

AS ECONOMICS

Paper 2 The National Economy in a Global Context

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DO NOT WRITE ANY ANSWERS IN THIS INSERT. YOU MUST ANSWER THE QUESTIONS IN THE ANSWER BOOKLET PROVIDED.

CONTEXT 1: TROUBLING TIMES FOR THE UK ECONOMY

Questions 21 to 26

- **Extract A:** Inflation and the growth in average weekly real earnings, December 2020 to November 2022
- **Extract B:** Is inflation out of control?
- **Extract C:** Concerns about government borrowing?

CONTEXT 2: THE LEVELLING-UP AGENDA

Questions 27 to 32

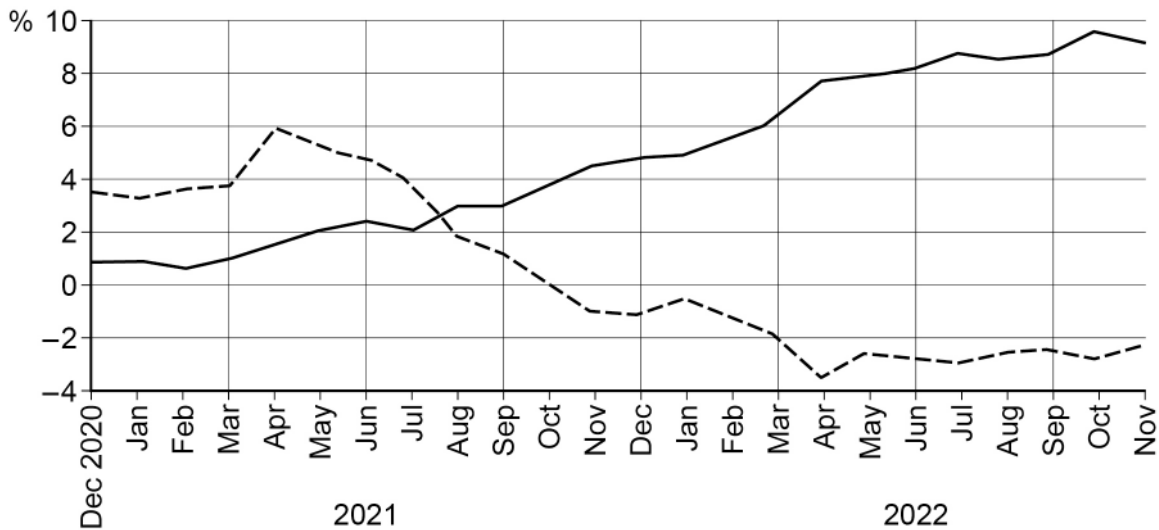
- **Extract D:** Employment and inactivity rates, February 2023, and nominal GDP per capita, 2020, in selected regions of the UK
- **Extract E:** Is the UK Government serious about levelling up?
- **Extract F:** Why is levelling up so important?

Context 1

Total for this context: 50 marks

TROUBLING TIMES FOR THE UK ECONOMY

Extract A: Inflation and the growth in average weekly real earnings, December 2020 to November 2022



Key

- CPIH inflation
- Growth in average weekly real earnings

Note: CPIH is a measure of inflation based on the Consumer Prices Index which also includes owner occupiers' housing costs

Source: ONS, Average Weekly Earnings in Great Britain, January 2023

Extract B: Is inflation out of control?

Inflation rose significantly throughout the global economy in 2022. In the UK, rapid increases in the price of commodities, such as gas and wheat, combined with rising levels of consumption, led to a 40-year high inflation rate of 11.7%, as measured by the Consumer Prices Index (CPI). High inflation makes some people poorer, it disrupts firms' planning, reduces confidence and creates uncertainty. 5

As wage growth failed to keep up with rising inflation, there was much discussion of a 'cost-of-living crisis' that affected low-income households most of all. Industrial action spread across the UK, with railway workers, NHS workers and teachers, among others, striking for better pay to restore the purchasing power of their incomes. However, there were fears that higher wages, leading to rising costs, would make inflation worse. 10

In response, as inflation rose above the target rate, the Bank of England's Monetary Policy Committee acted by increasing Bank Rate. However, this added to the financial pressure on homeowners, as monthly mortgage repayments increased. The Chancellor, Jeremy Hunt, acknowledged that householders and firms faced tough times, but stressed the importance of dealing with inflation to reduce instability and allow the economy to grow. These were troubling times for the UK economy. 15

Source: News reports, March 2023

Extract C: Concerns about government borrowing?

The UK economy narrowly avoided a recession in 2022, with 0.1% real GDP growth during the final quarter. However, some economists expected that the UK economy would have a recession in 2023. According to the Office for National Statistics, the volume of retail sales decreased by 3% between 2021 and 2022, as consumers reduced their spending. In addition, business investment declined by 2.5% in the third quarter of 2022. Despite this, the government ruled out the use of expansionary fiscal policy to boost aggregate demand. 5

The Chancellor had concerns about government borrowing, forecast to reach a peak of 106.7% of GDP in 2023/24. Government spending had increased significantly, due to the pandemic and payments to help households with rising energy prices. To reduce the budget deficit, the Chancellor announced tax rises, to be followed by substantial cuts in government spending from 2025. It was hoped that this would also help to reduce inflation. 10

Regressive taxes, such as VAT, were largely unchanged. Income tax was not increased, but most tax thresholds would be frozen until 2028, meaning millions of workers would pay more tax. The highest rate of income tax, 45%, would be paid on earnings over £125 140 rather than £150 000. For firms, it was confirmed that corporation tax would increase by 6 percentage points, to 25%. 15

These policies could restrict economic growth in the short term and increase the likelihood of the economy going into recession. However, the government believed that once inflation and government borrowing were under control, the economy would be able to recover and prosper once more. 20

Source: News reports, March 2023

Turn over for Context 1 questions

Turn over ►

Context 1: – Questions 21 to 26

- 2 1** Define 'Regressive taxes' **Extract C** (line 12). **[3 marks]**
- 2 2** A homeowner has an interest-only mortgage of £225 000. The annual interest rate paid on their mortgage has increased from 2% to 4.3%.

Calculate the increase in the amount of interest paid per month to the **nearest pound (£)**. **[4 marks]**
- 2 3** Use **Extract A** to identify **two** significant points of comparison between inflation and the growth in average weekly real earnings over the period shown. **[4 marks]**
- 2 4** **Extract B** (lines 1–3) states: '...rapid increases in the price of commodities, such as gas and wheat...led to a 40-year high inflation rate...'.

Draw an AD/AS diagram to show how rising commodity prices are likely to affect the macroeconomy. **[4 marks]**
- 2 5** **Extract B** (lines 11–12) states: 'In response, as inflation rose above the target rate, the Bank of England's Monetary Policy Committee acted by increasing Bank Rate.'

Explain how an increase in Bank Rate may lead to a reduction in the rate of inflation. **[10 marks]**
- 2 6** **Extract C** (lines 17–18) states: 'These policies could restrict economic growth in the short term and increase the likelihood of the economy going into recession.'

Use the extracts and your knowledge of economics to evaluate policies that might help an economy to recover from a recession. **[25 marks]**

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Turn over for Context 2

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Context 2

Total for this context: 50 marks

THE LEVELLING-UP AGENDA

Extract D: Employment and inactivity rates, February 2023, and nominal GDP per capita, 2020, in selected regions of the UK

Region	Employment rate (%) February 2023	Inactivity rate (%) February 2023	Nominal GDP per capita (£) 2020
UK	75.8	21.1	31 972
Northern Ireland	71.9	26.2	25 575
Scotland	75.7	22.0	29 629
Wales	72.4	24.9	23 882
Midlands	74.5	22.3	26 119
North East	73.1	23.6	23 109
North West	74.6	22.5	28 257
South East	79.0	17.7	34 516

Notes:

The employment rate is the proportion of people aged between 16-64 who are in employment.

The inactivity rate is the proportion of people aged between 16-64 who are not in the labour force.

Source: ONS, Labour Force Survey and Regional Economic Activity, UK

Extract E: Is the UK Government serious about levelling up?

The UK suffers from more regional inequality than most major economies, and the situation has worsened over the past 30 years. High productivity, leading to economic growth, higher-paying jobs and rising GDP per capita, has been concentrated in certain areas, particularly South East England, which is now one of the most prosperous areas of northern Europe. Yet, some of the UK's most successful cities, such as Birmingham, Manchester, Glasgow and Cardiff, have fallen behind similar foreign cities in terms of productivity and incomes. 5

Such high regional inequality is not inevitable. In Germany and the Netherlands, where government support was effectively targeted at specific regions, regional inequality is lower and has been falling for 20 years.

The UK Government's levelling-up policy aims to close the gap that exists between rich and poor regions of the economy by 2030. The government says it is a 'moral, social and economic programme'. The intention is to 'spread opportunity more equally across the UK'. This is not only about reducing differences in income, but also reducing the significant differences in productivity, infrastructure, employment, educational attainment and life expectancy between regions. 10
15

The UK Government has announced a £2.1 billion 'levelling-up fund', which has been allocated to more than 100 different projects across the UK. For example, the town of Morecambe, in North West England, is to receive £50 million from the government to match private-sector investment for an eco-tourism project. This should provide a welcome boost to the local economy. However, it is essential to ensure that the funding is spent effectively. Given that the government intends to cut the budget deficit to reduce borrowing, it faces a huge challenge if it wishes to keep its levelling-up promise. 20

Source: News reports, February 2023

Extract F: Why is levelling up so important?

Unless the UK Government provides additional support, the outlook for some poorer regions may be gloomy. They often suffer from structural unemployment, low consumption and a lack of investment. The impact of the multiplier process can cause even greater decline and inequality. Poor health and low levels of literacy are also more likely to exist in poor regions.

As part of its long-term plan, the government has 12 levelling-up 'missions' or objectives. 5
These include raising pay, employment and productivity throughout the UK; increasing education spending in the most disadvantaged areas; and increasing the number of people completing high-quality skills training. In addition, the government intends to raise the quality and quantity of public transport to match that found in London, and overall, improve 'well-being' in every part of the UK. 10

The benefits could be significant. For example, improving productivity is likely to lead to rising real wages, increased consumption, falling unemployment and improving international competitiveness. More confidence in the economy should encourage more investment, which is likely to lead to greater economic growth.

Success relies heavily on the effectiveness of supply-side policies. But the responsibility does not rest solely with the government. By creating incentives, it can work effectively alongside firms in the private sector. If the poorer regions become richer, levelling-up may be achieved. 15

Source: News reports, February 2023

Turn over for Context 2 questions

Turn over ►

Context 2: – Questions 27 to 32

- 2 7** Define 'GDP per capita' **Extract E** (line 3). **[3 marks]**
- 2 8** Use **Extract D** to calculate, as a percentage, how much nominal GDP per capita in the poorest region would need to rise, to equal nominal GDP per capita in the richest region.
Give your answer to the **nearest whole percent (%)**. **[4 marks]**
- 2 9** Use **Extract D** to identify **two** significant points of comparison between employment rates and inactivity rates in selected regions of the UK. **[4 marks]**
- 3 0** **Extract E** (lines 20–21) states: '...the government intends to cut the budget deficit to reduce borrowing'.
Draw an AD/AS diagram to show the most likely short-run effect of reducing the budget deficit on the macroeconomy. **[4 marks]**
- 3 1** **Extract F** (lines 1–2) states: 'Unless the UK Government provides additional support, the outlook for some poorer regions may be gloomy. They often suffer from structural unemployment'.
Explain why some regions of the UK suffer from structural unemployment. **[10 marks]**
- 3 2** **Extract F** (lines 5–6) states: 'As part of its long-term plan, the government has 12 levelling-up 'missions' or objectives. These include raising pay, employment and productivity throughout the UK'.
Use the extracts and your knowledge of economics to assess the view that the government should increase the amount of spending allocated to poorer regions of the UK. **[25 marks]**

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