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AQA

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GCSE
ECONOMICS

Paper 2 How the economy works

Friday 5 June 2020 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.
- 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 Monetary policy would involve changes in which of the following?

[1 mark]

A Government spending ⬭

B Interest rates ⬭

C Taxation ⬭

D Trade union power ⬭

0 2 A balance of trade surplus is best described as which of the following?

[1 mark]

A Government revenue is greater than government expenditure ⬭

B Government revenue is less than government expenditure ⬭

C Value of exports is less than the value of imports ⬭

D Value of imports is less than the value of exports ⬭

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0 3 Which of the following best describes the type of unemployment caused by regular and predictable variations each year in the demand for certain products?

[1 mark]

A Cyclical

B Frictional

C Seasonal

D Structural

0 4 An increase in the money supply is most likely to lead to which of the following?

[1 mark]

A Lower economic growth

B Lower unemployment

C Reduced balance of trade deficit

D Reduced inflation

0 5 Which of the following pairs of policy changes is the most appropriate response to the problem of low economic growth?

[1 mark]

	Interest rates	**Tax rates**
A	Decrease	Decrease
B	Decrease	Increase
C	Increase	Decrease
D	Increase	Increase

Turn over for the next question

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0 6 **Table 1** shows the unemployment rate in an economy between 2015 and 2019.

Table 1

Year	Unemployment rate (%)
2015	8.5
2016	7.6
2017	5.7
2018	5.4
2019	6.9

Using **Table 1**, the average (mean) unemployment rate over this period to one decimal place is:

[1 mark]

A 6.8% ⬭

B 6.9% ⬭

C 7.0% ⬭

D 7.1% ⬭

0 7 Which of the following aims to ensure financial stability in the economy?

[1 mark]

A Building society ⬭

B Central bank ⬭

C Commercial bank ⬭

D High street bank ⬭

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0 8 Which of the following would normally lead to a rise in the exchange rate?

[1 mark]

A Increased UK exports ⬭

B Increased UK imports ⬭

C Lower inflation in countries the UK trades with ⬭

D Lower UK interest rates ⬭

0 9 Which of the following might increase cost-push inflation?

[1 mark]

A Lower cost of raw materials ⬭

B Lower exchange rate ⬭

C Lower indirect tax ⬭

D Lower wage rates ⬭

1 0 Which of the following identifies the effects a significant increase in tax rates will have on unemployment and economic growth?

[1 mark]

	Unemployment	Economic growth	
A	Decrease	Decrease	⬭
B	Decrease	Increase	⬭
C	Increase	Decrease	⬭
D	Increase	Increase	⬭

Turn over for the next question

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1 1 State **one** example of a direct tax and **one** example of an indirect tax, both used in the UK.

[2 marks]

Direct tax _____

_____

Indirect tax _____

_____

1 2 Explain **one** way a fall in the UK exchange rate might affect UK businesses.

[2 marks]

_____

_____

_____

_____

1 3 Explain **one** cause of economic growth.

[2 marks]

_____

_____

_____

_____

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1 4 **Table 2** shows data on the national income and population for an economy for 2018 and 2019.

Table 2

GDP (2019)	£900 000 million
Population (2018)	30 million
Population growth rate (2018–19)	2%

1 4 . 1 Using **Table 2**, calculate GDP per capita for 2019 to the nearest £.

Show your working.

[2 marks]

GDP per capita = £_____

1 4 . 2 Explain **one** benefit of economic growth.

[2 marks]

Turn over for the next question

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Figure 1

Many people believe that rising obesity is linked closely to increases in consumption of 'junk' food, such as high-fat, high-sugar items. This 'junk' food is often cheaper than healthier alternatives. In 1993, 15% of adult males were classed as obese and this rose to 27% by 2015. It is forecast to rise further. Some economists believe the government should intervene to correct the market failure caused by too much consumption of 'junk' food.

1 5 Using **Figure 1**, analyse how the government might correct the market failure caused by too much consumption of 'junk' food.

[6 marks]

Extra space

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1 6 State **two** factors that influence the level of interest rate charged by banks when lending money to businesses.

[2 marks]

Factor 1 _____

_____

Factor 2 _____

_____

1 7 Explain **one** benefit of free trade for people in the UK.

[2 marks]

_____

_____

_____

_____

1 8 Explain **one** function of money.

[2 marks]

_____

_____

_____

_____

Turn over for the next question

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1 9 **Table 3** shows data relating to the labour force in an economy.

Table 3

Labour force	40.0 million
Unemployment rate	6.5%

1 9 . 1 Using **Table 3**, calculate the number of unemployed people.

Show your working.

[2 marks]

Number of unemployed people = _____

1 9 . 2 Explain what is meant by cyclical unemployment.

[2 marks]

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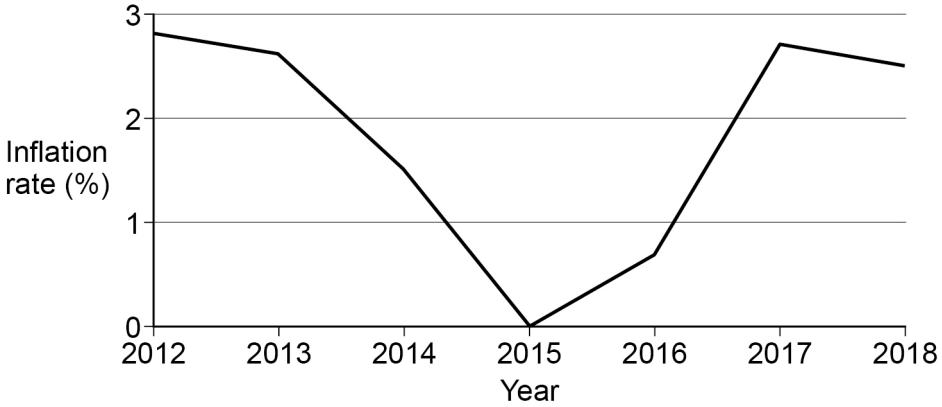
Figure 2 shows the inflation rate for the UK between 2012 and 2018.

Figure 2

UK inflation rate, 2012 – 2018



2 0 Using **Figure 2**, describe the change in the average level of prices over the time period shown.

[3 marks]

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Figure 3

The UK government's budget has had a deficit balance for a long time. When the government has a budget deficit it has to borrow money to cover the difference between spending and revenue. The interest charges on this borrowing may be very high. As shown below, it is estimated in the financial year 2019/20 that interest payments on government borrowing could be over £40 billion. This is a larger amount than is spent on major areas of government spending, such as transport and housing. Some economists say that the government should place more importance on reducing the budget deficit and should aim for a budget surplus.

One benefit of having a budget surplus is that government revenue could be spent elsewhere instead of on interest payments. It may also mean that interest rates could be lower as well. However, a budget surplus also has disadvantages. To achieve a budget surplus, taxes may have to rise and government spending may have to be cut on other areas.

Estimates of selected items of UK government spending for 2019/20	
Interest on borrowing	£43 billion
Transport	£37 billion
Housing and environment	£32 billion
Education	£103 billion
Health	£166 billion

(Total estimated government spending for 2019/20: £800 billion)

2 1 Using **Figure 3**, assess whether a budget surplus would be good for the UK economy.

[9 marks]

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Turn over for Section B

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Section B

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

Item A: Supply-side policies in the UK

Unemployment in the UK has remained lower than the levels experienced in other countries. France, Spain and Italy have much higher unemployment rates than the UK and this has been the case for many years. Some economists believe that UK unemployment is low because of continued use of supply-side policies. These are policies that aim to make markets work more efficiently and lead to higher output levels in the economy. Examples of supply-side policies include changing education so that people have the right skills for jobs in the future, encouraging businesses to invest in new technology and cutting welfare benefits to encourage those without jobs to work.

One popular supply-side policy has been to reduce taxes on income. This encourages unemployed people to take jobs as they will keep more of their earnings and this means unemployment levels should fall. In the UK, the basic rate of tax charged on people's earnings has fallen from over 30% in the 1970s down to 20% since the early 2000s. Tax rates on high incomes have also fallen. Since 2010, the amount people can earn before they pay any income tax has also risen. As shown in the table below, workers can earn up to £12 500 each year before they begin to pay any income tax at all.

Table 4: UK Income tax 2019/20	
Tax-free personal allowance	£12 500
Tax rate on incomes above £12 500	20%
Tax rate on incomes above £50 000	40%

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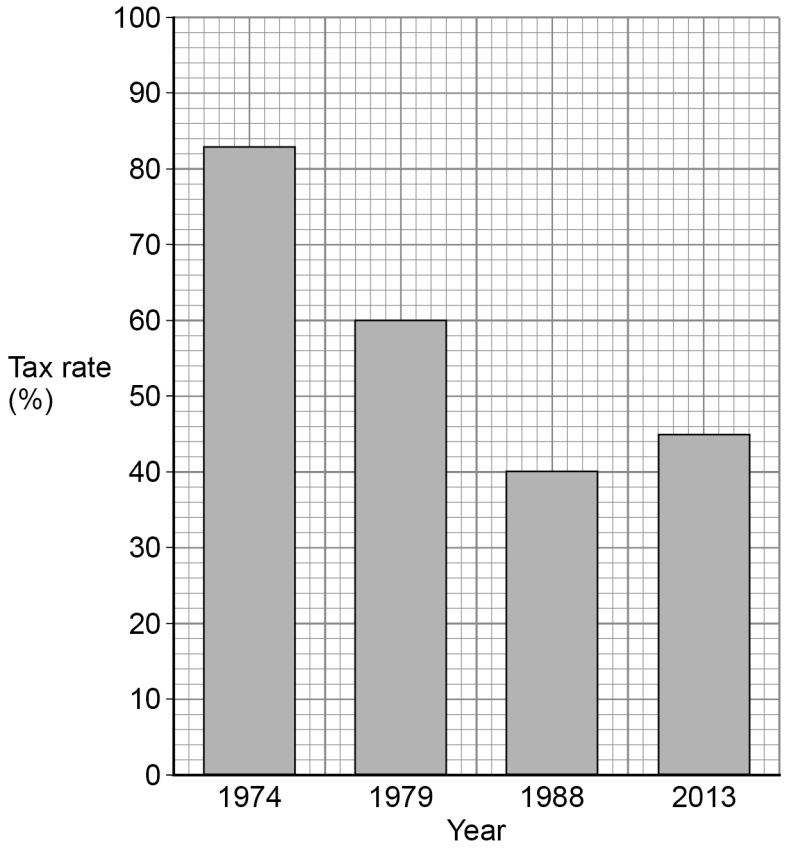
Item B: The drawbacks of supply-side policies

Not all people are in favour of the continued use of supply-side policies. Welfare benefits are usually paid to the unemployed or those on very low incomes. However, cutting the size of these benefit payments may lead to people being forced into poverty. In 2013 the UK government restricted the maximum amount a household could claim in benefits. This maximum amount was further reduced in 2016. A consequence of this cut in benefits is likely to be an increase in inequality. Increases in inequality and increases in poverty are closely linked. There are other problems linked to inequality, such as rising crime and social problems. Some blame street protests and riots in certain UK cities on rising inequality.

In addition, some economists claim that supply-side policies mainly benefit those on higher incomes. Cuts in UK income tax, as shown below, have largely benefited those on higher incomes. Although taxes for those on lower incomes have also fallen, wages for the low paid have often not risen. This can lead to increases in inequality. Further criticisms of supply-side policies are that they are very expensive to implement and are not guaranteed to work as planned.

UK: Highest rates of income tax on high earners in selected years



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2 2 Define progressive taxation.

[2 marks]

2 3 A person earns an annual income of £28 000 from working in 2019–20.

Using **Table 4** in **Item A**, calculate this person's income after tax.

Show your working.

[3 marks]

Income after tax = £ _____

2 4 Using **Item A**, explain **two** ways supply-side policies may reduce unemployment.

[6 marks]

Way 1 _____

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Way 2

2 5 Using **Item B**, analyse possible consequences of an increase in income inequality.

[6 marks]

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2 6 "The use of supply-side policies by the government does not benefit everyone in the UK."

Using **Items A and B**, and your own economic knowledge, discuss whether the UK government should continue to implement supply-side policies to reduce unemployment. Justify your view.

[15 marks]

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