

General Certificate of Education
June 2005
Advanced Level Examination



ECONOMICS
Unit 6 Government Policy, the National and International Economy

ECN6

Monday 27 June 2005 Morning Session

In addition to this paper you will require:
an 8-page answer book.
You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions

- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN6.
- In **Section A**, answer **all** parts of the question.
- In **Section B**, answer **one** question.

Information

- The maximum mark for this paper is 100.
- Mark allocations are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between different aspects of Economics.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

Advice

- You are advised to spend approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

SECTION A

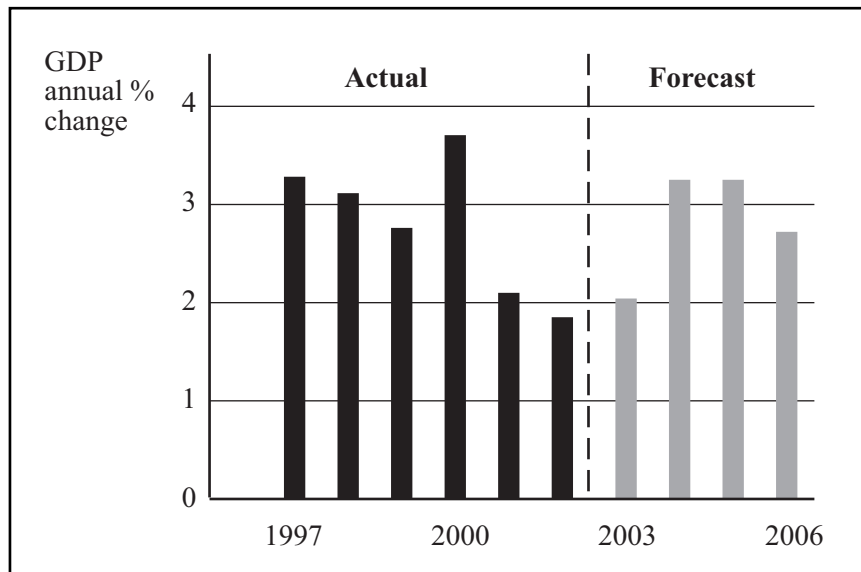
Answer **all** parts of this question.

1 ECONOMIC GROWTH

Total for this question: **50 marks**

Study **Extracts A, B and C**, and then answer **all** parts of Question 1 which follows.

Extract A: Actual and forecast growth of GDP, UK 1997–2006 (annual % change)



Source: adapted from *The Daily Telegraph*, 11 December 2003

Extract B: Causes and consequences of faster economic growth

There is a range of requirements for achieving faster economic growth. Saving needs to be stimulated in order to finance the investment needed for economic growth. Research and development (R & D) also need to be increased and high-technological industries targeted, perhaps with the help of government funding. Free international trade must be encouraged to allow exploitation of comparative advantage through specialisation. Improvements in the quality of education and training are also desirable. Finally, the economic climate needs to be favourable, both nationally and internationally, and appropriate demand management policies will be crucial here. 1 5

The benefits of the faster economic growth thus achieved will be evident for all to see: increased consumption possibilities, including greater welfare and support for the disadvantaged; more expenditure on education, health, roads and housing; and improvements in other macroeconomic indicators. Such benefits must be central to the growth debate to help balance the views of those who believe that the costs, such as the rapid depletion of natural resources, environmental degradation, and a poorer quality of life, are much greater. 10

Extract C: British is best

While America, Japan and half the Eurozone have suffered recessions, the British economy has, uniquely, grown uninterrupted for every single quarter since 1997. 1

Growth in our biggest trading area, the Eurozone, is expected to be just 0.5% in 2003. In the UK, real GDP growth is now expected to be 2.1%. This is close to the government's estimate of the economy's trend rate of growth and means a minimal output gap. Clearly, stronger growth elsewhere would improve the UK's growth prospects and allow the fullest exploitation of its supply-side improvements. 5

Source: adapted from the Pre-Budget Report, HM Treasury, December 2003

Question 1

- (a) Using **Extract A**, describe the actual and forecast growth performance of the UK economy for the period 1997 to 2006. (4 marks)
- (b) Explain the distinction between “real GDP growth” and the “trend rate of growth” (**Extract C**, lines 4 and 5). (6 marks)
- (c) **Extract B** (line 1) refers to the “requirements for achieving faster economic growth”. Analyse **three** causes of a more rapid rate of economic growth in economies such as the UK and USA. (10 marks)
- (d) Using the data and your economic knowledge, evaluate the consequences of a sustained, high rate of economic growth. (30 marks)

TURN OVER FOR THE NEXT QUESTION

Turn over ►

SECTION B

Answer **one** question from this Section.

Each question carries 50 marks.

- 2 (a) Explain the possible causes of a rise in the rate of inflation in an economy. *(20 marks)*
- (b) In recent years, the priority in UK macroeconomic policy has been the control of inflation. Evaluate the likely economic consequences of this for the UK's economic performance. *(30 marks)*
- 3 (a) Explain the main economic reasons for government spending. *(20 marks)*
- (b) The UK government indicated in 2003 that it needed to borrow £37bn to finance the budget deficit. To what extent, if any, is it important for a UK government to restore and maintain a balanced budget? *(30 marks)*
- 4 (a) Explain the likely determinants of exchange rates in a freely floating exchange rate system. *(20 marks)*
- (b) "In January 2004, renewed concern over currency instability emerged as the dollar's collapse was accompanied by steep rises in the value of sterling and the euro."
- Discuss the **advantages** and **disadvantages** of a floating exchange rate system in the light of such instability. *(30 marks)*

END OF QUESTIONS**ACKNOWLEDGEMENT OF COPYRIGHT-HOLDERS AND PUBLISHERS**

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements in future if notified.

Extract A: © Telegraph Group Limited (2003)

Extract C: Crown copyright material is reproduced with the permission of the Controller of HMSO and the Queen's Printer for Scotland.

Copyright © 2005 AQA and its licensors. All rights reserved.