



National
Qualifications
2018

X722/77/11

Economics

WEDNESDAY, 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.

Low Productivity and Zombie Companies

Since the Office for Budget Responsibility was formed in 2010, it has assumed that UK **productivity** would return to its long run average of about 2% p.a. In the past 5 years the average has been a mere 0.5%. German output per hour is now 36% higher than the UK's.

5 There is no shortage of possible causes for this from low historic and current investment, labour hoarding during the recession and sectoral shifts in the economy. More recently the existence of highly indebted 'zombie companies', kept alive by low interest rates, has been suggested as a cause of low productivity. Whilst keeping 'zombie companies' alive has boosted employment, it has done nothing to raise productivity.

10 The consequences of low productivity growth may be felt by households, firms and the government, and will impact the long run supply potential of the UK economy.

15 It appears that much of the recent **economic growth** in the UK economy has been caused by adding workers without improving the amount each person produces. The availability of potential labour may also have been a disincentive to investment. Lower wages, declining living standards and weaker public finances will be a lasting legacy unless the UK Government pursues policies designed to raise productivity.

MARKS

Questions

1. Describe what is meant by the following terms:
 - (a) Productivity (line 2) 2
 - (b) Economic growth (line 11). 2
2. Describe how the existence of 'zombie companies' may have lowered UK productivity. 3
3. Explain why low UK productivity growth may have a negative impact on the UK Government's public finances. 4
4. Apart from low productivity growth, describe other possible reasons for low wage growth in the UK. 5
5. Explain the possible advantages and disadvantages of low rates of unemployment for the UK economy. 6
6. Evaluate possible policies that a government could introduce to improve UK productivity. 8

SECTION 2 — 25 marks

Attempt this question

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|--------|--|---|
| 7. (a) | (i) Explain, with the aid of a diagram, why the negative externalities caused by driving a private car are an example of market failure. | 7 |
| | (ii) Evaluate possible policies which can be used to reduce the market failure of driving private cars. | 6 |
| (b) | Explain why monopolies are considered to be both productively and allocatively inefficient. (A diagram/diagrams may be used to support your answer.) | 6 |
| (c) | Describe measures that the UK uses to prevent legal monopolies from abusing their dominant market position. | 6 |

[Turn over

SECTION 3 — 25 marks

Attempt ONE of the following questions

8. On 20 June 2017 the Chancellor, Philip Hammond, called for a smooth Brexit to avoid a 'cliff edge' for businesses as the UK leaves the European Union (EU).
- (a) Describe the characteristics of the EU Single Market. 4
 - (b) Evaluate the economic impact of sterling's drop in value, on the UK economy, since the Brexit vote in June 2016. 7
 - (c) Discuss the possible advantages of Brexit to the UK economy. 8
 - (d) Analyse the consequences of reduced migration to the UK from the EU, on UK businesses and the UK economy. 6
9. In their election manifesto published in May 2017, the Labour Party announced it would reintroduce the 50p rate of tax on the highest earners and renationalise certain key industries.
- (a) Discuss the possible advantages and disadvantages of raising the highest rate of income tax. 4
 - (b) Evaluate the possible economic costs and benefits of the renationalisation of key industries. 6
 - (c) Describe the possible dangers for the UK economy of persistently running a budget deficit. 8
 - (d) Apart from increasing the highest tax rate, discuss other policy measures that could be introduced to reduce income inequality in the UK. 7
10. In November 2017 the Bank of England raised interest rates for the first time in over 10 years.
- (a) Describe the inflationary and deflationary pressures currently impacting the UK economy. 8
 - (b) Describe the economic arguments for and against raising the interest rate to 0.5% in November 2017. 10
 - (c) Apart from changing interest rates, explain other factors that may influence house prices in the UK. 7

Questions (continued)

11. When taking office in January 2017, President Trump said that America's trade arrangements favoured the rest of the world and he was prepared to withdraw the USA from previously agreed trade deals.

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| (a) Describe the role of the World Trade Organisation (WTO). | 4 |
| (b) Explain why trade wars would be detrimental to the global economy. | 5 |
| (c) Discuss the potential advantages and disadvantages to the UK of building stronger trade links with the USA. | 6 |
| (d) Discuss whether trade rather than aid is a more effective means of promoting economic growth in developing economies. | 10 |

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