AQA

Please write clearly in block capitals.

Centre number | | | | | | Candidate number | | | | |

Surname _____

Forename(s) _____

Candidate signature _____

# GCSE
# ECONOMICS

## Paper 2 How the economy works

Monday 3 June 2019 Afternoon Time allowed: 1 hour 45 minutes

**Materials**
You will need no other materials.
You may use a calculator.

| For Examiner's Use | |
|---|---|
| Section | Mark |
| A | |
| B | |
| **TOTAL** | |

**Instructions**
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

**Information**
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- Questions should be answered in continuous prose. You will be assessed on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

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## Section A

Answer **all** questions in the spaces provided.

For questions with four responses, only **one** answer per question is allowed.

For each question, completely fill in the circle alongside the appropriate answer.

CORRECT METHOD 

WRONG METHODS 

If you want to change your answer you must cross out your original answer as shown. 

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown. 

**0 1** Which of the following is a principal economic objective of government policies?

**[1 mark]**

**A** Growth of inflation ⬭

**B** Increased current account deficit ⬭

**C** Low employment ⬭

**D** Steady economic growth ⬭

**0 2** A budget surplus is best described as which of the following?

**[1 mark]**

**A** Where government revenue is greater than government expenditure ⬭

**B** Where government revenue is less than government expenditure ⬭

**C** Where the value of exports is less than the value of imports ⬭

**D** Where the value of imports is less than the value of exports ⬭



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**0 3** Which of the following policies is most likely to reduce cyclical unemployment?

**[1 mark]**

**A** Increase in direct taxes ⬭

**B** Increase in interest rates ⬭

**C** Increase in money supply ⬭

**D** Increase in taxes on business profits ⬭

**0 4** Which of the following is an example of a supply-side policy?

**[1 mark]**

**A** Reduced taxes on company profits ⬭

**B** Increased government spending on unemployment benefits ⬭

**C** Reduced government spending on education ⬭

**D** Increased taxes on expenditure ⬭

**0 5** Which of the following would be most likely to reduce income inequality?

**[1 mark]**

**A** Increased taxes on expenditure ⬭

**B** Increased tax-free personal allowances on income ⬭

**C** Reductions in unemployment benefits ⬭

**D** Reduced taxes on businesses ⬭

**Turn over for the next question**

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**0 6** **Table 1** shows United Kingdom (UK) economic growth between 2013 and 2017.

**Table 1**

| Year | Economic growth (% change in GDP) |
|---|---|
| 2013 | 2.1 |
| 2014 | 3.1 |
| 2015 | 2.3 |
| 2016 | 1.9 |
| 2017 | 1.7 |

Using **Table 1**, the average annual rate of economic growth for this period to one decimal place is:

**[1 mark]**

**A** 2.0 % ⬭

**B** 2.1 % ⬭

**C** 2.2 % ⬭

**D** 2.3 % ⬭

**0 7** Which of the following best describes the type of unemployment caused by people not having the skills needed for the jobs available?

**[1 mark]**

**A** Cyclical ⬭

**B** Frictional ⬭

**C** Seasonal ⬭

**D** Structural ⬭

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**0 8** Which of the following pairs of policy changes is the most appropriate response to the problem of high inflation?

**[1 mark]**

| | Interest rates | Tax rates | |
|---|---|---|---|
| **A** | Increase | Increase | ⬭ |
| **B** | Decrease | Decrease | ⬭ |
| **C** | Increase | Decrease | ⬭ |
| **D** | Decrease | Increase | ⬭ |

**0 9** Consumption of healthy food can lead to positive externalities.

Which of the following policies is the most appropriate for correcting this type of market failure?

**[1 mark]**

**A** Indirect taxes on healthy food ⬭

**B** Restrictions placed on consumption of healthy food ⬭

**C** Restrictions on advertising healthy food ⬭

**D** Subsidies for businesses producing healthy food ⬭

**1 0** Which of the following identifies the most likely effects of a significant increase in economic growth?

**[1 mark]**

| | Effect on unemployment | Effect on budget deficit | |
|---|---|---|---|
| **A** | Decrease | Increased deficit | ⬭ |
| **B** | Increase | Reduced deficit | ⬭ |
| **C** | Increase | Increased deficit | ⬭ |
| **D** | Decrease | Reduced deficit | ⬭ |

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**1 1** State **two** causes of inflation.

**[2 marks]**

Cause 1 _____

_____

Cause 2 _____

_____

**1 2** Explain **one** reason why the UK government may want to reduce a budget deficit.

**[2 marks]**

_____

_____

_____

_____

**1 3** Explain why rapid economic growth may be harmful for individuals in an economy.

**[2 marks]**

_____

_____

_____

_____

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**1 4** **Table 2** shows balance of payments data in an economy for 2018.

**Table 2**

| | £ billion |
|---|---|
| Exports of goods and services | 35 |
| Imports of goods and services | 47 |
| Primary income balance | 3 |
| Secondary income balance | −5 |

**1 4 . 1** Using **Table 2**, calculate the current account balance for 2018.

Show your working.

**[2 marks]**

Account balance = _____

**1 4 . 2** Explain **one** reason why a government may aim for balance on the current account.

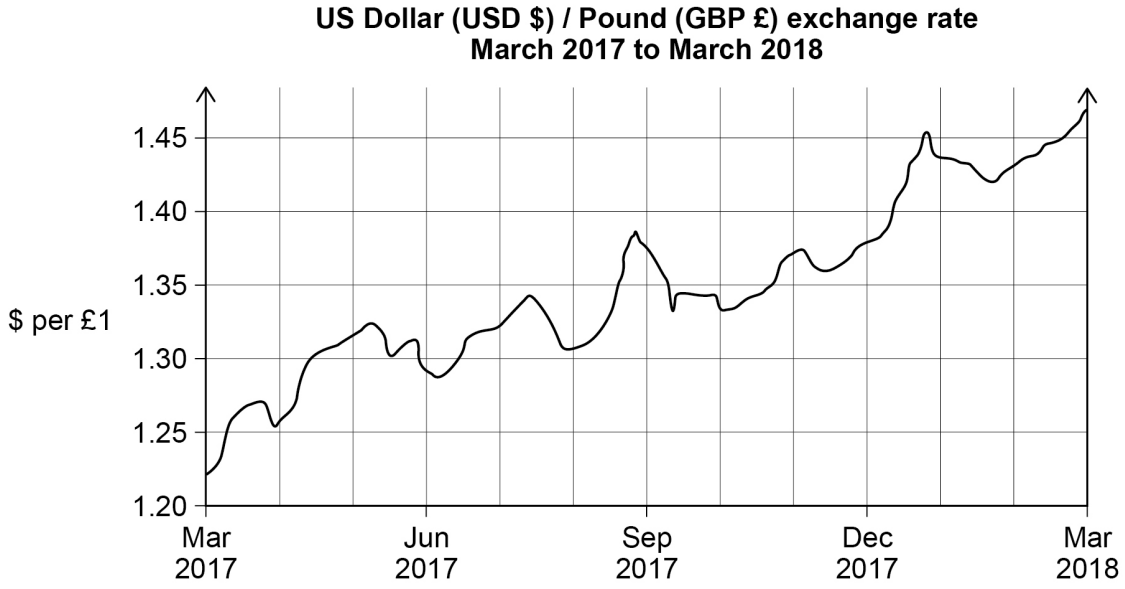
**[2 marks]**

**Turn over for the next question**

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**1 5** **Figure 1** shows the US Dollar ($) to the British Pound (£) exchange rate between March 2017 and March 2018.

**Figure 1**




**1 5 . 1** Using **Figure 1**, analyse the impact of the change in this exchange rate on UK producers.

**[6 marks]**

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**1 6** State **two** functions of money.

**[2 marks]**

Function 1 _____

Function 2 _____

**1 7** Explain **one** reason why interest rates on mortgages are normally lower than interest rates on credit cards.

**[2 marks]**

**1 8** Explain **one** reason why income inequality occurs.

**[2 marks]**

*Do not write outside the box*

**1 9** **Table 3** shows the Consumer Prices Index (CPI) for an economy.

**Table 3**

| Date | CPI |
|---|---|
| December 2017 | 145.7 |
| December 2018 | 154.6 |

**1 9 . 1** Using **Table 3**, calculate the annual inflation rate at December 2018 to one decimal place.

Show your working.

**[2 marks]**

Annual inflation rate = _____

**1 9 . 2** Explain **one** reason why the UK government aims for a low inflation rate.

**[2 marks]**

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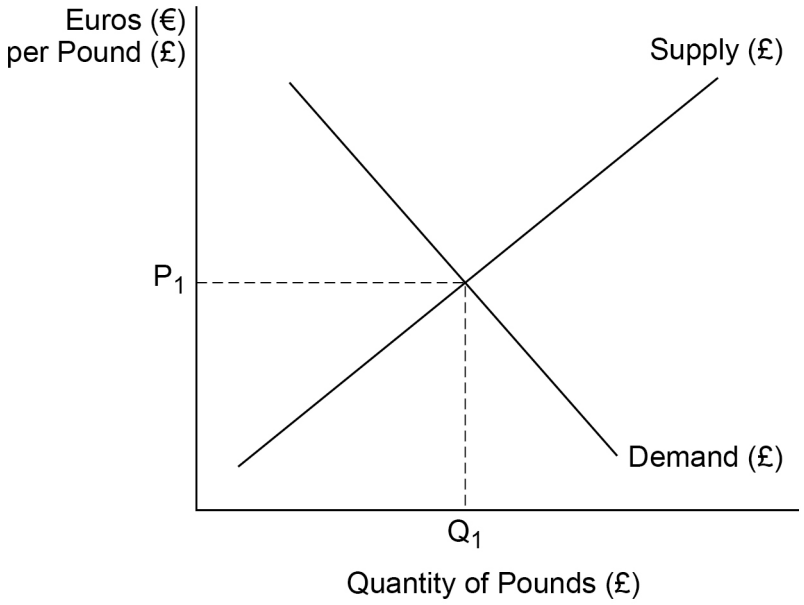
**2 0** **Figure 2** shows the Euro (€) to the British Pound (£) foreign exchange market.

On **Figure 2**, draw and label the effects on the exchange rate of increased UK imports from countries using the Euro.

**[3 marks]**

**Figure 2**

**Euro (€) to Pound (£) foreign exchange market**




**Turn over for the next question**

2 1

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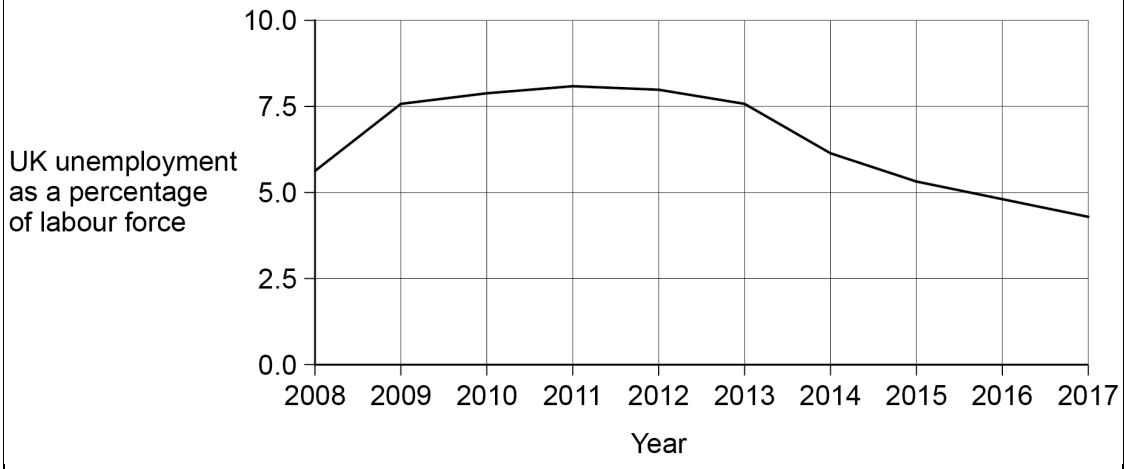
**Figure 3**

The UK unemployment rate peaked at 8.5% in 2011. Since then it has fallen gradually. The fall in UK unemployment surprised many people. Economists expected that UK unemployment would rise after the financial crisis of 2008. They also thought that it would remain high as consumer confidence remained low. In addition, the effects of planned cuts to government spending were also expected to increase the level of unemployment.

Most economists accept that governments should aim to reduce unemployment where possible. This is due to the negative impact unemployment has on individuals and the whole economy. Individuals who are unemployed usually have a lower standard of living compared to those in work. Higher unemployment also leads to government earning less in tax revenue.

Different factors cause unemployment. This makes it difficult to know how best to reduce unemployment. Also, aiming for low unemployment can lead to conflicts in achieving other economic objectives. This is important given that unemployment had fallen to a low level by the end of 2017.

**UK unemployment rate (%) 2008 – 2017**



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**2 1 . 1** Using **Figure 3**, assess whether a government should always aim for low unemployment.

**[9 marks]**

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## Section B

Answer **all** questions in the spaces provided.

### Item A: Globalisation in India

The Indian economy was significantly reformed in the early 1990s. Since then it has experienced much higher economic growth. Reforms of the Indian economy involved removing restrictions on Foreign Direct Investment (FDI). They also involved removal of restrictions on labour markets and the ending of subsidies for some inefficient producers. The level of Gross Domestic Product (GDP) in India was over ten times larger in 2017 than it was in 1990. This growth has meant that millions of people in India have seen their incomes rise significantly. India now has millions of households who have incomes similar to households in more-developed countries.

However, some people think the opening of India to more FDI and greater competition has not been good for the economy. India now attracts many multinational corporations (MNCs) from outside India which Indian companies have struggled to compete with. This has meant business failure for many smaller enterprises in India. Some MNCs have also been accused of unfairly exploiting India's natural resources: Depletion of local water supplies by MNCs based in India has negatively affected local agricultural producers.

| **Data on India** | |
|---|---|
| GDP for 2017 measured in US Dollars | $2300 billion |
| Economic growth rate 2018 | 6.7% |
| Population for 2018 | 1.2 billion |

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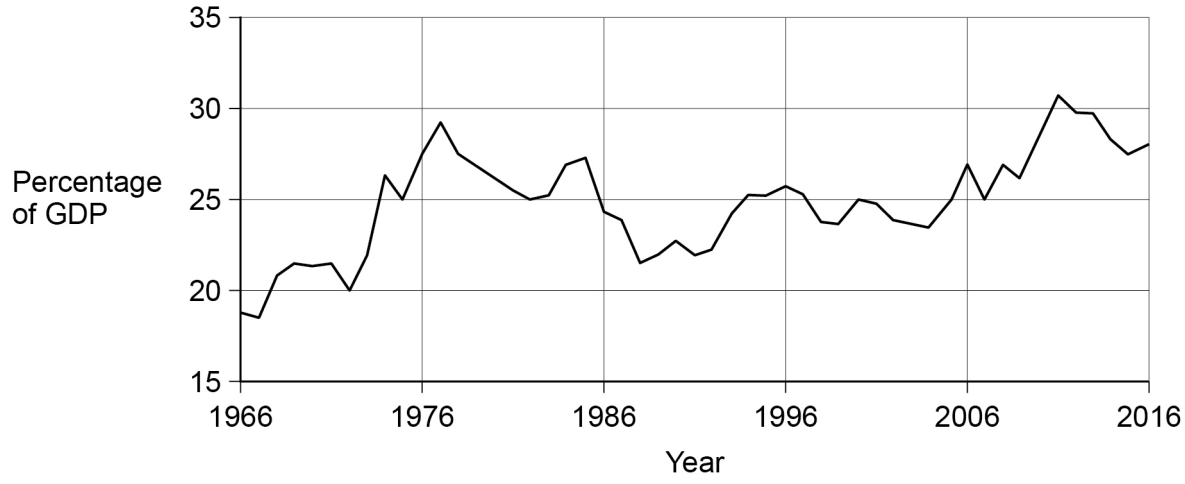
**Item B: Has the UK won or lost from globalisation?**

Quicker and cheaper transport methods allow countries to specialise in what natural advantages they possess. For more developed countries, like the UK, there has certainly been a decline in the number of manufacturing jobs. However, total unemployment in these countries has not always risen despite the decline in manufacturing employment.

People are concerned we will begin to see service sector jobs in the UK being lost to less-developed countries due to the lower wages paid there. The increasing use of robots in production and use of online services allows service-based jobs in the UK to actually be provided by workers based in other countries. Faster internet speeds mean robots could be used for jobs that currently need workers, such as office cleaners and security guards. In both cases, those monitoring and controlling the robots would be in a less-developed country, where they can be employed on a much lower wage than that paid to UK workers doing the same job.

Globalisation is important for the UK. The contribution made from export sales to the UK's GDP has risen over the last fifty years. In 2016, exports contributed 27% to total UK GDP. This contrasts with other countries where exports are less important to the size of their GDP. For example, exports only contributed 12% to the USA's GDP in 2016.

**UK exports of goods and services (as % of UK GDP)**




**2 2** Define globalisation.

**[2 marks]**

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**2 3** Using **Item A**, calculate GDP per capita in India for 2018 to the nearest US Dollar ($).

Show your working.

**[3 marks]**

GDP per capita = _____

**2 4** Using **Item B**, explain **two** factors that have contributed to increased globalisation.

**[6 marks]**

Factor 1 _____

Factor 2 _____

*Do not write outside the box*

**2 5** Using **Item A**, analyse the possible consequences of increased globalisation for producers in less-developed economies, such as India.

**[6 marks]**

**Turn over for the next question**

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**2 6** In the UK, some politicians claim that globalisation has been bad for the economy.

Using **Items A and B**, discuss whether increasing globalisation is harmful for developed economies, such as the UK.

Use your own economic knowledge to justify your answer.

**[15 marks]**

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**END OF QUESTIONS**

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