



National  
Qualifications  
2018

**X722/76/11**

**Economics**

WEDNESDAY, 30 MAY

9:00 AM – 11:00 AM

**Total marks — 70**

**SECTION 1 — 25 marks**

Attempt ALL questions

**SECTION 2 — 45 marks**

Attempt ALL questions

You may use a calculator.

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.

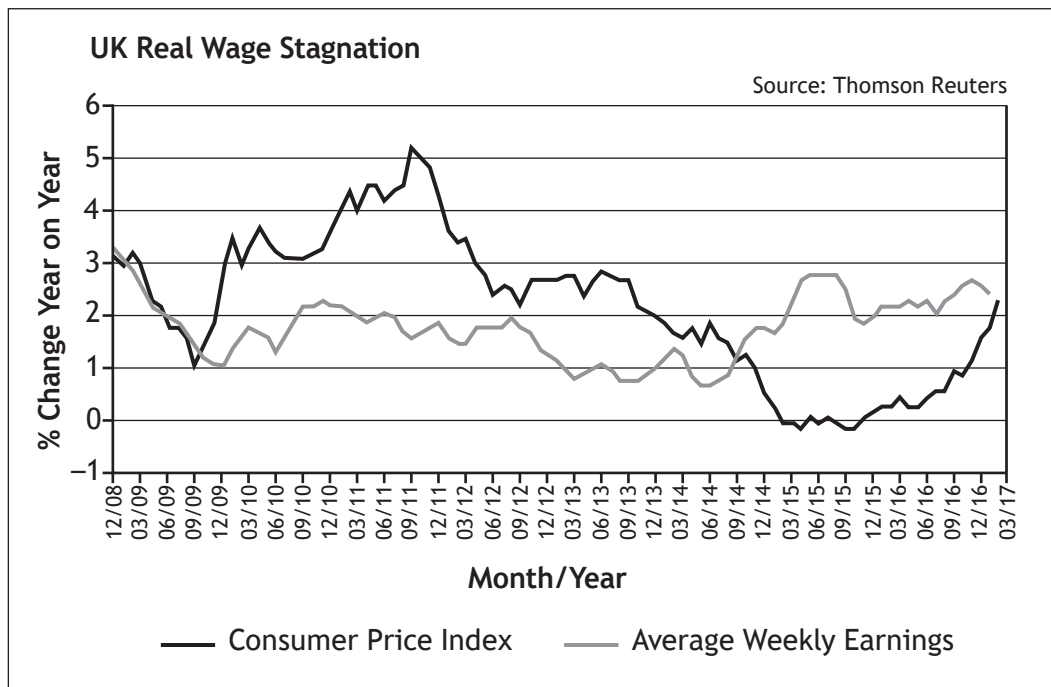
Before leaving the examination room you must give your answer booklet to the Invigilator; if you do not, you may lose all the marks for this paper.



\* X 7 2 2 7 6 1 1 \*

## SECTION 1 — 25 marks

Read the following source and attempt ALL questions that follow.



### PUBLIC SECTOR PAY CAP TO BE LIFTED FOR POLICE AND PRISON OFFICERS

Teachers, nurses and police officers have seen their take-home pay fall or stagnate in real terms following a decade of salary freezes.

Public sector pay was frozen for two years in 2010, except for those earning less than £21,000 a year, and since 2013 rises have been capped at 1%, which was below the rate of inflation.

The BBC understands, however, that the government is to lift the 1% public sector pay cap for the first time for both police and prison officers.

The West Midlands Police and Crime Commissioner (PCC) has warned, however, that in such a scenario 80 jobs would be lost for every 1% rise above the current cap. A Labour party spokesperson said that “If the government do not put aside money to fund the pay increase, PCCs will be left with large bills and will have no option other than to reduce officer and staff numbers.”

Ministers are expected to accept recommendations for higher pay rises in autumn 2017. This may pave the way for similar increases in the wages of other public sector employees.

The removal of pay caps could help stem the recruitment crisis in the public sector, as potential workers may have been discouraged by low wage growth. Public sector recruitment has also slowed following the European Union (EU) referendum. It has been over six months since the Article 50 notification, and the UK looks unwelcome to members of the EU and the rest of the world. Despite freedom of movement of labour within the EU, the number of public sector workers such as nurses and midwives seeking work in the UK is down.

## Questions

1. (a) Describe what is meant by the term ‘wage stagnation’. Your response must make reference to information provided in the source material. 2
- (b) (i) A ‘pay cap’ or maximum price is a form of market intervention.  
Draw a market diagram to show the effect on a market of setting a maximum price. 3
- (ii) Explain **one** possible effect on employment of the government’s decision to lift the pay cap. 3
- (iii) Explain **one** reason for government intervention in a market. 2
- (c) (i) Describe how the Consumer Price Index (CPI) is calculated. 3
- (ii) Describe deflation. Your response must make reference to the graph in the source material. 2
- (d) (i) Explain the impact of rising inflation on the Balance of Trade. 2
- (ii) Other than the Balance of Trade, describe **3** components of the UK Balance of Payments. 3
- (iii) Describe recent trends in the UK Balance of Payments. 2
- (e) Other than freedom of movement of labour, describe **3** main economic features of the EU. 3

[Turn over

## SECTION 2 — 45 marks

Attempt ALL questions

- |         |                                                                                          |   |
|---------|------------------------------------------------------------------------------------------|---|
| 2. (a)  | Describe what is meant by the basic economic problem of scarcity.                        | 3 |
| (b)     | Explain, using Production Possibility diagrams:                                          |   |
| (i)     | Opportunity cost;                                                                        | 3 |
| (ii)    | Economic efficiency.                                                                     | 3 |
| (c)     | Explain, using a diagram, the shape of a short run average cost curve.                   | 6 |
| 3. (a)  | Explain the ways in which supply side policies can be used to create economic growth.    | 4 |
| (b)     | Explain the effects of economic growth on unemployment.                                  | 3 |
| (c)     | Describe the positive and negative effects of high levels of unemployment on an economy. | 8 |
| 4. (a)  | Describe the theory of comparative advantage.                                            | 4 |
| (b)     | Explain the factors that may increase demand for sterling on foreign exchange markets.   | 4 |
| (c) (i) | Describe the economic characteristics of a developing economy.                           | 4 |
| (ii)    | Explain the benefits to a developing economy of hosting a multinational company.         | 3 |

[END OF QUESTION PAPER]

## ACKNOWLEDGEMENTS

Section 1 – Graph is adapted from ‘UK Real Wage Stagnation (December 2008 – February 2017)’ graph by Thomson Reuters. Reproduced by permission of Thomson Reuters.

Section 1 - Article is adapted from ‘Public sector pay cap to be lifted for police and prison officers’ taken from <http://www.bbc.co.uk/news/uk-politics-41218283>. Reproduced by kind permission of BBC News.