



Rewarding Learning

ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2024

Centre Number

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Candidate Number

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Economics

Assessment Unit AS 2

assessing

Managing the National Economy

MV24

[SEC21]

MONDAY 20 MAY, MORNING

Time

1 hour 30 minutes, plus your additional time allowance.

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 on blank pages.

Complete in black ink only.

Information for Candidates

The total mark for this paper is 80.

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

Figures in brackets printed at the end of each question indicate the marks awarded to each question or part question. 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 **5(b)**, **6(b)**, **(c)** and **(d)**, **7** and **8**.

Quantitative skills will be assessed where appropriate.

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(Questions start overleaf)

Section A

Answer all questions

- 1 Even though UK unemployment is at its lowest since 1974 there are still people out of work. Emma recently left her job as an investment analyst as she wanted to spend more days each week working from home. She has four interviews lined up and is confident she will be back in employment before the end of the month. In contrast, Karim lost his job as a clothes shop manager six months ago, and is increasingly despondent about finding a job in retailing. This sector has lost half a million jobs in three years as consumers move away from high street shopping.

With reference to the statement above, explain the difference between structural and frictional unemployment. [4 marks]

2 The table below shows the injections and withdrawals into and out of an open economy with a government.

| Injection/withdrawal | £ billion |
|-----------------------------|------------------|
| Exports | 160 |
| Government spending | 80 |
| Imports | 140 |
| Investment | 60 |
| Savings | 75 |
| Taxation | |

(a) Explain what is meant by injections and withdrawals in the circular flow of income model. [2 marks]

(b) Assuming the economy is in equilibrium, calculate the value of taxation.
[2 marks]

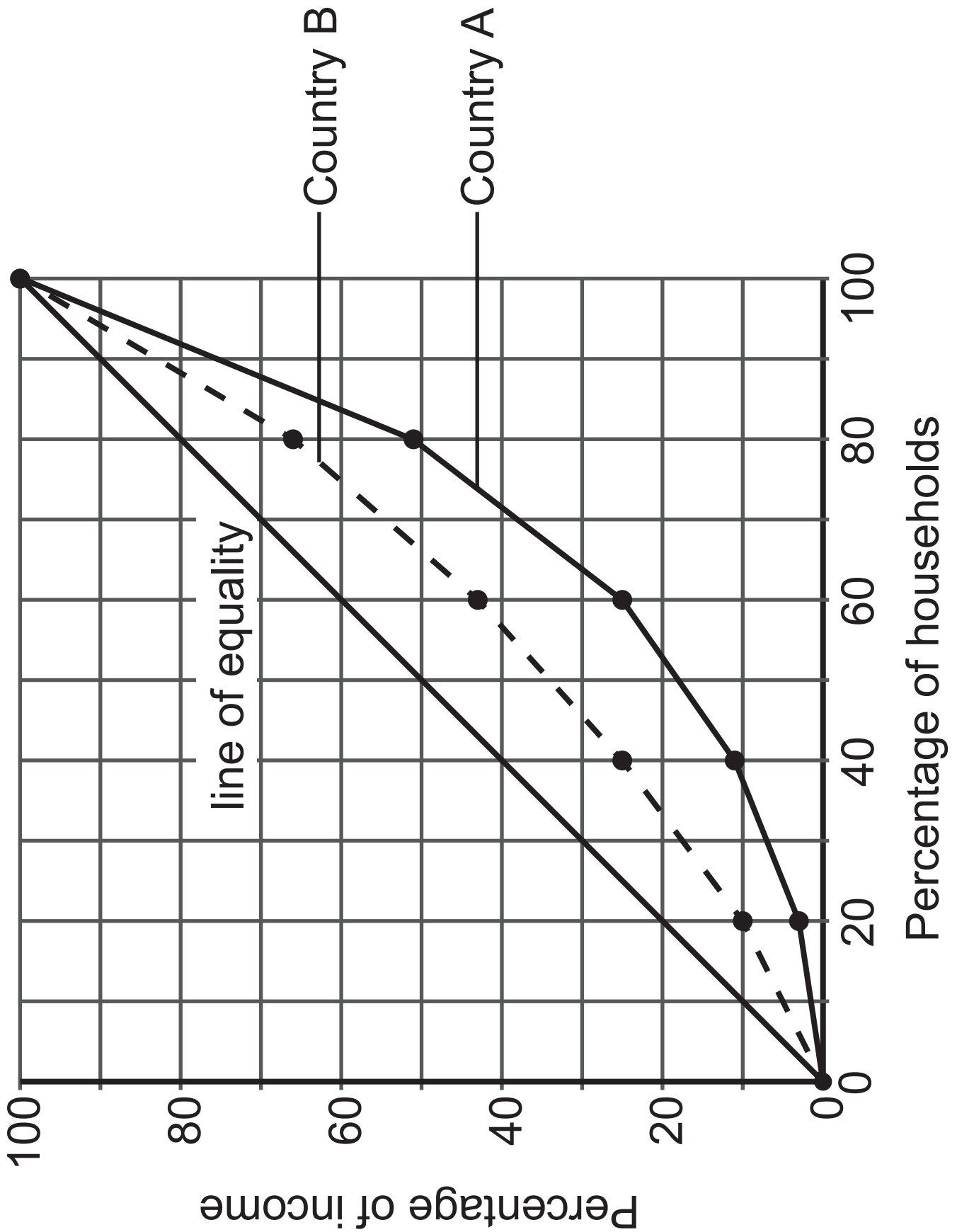
3 The table below shows selected economic data for a country.

| Year | Gross Domestic Product (£ billion) | Population (millions) | Retail Price Index |
|-------------|---|------------------------------|---------------------------|
| 2021 | 4600 | 84.2 | 140 |
| 2022 | 4750 | 84.8 | 147 |

(a) Using the information in the table above, calculate nominal Gross Domestic Product (GDP) per capita for 2022. [2 marks]

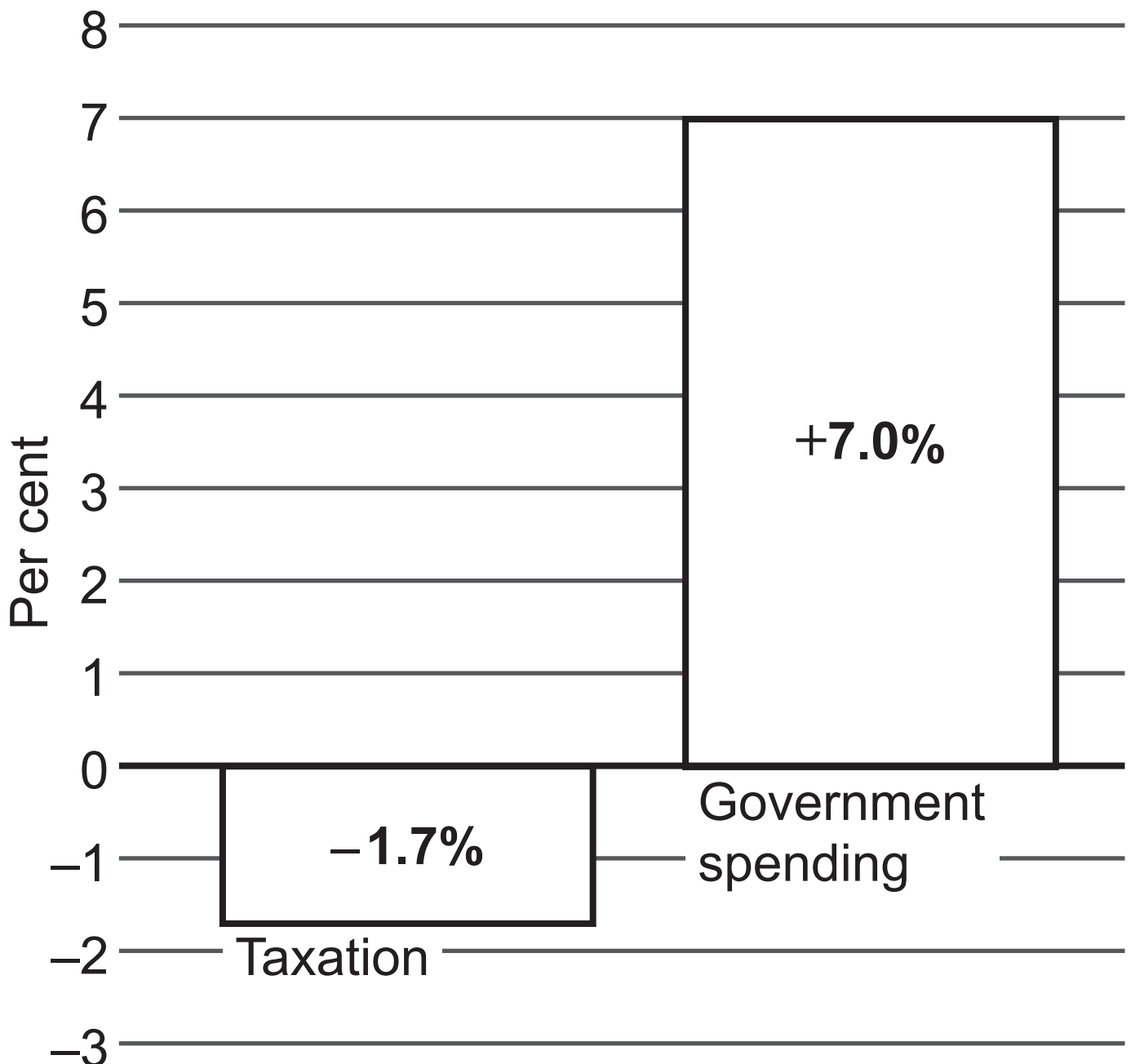
(b) Using the information in the table opposite, calculate GDP per capita for 2022 in 2021 prices. [3 marks]

4 The Lorenz curves below show the distribution of income for country A and country B.



5 The chart below shows the percentage change in tax and government spending in an economy between 2022 and 2023. Government spending in 2022 was £340 billion.

Percentage change in taxation and government spending



(a) Using the information opposite, calculate the total value of government spending in 2023. [2 marks]

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(Questions continue overleaf)

Section C

Answer **either** question 7 **or** question 8

Quality of written communication will be assessed in these questions.

7 Between January and September 2022, the pound fell in value by 14% against the US Dollar. There was concern that this showed the increasing weakness of the UK economy. However, the Centre for the Study of International Trade welcomed the news, stating, “For too long the pound has been overvalued. This fall will reduce the price of exports which can only benefit the UK economy.”

Evaluate the extent to which a fall in the value of the pound would help the UK government achieve its economic objectives. [20 marks]

or

- 8** In September 2022, the then Chancellor of the Exchequer, Kwasi Kwarteng, proposed cutting a range of taxes. He declared that this would boost the UK's rate of economic growth. However, others claimed it would only promote inequality. They argued that the best way to stimulate economic growth was through government investment in infrastructure and the labour force.

Critically examine the claim that tax cuts are the best way to increase the rate of economic growth. [20 marks]

| For Examiner's use only | |
|-------------------------|-------|
| Question Number | Marks |
| Section A | |
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |
| Section B | |
| 6 | |
| Section c | |
| 7 | |
| 8 | |
| Total Marks | |

Examiner Number

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MONDAY 20 MAY, MORNING

**Case Study
Booklet**

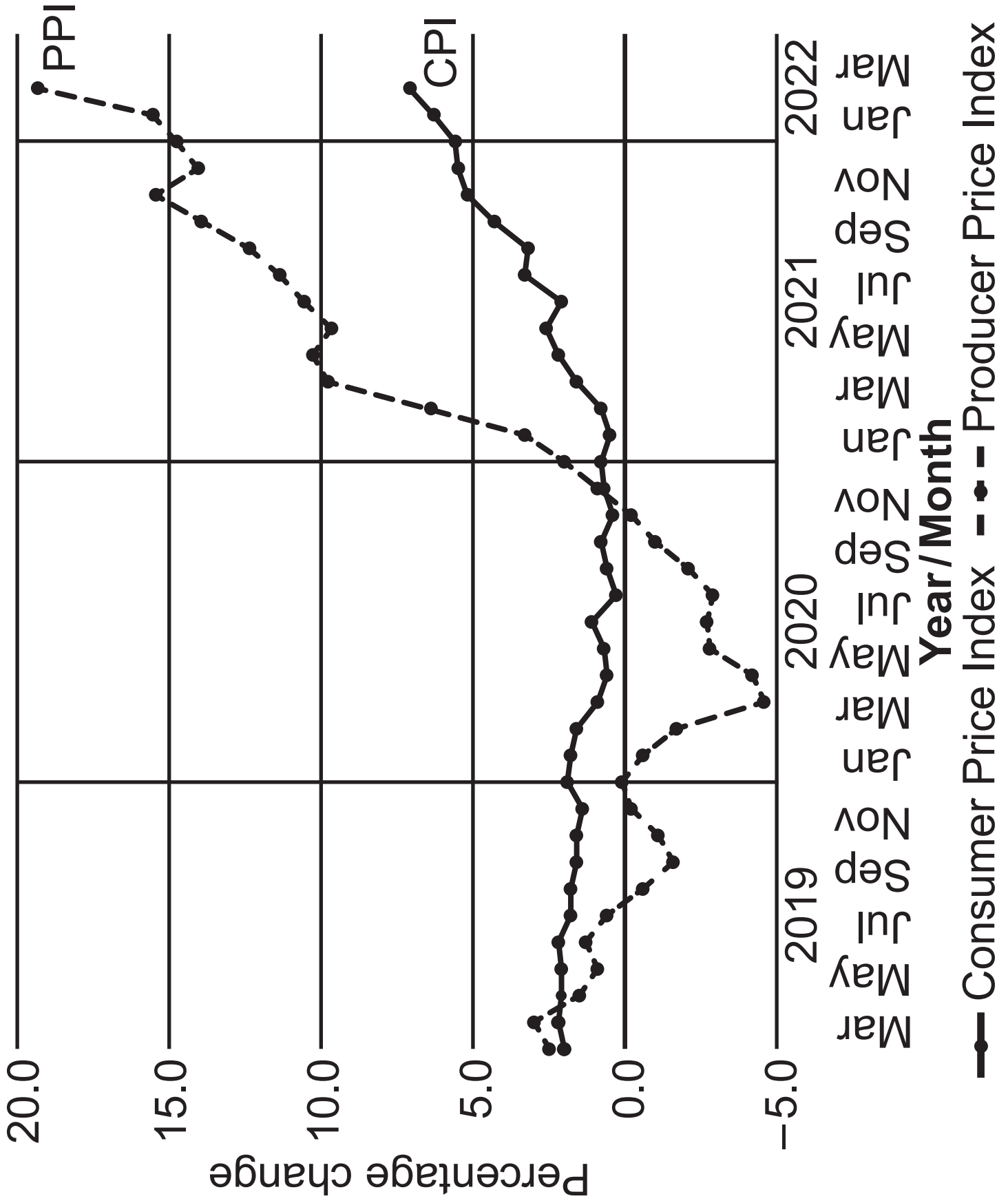
**For use with
Section B**

The following article was written in August 2022.

Inflation at highest rate for forty years

In spring 2022 UK inflation reached levels not seen for 40 years. **Fig. 1** opposite shows the sharp increases which occurred in both the Consumer Price Index (CPI) and the Producer Price Index (PPI) measures of inflation. The PPI is an alternative measure of inflation which focuses on costs of inputs for production such as raw materials and fuels. By March 2022 CPI inflation had increased to 7%, which was five percentage points above the government's inflation target. **1**

Fig. 1 CPI and PPI inflation



Although this rise in CPI was dramatic, there were even larger changes in the prices of individual items. The price of margarine rose by over 20% and electricity by over 50%. Falls in the price of some goods, such as personal computers and chocolate, failed to compensate for rises in the price of essential goods and services which hit the poorest hardest. The Office of National Statistics (ONS) calculated that the poorest 10% of the population faced an inflation rate of 10.9%, whilst for the richest 10% it was just 7.9%. Food writer Jack Monroe highlighted this damaging impact. She gave the example of her local supermarket where the cheapest bag of rice increased from 45p a kilo to £2 a kilo. If a lasagne ready meal priced at £7.50 had increased at the same rate as the rice, it would have cost £33.33. Differences also existed between regions. The price of gas rose by 95.5%, whilst central heating oil rose by 113.9%. Oil is used by 68% of Northern Ireland households compared to a UK average of only 4%. These differentials led economist Mark Robins to state that “inflation is bad for some, but worse for others”.

2

The rise in inflation has been caused by a range of factors. The war in Ukraine led to a fall in the supply of a variety of goods including oil, gas, and agricultural products such as wheat and sunflower oil. Another issue was labour supply. A combination of Brexit and the COVID pandemic led to a fall in the size of the labour force. In May 2022, there were more UK job vacancies than unemployed workers for the first time since records began, leaving employers scrambling to find workers. There were also factors impacting specific sectors. For example, from 1 April 2022, VAT on hotels, restaurants and hospitality was raised from a temporary rate of 5% (applied during the COVID pandemic) back to the standard rate of 20%. **3**

The Bank of England was criticised for allowing this rise in inflation to happen. Several MPs and commentators called for increases in interest rates to bring inflation under control. Others were more sceptical of increasing interest rates. Economist Janet Schwarz argued: “Raising interest rates will achieve little. Falling real wages and declining consumer confidence are going to impact the economy. Raising interest

rates will simply drive millions into hardship and the economy into recession, and will not impact the main causes of the current inflation.” 4

This is the end of the case study booklet

Sources

Q7 and Q8....."Adapted from Kwarteng scraps top 45% rate of income tax and cuts stamp duty by Phillip Inman and Rowena Mason, 23 September 2022. © The Guardian
Adapted from The pound: Why is it falling? by Tom Edgington, 26 September 2022 © BBC News

Case Study

Text....."Adapted from The route back to 2% inflation – speech by Michael Saunders. © Bank of England, 09 May 2022.
Adapted from Monetary Policy Report - May 2022. © Bank of England 05 May 2022

Adapted from ONS Inflation and Price Indices
Contains public sector information licensed under the Open Government Licence v3.0"

Fig.1.....Adapted from 2Consumer price inflation, UK: March 2022. Office for National Statistics, 13 April 2022
Contains public sector information licensed under the Open Government Licence v3.0."