

General Certificate of Education
January 2006
Advanced Level Examination



ECONOMICS
Unit 6 Government Policy, the National and International Economy

ECN6

Monday 30 January 2006 9.00 am to 10.30 am

For this paper you must have:

- 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.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between different aspects of Economics.
- You are reminded of the need for good English and clear presentation in your answers. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in all answers.

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.

Total for this question: 50 marks

1 TRADE AND GROWTH

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

Extract A:

Extract A was a table of data.
It has not been reproduced here due to third-party
copyright constraints.

Extract B: The pattern of trade

- 1 The pattern of trade between countries, based more significantly on comparative advantage than absolute advantage, emphasises some key contrasts between countries, not least of which are differences in the availability of resources such as capital and skilled and unskilled labour. A country may be able to produce a good more cheaply
- 5 than another country, but countries' decisions to specialise are more often based upon considerations of opportunity cost. Such specialisation can increase world output.

- More developed countries, with bigger stocks of capital and highly skilled labour, might be expected to specialise in high-technology, capital-intensive products, while less developed nations, with relatively plentiful, but less skilled, labour might
- 10 specialise in labour-intensive products. If the pattern of trade matched the pattern of development, the least developed countries might specialise in primary products, while the most developed might trade services. However, generalisations are dangerous. Economies can change quickly, as can the level of involvement in world trade.

Source: adapted from BRIAN ELLIS, *International Economics*, Philip Allan Updates, 2004

Extract C:

Extract C was an extract of text.
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Question 1

- (a) Using **Extract A**, compare the changes in world GDP with changes in world exports for the period 1995 to 2002. *(4 marks)*
- (b) **Extract B** (lines 1 and 2) suggests that the pattern of trade is ‘based more significantly on comparative advantage than absolute advantage’. With the help of the data in **Extract B**, explain the distinction between comparative advantage and absolute advantage. *(6 marks)*
- (c) Analyse the possible impact of a ‘significant slowing down of US growth’ (**Extract C**, lines 1 and 2) on the macroeconomic performance of countries such as Canada, Malaysia and Mexico. *(10 marks)*
- (d) **Extract C** (lines 12 and 13) refers to a ‘virtuous circle of trade liberalisation and economic growth’. Evaluate the case **for** and **against** greater free trade in the world today. *(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 main causes of economic growth. *(20 marks)*
- (b) A recent EU survey reported that income per head was significantly lower in Greece and Portugal than in the Netherlands and Ireland. Evaluate the view that living standards in the Netherlands and Ireland must therefore be higher than those in Greece and Portugal. *(30 marks)*
- 3** (a) Explain the possible demand-side **and** supply-side causes of unemployment. *(20 marks)*
- (b) Discuss the view that, as an economy approaches full employment, inflation will inevitably accelerate. *(30 marks)*
- 4** (a) Explain how monetary **and** fiscal policies might be used to increase aggregate demand. *(20 marks)*
- (b) In recent years in the UK, much greater emphasis has been given to the supply-side effects of fiscal policy. Evaluate the view that fiscal policy is only useful for its impact on the supply side of the UK economy. *(30 marks)*

END OF QUESTIONS

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