio for primary and secondary education (%)	HDI Rank
France	99	10
Spain	98.5	13
United Kingdom	97	16
Pakistan	44.5	136
Kenya	60.5	148
Ethiopia	44.5	169
Niger	24	174

Source: http://hdr.undp.org/en/statistics (2007 report based on 2005 figures)

(a) With reference to Figure 1, explain what is meant by the term *economic growth*.

(4)

(b) Discuss **two** reasons why economic growth is inadequate as a measure of changes in living standards over time.

(12)

END OF SECTION B **(Total for Question 25 = 16 marks)**

SECTION C

Write your answers in the spaces provided.

26 In 2018, the United States Government cut the corporation tax rate (tax on company profits) from 35% to 21%. Income tax rates for US citizens were also reduced: for example, the top rate of income tax was cut from 39.6% to 37%.

(Source adapted from: https://www.nytimes.com/)

Evaluate the likely impact of cutting tax rates as a policy to increase economic growth. **(25)**

END OF SECTION C **(Total for Question 26 = 25 marks)**