AQA

Please write clearly in block capitals.

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

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Forename(s) _____

Candidate signature _____

I declare this is my own work.

GCSE
ECONOMICS

Paper 2 How the Economy Works

Friday 26 May 2023 Morning 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.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- 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 A budget surplus is best described as which of the following?

[1 mark]

A Where government expenditure is greater than government revenue ⬭

B Where government revenue is greater than government expenditure ⬭

C Where the value of exports is greater than the value of imports ⬭

D Where the value of imports is greater than the value of exports ⬭

0 2 Which of the following is **not** a supply-side policy?

[1 mark]

A Decreasing taxes on business profits ⬭

B Decreasing the power of trade unions ⬭

C Increasing interest rates ⬭

D Increasing investment in education ⬭

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0 3 **Table 1** shows economic growth between 2018 and 2022 for an economy.

Table 1

Year	Economic growth (% change in GDP)
2018	3.2
2019	0.5
2020	–1.4
2021	1.2
2022	1.9

Using **Table 1**, the average (mean) annual rate of economic growth for the period 2018–2022 to **one** decimal place is

[1 mark]

A 0.9% ⬭

B 1.1% ⬭

C 1.4% ⬭

D 1.9% ⬭

0 4 'If inflation is low, the money saved today can be used at a later date with no significant reduction in its purchasing power.'

Which function of money does the above statement most closely relate to?

[1 mark]

A Means of deferred payment ⬭

B Medium of exchange ⬭

C Store of value ⬭

D Unit of account ⬭

Do not write outside the box

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

[1 mark]

A Increased tax-free personal allowances ⬭

B Increased tax rates on high incomes ⬭

C Decreased unemployment benefits ⬭

D Decreased tax rates on all incomes ⬭

0 6 Which of the following is most likely to increase the UK's quantity of imports?

[1 mark]

A Increased trade barriers ⬭

B Increased UK economic growth ⬭

C Lower economic growth in UK's trading partners ⬭

D Lower exchange rate ⬭

0 7 Which type of unemployment is caused by unemployment benefits being generous enough to allow workers to take a long time when searching for jobs?

[1 mark]

A Cyclical ⬭

B Frictional ⬭

C Seasonal ⬭

D Structural ⬭

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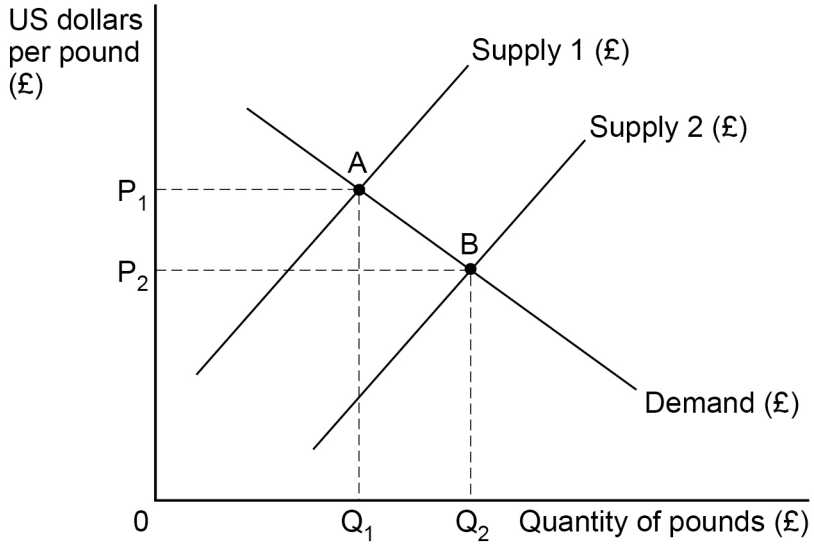
0 8 Which of the following pairs of policy changes is most likely to reduce a balance of trade deficit?

[1 mark]

	Tax rates	Exchange rate	
A	Decrease	Decrease	⬭
B	Decrease	Increase	⬭
C	Increase	Decrease	⬭
D	Increase	Increase	⬭

0 9 **Figure 1** shows the US Dollar ($) to the British Pound (£) foreign exchange market.

Figure 1



Which of the following could have caused the change in the equilibrium from point A to point B?

[1 mark]

A Decreased UK exports to the USA ⬭

B Decreased UK imports from the USA ⬭

C Increased UK exports to the USA ⬭

D Increased UK imports from the USA ⬭

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1 0 **Table 2** shows data from the current account of the balance of payments for an economy.

Table 2

	£ million
Exports	4.5
Imports	7.7
Primary income balance	3.4
Secondary income balance	–1.6

Based on this information, calculate the current account balance for this economy.

[1 mark]

A £1.4 million deficit ⬭

B £0.4 million deficit ⬭

C £3.4 million surplus ⬭

D £14.0 million surplus ⬭

1 1 State **two** factors that may influence the rate of interest charged by banks lending money.

[2 marks]

Factor 1 _____

_____

Factor 2 _____

_____

Do not write outside the box

1 2 Explain **one** benefit of increasing taxation rates for an economy.

[2 marks]

1 3 Explain **one** factor that may contribute to the growth of globalisation.

[2 marks]

Turn over for the next question

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1 4 **Table 3** contains labour market data for an economy.

Table 3

Number of people in labour force	33.5 million
Number of people in employment	31.8 million

1 4 . 1 Using **Table 3**, calculate the unemployment rate to **one** decimal place.

Show your working.

[2 marks]

Answer _____

1 4 . 2 Explain **one** possible consequence for UK businesses of increased UK unemployment.

[2 marks]

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Figure 2 – Inequality in the UK

Many people are concerned that inequality is increasing in the UK to unacceptably high levels. The share of income earned by the top 1% richest households has nearly tripled in the last forty years. Income inequality and wealth inequality can lead to social and economic problems. Solutions to rising income inequality include policies on taxation and welfare spending.

Wealth inequality comes from wide differences in people's wealth – often connected to rising prices of assets, such as houses. The problems caused by wealth inequality can be addressed by changes in taxation.

1 5 Using **Figure 2**, analyse how redistribution of income **and** wealth can be achieved through taxation and government spending.

[6 marks]

Extra space

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1 6 State **two** examples of direct taxes used in the UK.

[2 marks]

Example 1 _____

Example 2 _____

1 7 Explain **one** role of a commercial bank.

[2 marks]

1 8 Explain **one** disadvantage of using supply-side policies.

[2 marks]

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1 9 **Table 4** shows data relating to tax rates and personal allowances in an economy.

Table 4 – Income tax rates and allowance for yearly income

Tax-free personal allowance	£14 000
Tax rate on income above £14 000	25%
Tax rate on income above £40 000	50%

1 9 . 1 A person earns an annual income of £35 000 from working.
Using **Table 4**, calculate the amount of income tax this person pays.
Show your working.

[2 marks]

Answer £ _____

1 9 . 2 Explain what is meant by a progressive tax.

[2 marks]

Turn over for the next question

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2 0 **Table 5** shows the taxes collected by a government in 1 year.

Table 5

Tax revenues collected	**£ billions**
Income tax	225
Value-added tax	75
National Insurance contributions	150
All other taxes combined	150
Total tax revenue collected	**600**

Use **Table 5** to complete the pie chart on the opposite page to show the proportions of total tax revenue collected for each of the following taxes:

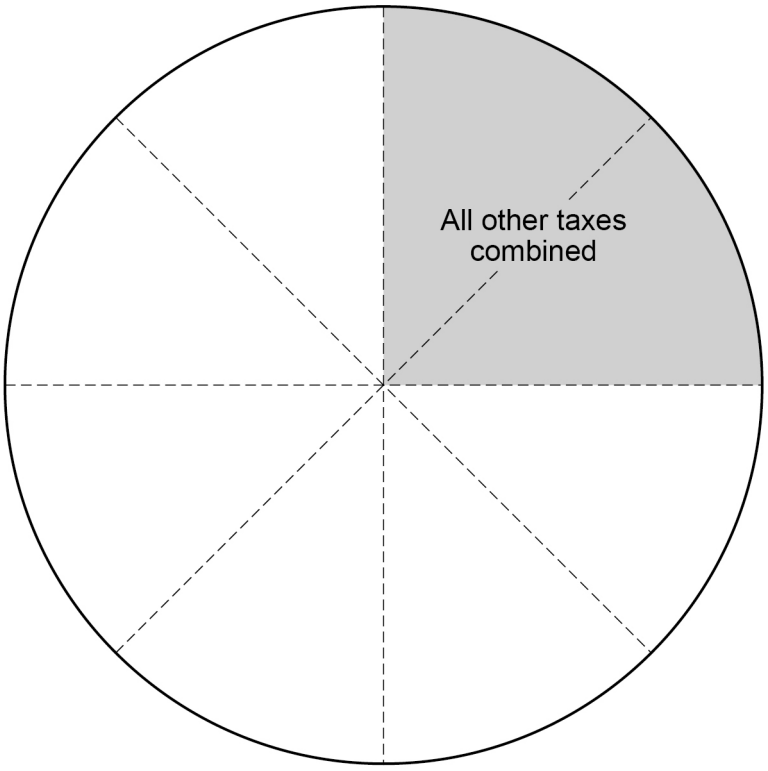
- income tax
- value-added tax
- National Insurance contributions.

Additional information:

- the area for 'All other taxes combined' has already been completed
- each segment shown on the pie chart represents 45 degrees
- use of a protractor is **not** required.

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Different taxes collected by a government in 1 year
by proportion of overall tax calculated



[3 marks]

Turn over for the next question

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Figure 3 – Obesity in the UK

Obesity is a growing problem in the UK. Latest official statistics indicate around 36% of the UK population are overweight and close to 30% are classed as obese. Poor diet and lack of exercise are common factors which account for the increased problem of obesity. Obesity costs the economy in a number of ways – with more days off work and increased pressure on the National Health Service (NHS) as more people require treatment of medical diseases and conditions related to obesity.

Governments aim to correct market failures where possible. The market failure associated with obesity is connected to the overconsumption of junk food – food that is high in fats, salt and other factors contributing to poor diets. A potential solution to this problem would be to tax junk food. This would help reduce consumption and help reduce obesity. However, some people believe that a tax would not be effective – especially when considering the price elasticities of various items, shown in the table below. Other solutions are recommended, such as improved education on the nutritional content of certain foods.

Estimates for price elasticity of demand for food and drink items

Junk food	–0.8
Fruit/vegetables	–1.5
Soft (fizzy) drinks containing sugar	–2.1

2 1 Using **Figure 3**, assess whether an indirect tax on junk food can help solve the market failure caused by obesity.

[9 marks]

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48

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Section B

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

Item A – Inflation in the UK

In 2022, UK inflation reached over 10% – its highest level for over 40 years. Inflation is measured by the change in the average level of prices, as measured by the Consumer Prices Index (CPI) and had been kept low for most of the last decade but has risen significantly since 2020. This is shown in **Table 6**.

Table 6

CPI measured in April each year	
2018	105.4
2019	107.6
2020	108.5
2021	110.1
2022	120.0

Source: ONS

Inflation can create a number of problems for people, businesses and the economy. Problems created by high inflation include damaging international competitiveness – which has knock-on effects throughout the economy – and falling real incomes for many households.

Inflation can be reduced in a number of ways but this will depend on whether inflation is caused by demand-pull or cost-push factors. Interest rates are often used to control inflation as changes in interest rates can significantly affect the level of different types of spending in an economy. Interest rates also affect the exchange rate, which can sometimes help to control inflation.

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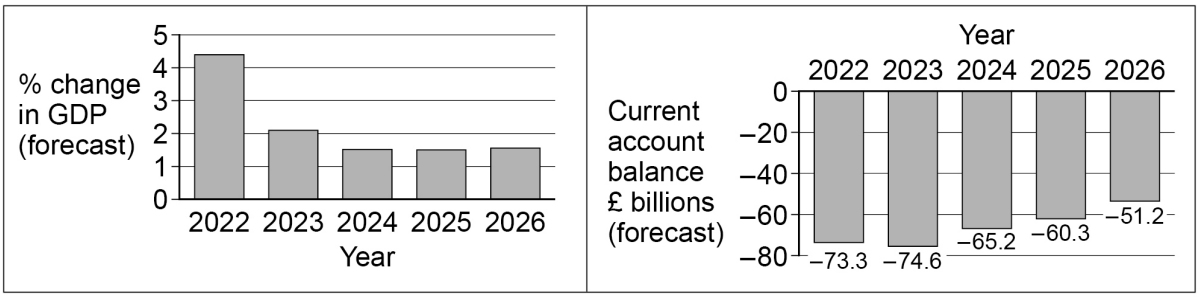
Item B – Other economic problems facing the UK

It appeared there were other problems facing the UK economy as the country emerged from the end of the unusual period caused by the pandemic. Although economic growth was high in 2021 and was forecast to be high in 2022, it was forecast to be low afterwards. Some economists believe that tax rises planned during this period should be cancelled to help increase economic growth. Other problems facing the UK economy were the high level of government borrowing and the continuing deficit on the current account of the balance of payments.

Although inflation appears to be the biggest of all the problems, there were worries that attempts to control inflation would also lead to conflicts in achieving other government economic objectives. Interest rates have risen in 2022 and are expected to increase in the future. Interest rate increases can help achieve some objectives but often make it more difficult to achieve other objectives. Increased interest rates can be harmful for economic growth and jobs. As shown in **Figure 4**, economic growth is forecasted to be low in the next few years.

However, **Figure 4** also shows that the deficit on the current account, although high, is expected to fall in the next few years.

Figure 4



Source: www.gov.uk

2 2 Define the term 'demand-pull inflation'.

[2 marks]

Do not write outside the box

2 3 Using **Table 6**, calculate the UK's (mean) average inflation rate for the years 2021 and 2022 to **one** decimal place.

[3 marks]

Answer _____

2 4 Using **Item A**, explain **two** possible effects of increasing interest rates.

[6 marks]

Possible effect 1 _____

Possible effect 2 _____

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2 5 Using **Item B**, analyse how government policies can increase economic growth.

[6 marks]

Extra space

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2 6 Do you think aiming for price stability should always be an economic priority for governments?

Use **Item A and Item B** and your own economic knowledge to justify your view.

[15 marks]

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END OF QUESTIONS

32

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