

General Certificate of Education
January 2008
Advanced Level Examination



ECONOMICS

ECN6

Unit 6 Government Policy, the National and International Economy

Tuesday 29 January 2008 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 the different aspects of Economics.
- You will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

Advice

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

SECTION A

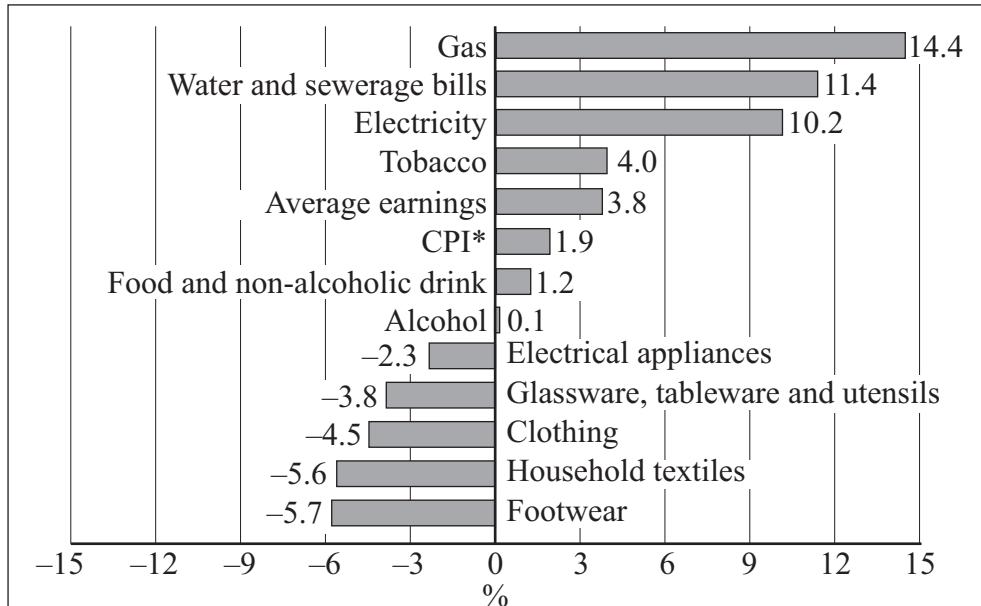
Answer **all** parts of this question.

Total for this question: 50 marks

1 INFLATION

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

Extract A: Earnings and selected price changes (%), January 2005 to January 2006



Gas, water and electricity are examples of utilities.

* CPI is the Consumer Price Index.

Source: *Daily Telegraph*, 25 February 2006

Extract B: From slippers to champagne

Changes in the CPI (Consumer Price Index) and the RPI (Retail Price Index) measure changes in the cost of a representative ‘basket’ of goods and services bought by consumers within the UK. The ‘basket’ changes over time. For example, MP3 players and champagne have recently replaced CD players and slippers. 1

Households spend more on some categories of expenditure, such as fuel, than on others, such as postal services. We would therefore expect price increases for certain items to have a bigger effect on the overall change in the cost of the ‘basket’ than others. Each item in the index is weighted to reflect the proportion of household expenditure spent on it. 5

Source: adapted from an article by DAVID BARAN, ‘CPI and RPI: updating weights for 2006’, www.statistics.gov.uk, accessed on 30 May 2006

Extract C: Is inflation still dead?

My book, *The Death of Inflation*, published ten years ago, suggested that we were entering a new world in which inflation, overall, would be extremely low and that, from time to time, the price level might fall. It was predicted that the information revolution would allow the widespread distribution of information about prices, and the increased ease of transactions would sharpen competition. People's expectations of inflation would subside. Moreover, the dynamic part of the globalisation effect, namely the realisation by both workers and companies that they are now in a global marketplace, is still increasing in significance. Central banks could, and would, head off any threat to low inflation. So, is inflation still dead? The answer is 'yes'.

1

5

Source: adapted from an article by ROGER BOOTLE, *Sunday Telegraph*, 28 May 2006

Extract D: Inflation: a threat to stability

High inflation was once the greatest threat to economic stability in the UK. It has at times caused a wage–price spiral and led to high expectations of future inflation. For these reasons, government policy initiatives have been required, both to manage demand more effectively and to improve the economy's supply side. It has also been past recessions, with the consequent mass unemployment and slump in demand, that have forced a change in focus towards achieving and maintaining low inflation and, crucially, low expectations of future inflation.

1

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Source: adapted from GARY COOK, *Economics Update 2006*, Hidcote Press, 2006

Question 1

- (a) Using **Extract A**, compare the changes in the prices of utilities with the other price changes shown for the period January 2005 to January 2006. *(4 marks)*

- (b) **Extract C** (line 2) refers to 'a new world in which inflation, overall, would be extremely low'. Explain **two** possible causes of a low rate of inflation. *(6 marks)*

- (c) **Extract B** is concerned with the use of indices to measure inflation. Analyse the way in which inflation indices, such as the CPI and the RPI, are constructed **and** their accuracy as measures of inflation for every household in an economy over time. *(10 marks)*

- (d) According to the Office for National Statistics (ONS) the annual average rate of UK inflation, as measured by the CPI, for the period 2001 to 2006 was 1.6%.

Evaluate the significance of this low rate of inflation for the performance of the UK economy in recent years. *(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 concept of economic growth **and** how it can affect the standard of living of a country. *(20 marks)*
- (b) Evaluate the extent to which government economic policy may have influenced the rate of growth of the UK economy in recent years. *(30 marks)*
- 3** (a) Explain how fiscal policy might be used to achieve government objectives, such as low unemployment, higher productivity and environmental protection. *(20 marks)*
- (b) In recent years, the ‘Golden Rule’ in UK fiscal policy has required a balanced budget to be achieved over the economic cycle. Evaluate the possible macroeconomic consequences for the UK economy of such a requirement. *(30 marks)*
- 4** (a) Explain the factors which may help to determine an economy’s export performance. *(20 marks)*
- (b) Evaluate the economic consequences for members of a customs union, such as the EU, of the protectionist policies it adopts towards the rest of the world. *(30 marks)*

END OF QUESTIONS

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Question 4(b): Quotation taken from an article by Maurice Chittenden and Nicola Smith in The Sunday Times, London

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