



National
Qualifications
2017

X722/77/11

Economics

TUESDAY, 30 MAY
9:00 AM – 11:30 AM

Total marks — 80

SECTION 1 — 30 marks

Attempt ALL questions

SECTION 2 — 25 marks

Attempt the question

SECTION 3 — 25 marks

Attempt ONE question

Write your answers clearly in the answer booklet provided. In the answer booklet, you must clearly identify the question number you are attempting.

Use **blue** or **black** ink.

Before leaving the examination room you must give your answer booklet to the Invigilator; if you do not, you may lose all the marks for this paper.



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SECTION 1 — 30 marks

Read the following source and attempt ALL questions that follow.

The UK government’s “industrial strategy” is designed to boost productivity and reduce regional disparities

In the current economic environment of uncertainty, business investment is predicted to fall, which will impact the demand-side, supply-side and productivity of the UK economy. To offset some of the negative implications of this, the Chancellor of the Exchequer is set to introduce a **fiscal stimulus** designed to give the economy a swift post-Brexit boost and
5 address the nation’s chronic productivity problem. Britain is around a fifth less productive than France, the US and Japan. Britain’s productivity problem is not in the south-east and London, which are as productive as the US, but in the rest of the UK. Large regional economic disparities have been caused by structural problems including deindustrialisation and the shift towards a service-based economy. In some parts of the UK the regional labour
10 market is dominated by the public sector and the growth in low-paid, low-skilled jobs. Therefore the government’s “industrial strategy” will be designed to fuel economic growth and reduce inequality between the regions by improving transport links and boosting productivity. The potential impact of less inward migration on UK labour markets is also uncertain but there could be upward pressure on wages if firms struggle to fill vacancies
15 with local workers. An additional concern is that UK manufacturing will suffer a further decline if Japanese and other foreign investors shift production out of the UK leading to even wider regional economic disparities.

The size of the government’s fiscal stimulus may be constrained by the size of the national debt which was 83.7% of GDP in 2015, and is likely to rise even further by 2020. There are
20 concerns that an increase in the level of national debt will make it harder to fund government borrowing in the future and lead to a downgrade of the **UK’s credit rating**. Given the uncertainty over future tax revenues, there is little chance of the budget deficit being eliminated by 2020, as previously intended.

MARKS

Questions

1. Describe what is meant by the following terms:
 - (a) fiscal stimulus (line 4) 2
 - (b) UK’s credit rating (line 21). 2
2. Explain how falling business investment may impact the productivity of the UK economy. 4
3. Describe the difference between a budget deficit and the national debt. 2
4. Analyse the dangers a rising level of national debt might pose to the UK economy. 4

Questions (continued)

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| 5. Explain, using a diagram, why lower inward migration might lead to higher wages. | 4 |
| 6. Explain the reasons for large regional economic disparities within the UK. | 6 |
| 7. Evaluate 2 possible policies that a government could introduce to reduce regional disparities. | 6 |

[Turn over

SECTION 2 — 25 marks

Attempt this question

8. Governments intervene to correct a range of market failures from negative externalities to the inefficiency of monopolies. For example, they can use competition policy to move monopoly markets towards a perfectly competitive ideal.
- (a) Compare the characteristics of perfect competition and monopoly. 6
 - (b) Argue the case for and against the view that monopolies are inefficient. (A diagram/diagrams may be used to support your answer.) 6
 - (c) Explain, with the aid of a diagram, why negative externalities in production lead to market failure. 7
 - (d) Discuss 2 methods that could be used to reduce negative externalities in production. (A diagram/diagrams may be used to support your answer.) 6

SECTION 3 — 25 marks

MARKS

Attempt ONE of the following questions

9. In June 2016, the UK voted to leave the EU, causing economic uncertainty for the future. However, the UK economy remained relatively stable in the immediate aftermath.
- (a) Discuss the possible long run economic implications of the UK leaving the EU single market on the UK economy. 10
 - (b) Describe the reasons why unemployment remained low in 2016. 7
 - (c) Explain economic implications of the pound's recent depreciation on the UK economy. 8
10. In September 2016, despite reservations, the UK government approved the construction of a new Chinese-French joint-funded nuclear power station at Hinkley Point.
- (a) Discuss whether inward foreign direct investment (FDI) is always beneficial to the UK economy. 10
 - (b) Explain why building trade links with China is a key economic objective of the UK government. 6
 - (c) Describe the advantages and disadvantages of globalisation. 9
11. In August 2016, the Bank of England cut the base rate from 0.5% to 0.25%—a new record low, and introduced a new round of Quantitative Easing (QE).
- (a) Explain why the Bank of England decided to further cut interest rates and undertake more QE in August 2016. 4
 - (b) Explain how Quantitative Easing is expected to influence aggregate demand. 7
 - (c) Analyse the possible economic consequences of the further loosening of monetary policy on the UK economy. 8
 - (d) Describe the inflationary and deflationary pressures in the UK economy. 6
12. (a) Explain why some developing economies have experienced rapid economic growth in recent years. 9
- (b) Analyse, using examples, the reasons why some emerging economies have struggled to sustain high levels of economic growth in recent years. 10
 - (c) Describe the roles of the World Bank and the International Monetary Fund. 6

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