



Rewarding Learning

**ADVANCED**  
General Certificate of Education  
2025

Centre Number

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Candidate Number

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# Economics

## Assessment Unit A2 2

*assessing*

Managing the Economy in a  
Global World



**[AEC21]**

\*AEC21\*

**WEDNESDAY 28 MAY, AFTERNOON**

### TIME

2 hours.

### INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number in the spaces provided at the top of this page. Answer **all** questions in Sections **A** and **B**, and **one** question in Section **C**.

You are permitted to use a calculator in this paper.

**You must answer the questions in the spaces provided.**

**Do not write outside the boxed area on each page or on blank pages.**

Complete in black ink only. **Do not write with a gel pen.**

### INFORMATION FOR CANDIDATES

The total mark for this paper is 90.

- Section A: 20 marks
- Section B: 40 marks
- Section C: 30 marks

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question. This paper is accompanied by a Case Study Booklet.

### 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 **4**, **5(b)**, **(c)** and **(d)**, **6** and **7**.

Quantitative skills will be assessed where appropriate.

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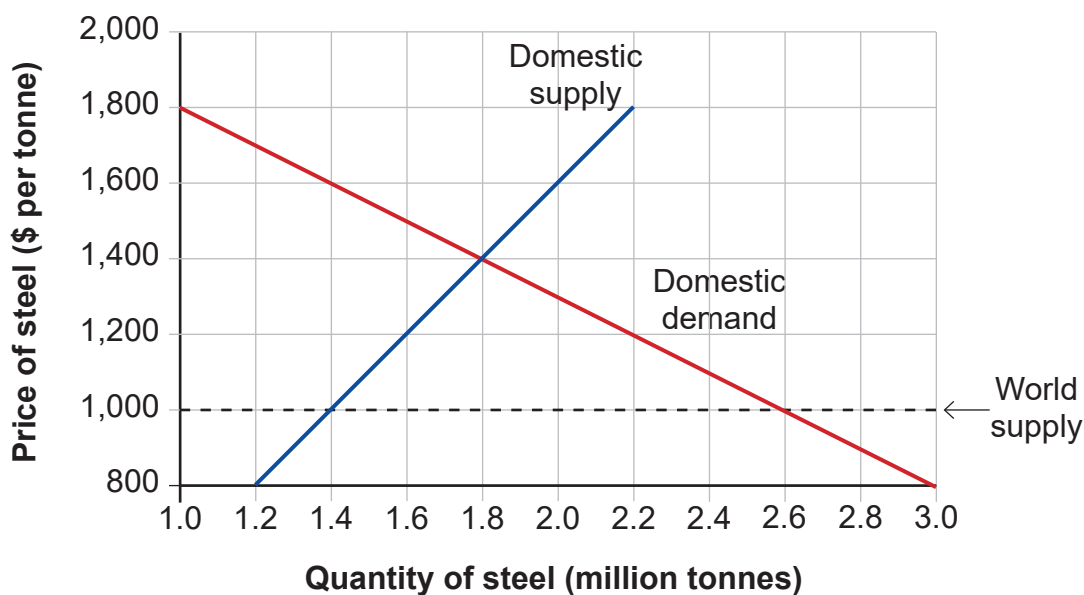
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## Section A (20 marks)

Answer all questions

- 1 A country's government has been concerned about its steel industry being undercut by cheap overseas competition. After considering implementation of an import quota on steel, it decided instead to impose a tariff of 20% of the world price.

The diagram below shows the market for steel which is currently subject to no trade restrictions. The world price of steel is \$1,000 per tonne.



- (a) Explain what is meant by an import quota.

[2]

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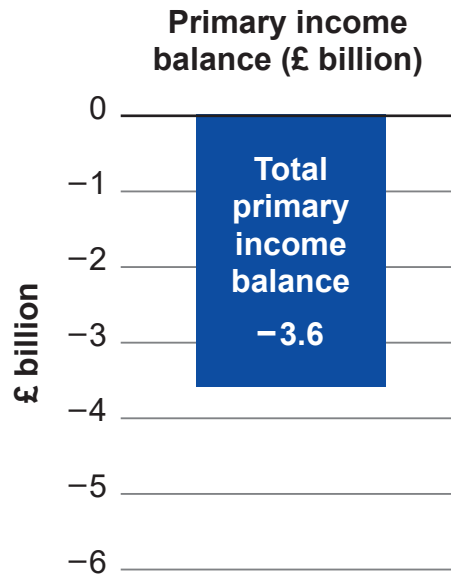
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- 2 The chart below shows the balance on the primary income section of a country's balance of payments for September 2022.



- (a) Explain what is meant by primary income in the balance of payments accounts. [2]

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(b) In September 2022, the value of the deficit in the primary income balance was equivalent to 1.2% of GDP.

Using the information in the chart opposite, calculate the value of UK GDP in September 2022. [2]

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3 The table below shows the money supply, velocity of circulation, and the price level for an imaginary economy.

Money supply	\$200,000
Velocity of circulation	5
Price level	\$250

Using the information in the table, calculate the number of transactions in this economy. [2]

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## Section C

Answer **either** question 6 **or** question 7

**Quality of written communication will be assessed in these questions.**

- 6** According to the results of an opinion poll in July 2023, two thirds of Britons believed that leaving the European Union (Brexit) had damaged the UK economy. Critics argued this was proof that Brexit was failing and the UK would be better rejoining the EU. However, the pro-Brexit group *Building a Better Brexit* stated this would be premature and the UK had yet to receive the advantages from controlling its own borders, setting its own rules, and making its own trade agreements.

Critically examine the view that there is no economic case to be made for the UK to rejoin the European Union. [30]

**or**

- 7** In his campaign for re-election as President of the USA, Donald Trump promised to eliminate the country's trade deficit. He said he could only achieve this by imposing steep tariffs on US imports.

Critically examine the view that the imposition of tariffs is the only way to eliminate the USA's trade deficit. [30]







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For Examiner's use only	
Question Number	Marks
<b>Section A</b>	
1	
2	
3	
4	
<b>Section B</b>	
5	
<b>Section C</b>	
6	
7	
<b>Total Marks</b>	

Examiner Number

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# **Economics**

Assessment Unit A2 2  
*assessing*

Managing the Economy in a Global World

**[AEC21]**

**WEDNESDAY 28 MAY, AFTERNOON**

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## **CASE STUDY BOOKLET**

**For use with  
Section B**

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The following passages were compiled in August 2023.

### Case Study: Turmoil in the economy

#### Source 1: The “budget” that broke Britain!

On 23 September 2022, Chancellor Kwasi Kwarteng delivered a ministerial statement entitled “The Growth Plan”. Effectively a mini-budget, it contained a range of measures the newly appointed Prime Minister, Liz Truss, believed would help grow the economy, including:

- Bringing forward a cut in the basic rate of income tax from 20% to 19%
- The abolition of the additional rate 45% income tax
- The reversal of a planned increase in corporation tax from 19% to 25%

These policies were the first instalment in a wider range of supply-side reforms, which the government hoped would stimulate economic growth by expanding the role of the free market and boosting business confidence. However, the financial markets didn’t like the policies. A combination of a lack of a budget assessment by the Office for Budget Responsibility (OBR) and no clear plans to pay for the tax cuts led to a serious loss of confidence. This lack of confidence in the UK government led to a reduction in the demand for UK government bonds, and consequently a rise in interest rates, as shown in **Fig. 1** below.

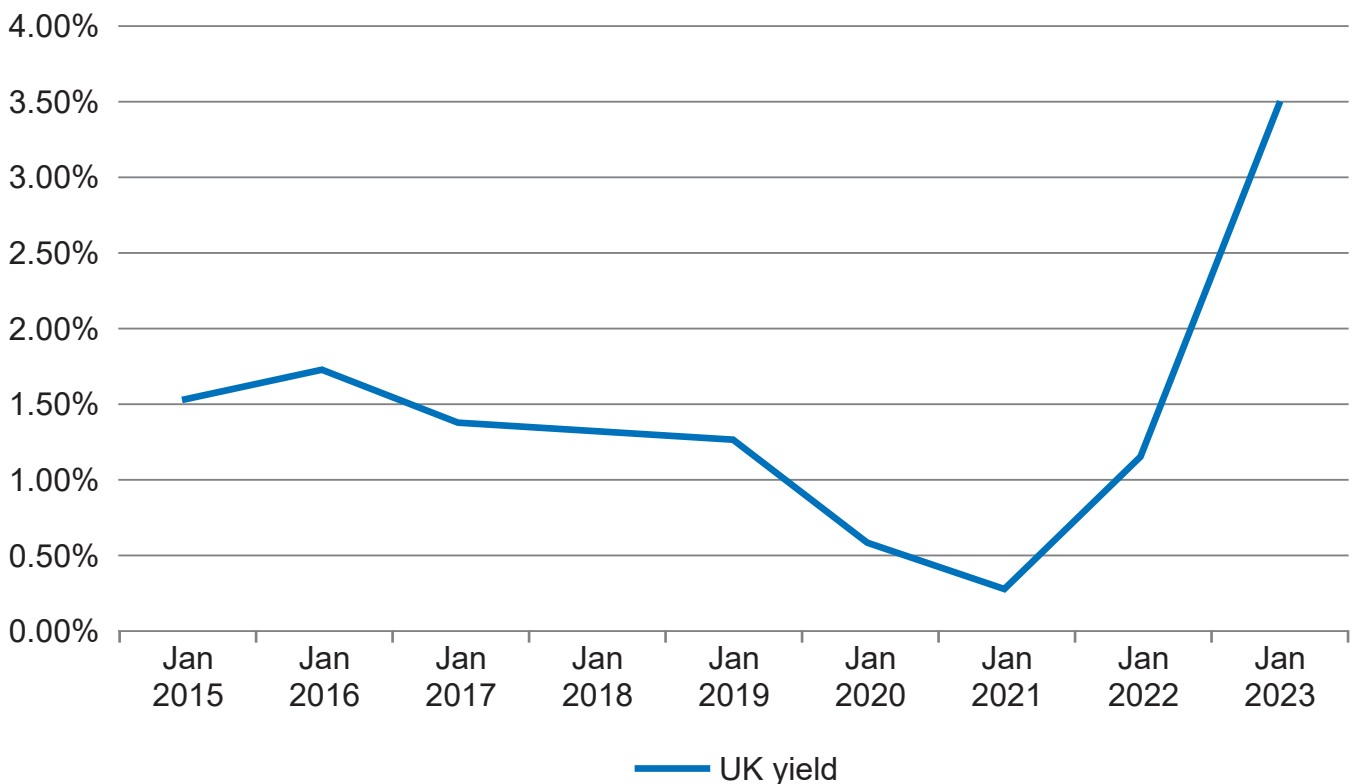


Fig. 1: Yield (interest rate) on 10-year UK government bonds

The lack of confidence also spread to the foreign exchange markets, with currency traders dumping sterling in a selling frenzy. As a result, sterling depreciated to an all-time low against the dollar of \$1.03 on 26 September 2022. On 20 October, Ms Truss resigned, entering the record books as the shortest serving British Prime Minister.

## **Source 2: Back to the future: the return of austerity**

The new Prime Minister, Rishi Sunak, and his Chancellor, Jeremy Hunt, were determined to stabilise the markets and bring interest rates down to previous levels. To achieve this, they pledged to control government borrowing with a series of austerity policies designed to control government spending and reduce borrowing. The Truss tax cuts were reversed. There was a clampdown on public spending, in particular the refusal to award public sector workers pay rises in line with inflation. Public sector investment was frozen in cash terms. This included delaying the HS2 high-speed rail link between London and Manchester and several major road-building schemes. This marked a return to the fiscal austerity policies of George Osborne's Chancellorship between 2010 and 2016.

However, this new wave of austerity did not have the desired effect. Interest rates actually rose from 3% in November 2022 to 5% in June 2023, which caused consumption and investment to fall significantly.

Economist Jane Gideon stated that the UK government had "missed a golden opportunity to borrow at extremely low interest rates. This borrowing could have been used to finance much needed public investment". She warned that "higher interest rates would act as a drag on UK economic activity and risked pushing the UK back into recession".

However, economic commentator Ellen Maguire claimed that "higher interest rates are needed to wean the UK off its addiction to credit and reduce inflationary pressures".

### Source 3: Greening the economy

In the summer of 2023, North Atlantic sea temperatures reached record levels, tourists fled wildfires on Greek Islands and scientists warned that the worst-case scenarios of global warming were unfolding. To the dismay of many of its supporters, the UK Labour party took this time to water down a pledge to borrow £28 billion pounds a year to spend on green investment. Rather than starting in the first year of a Labour government, this would now be a target for the end of a five-year term. Shadow Chancellor Rachel Reeves said that the damage caused by Tory governments, in particular the previous September's mini-budget, meant they would have to be fiscally responsible and avoid excessive borrowing to retain the confidence of the markets.

Environmentalists were appalled at the decision. They pointed out that the UK was falling behind other countries. The World Bank recommends that governments in developed countries spend 1.4% of GDP to deal with climate change; the UK spends 1.2% in comparison with an average of 1.5% in the EU and 5.2% in Germany. In August 2023, the German government announced a 57.6 billion euro green investment programme for 2024, a 60.2% increase since 2023. This was partly in response to the US Inflation Reduction Act of 2022, which included spending \$783 billion on action to deal with climate change. This comprised huge investments in electric vehicles, zero-emissions manufacturing and energy-efficient homes. As well as dealing with the climate crisis, this spending would help boost US industry in these emerging technologies. This was part of a long-term trend in the US where government spending is used to boost new technologies. William Samuels of environmental group Climate Action Now stated, "Failing to spend on reducing climate change and mitigating its impact is a false economy. The longer we delay dealing with this issue, the higher the costs will be for future generations. Green investment is an urgent necessity if Britain is to meet its net zero obligations. The UK government must immediately borrow sufficient funds to achieve this."

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**THIS IS THE END OF THE CASE STUDY BOOKLET**

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## Sources

**Source 1**.....<https://www.gov.uk/government/publications/the-growth-plan-2022-documents> © Crown copyright – Open Government Licence and © BBC News <https://www.bbc.news.co.uk>

**Fig.1**.....UK Debt Management Office. © Crown copyright used under the Open Government Licence

**Source 2**..... Written by examiner based on BBC News articles

**Source 3**.....© "Now is the time to confront UK's investment-phobia" | IPPR and Examiner



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