

GCE Economics EC2 1132-01

All Candidates' performance across questions

Question Title	N	Mean	SD	Max Mark	FF	Attempt %
1.1	1609	3	0.9	4	76.1	99.1
1.2	1620	3.3	0.8	4	82.7	99.8
1.3	1611	3.8	1.8	6	63.1	99.2
1.4	1613	4.1	1.9	8	50.8	99.3
1.5	1566	3.6	2.4	8	45.1	96.4
1.6	1597	4.2	2.6	10	42.4	98.3
2	781	9	4	20	44.9	48.1
3	345	8.6	3.9	20	43	21.2
4	554	8.2	3.9	20	40.9	34.1
5	458	10.1	4.4	20	50.7	28.2
6	760	12.7	4.1	20	63.3	46.8
7	419	10.9	4.3	20	54.6	25.8

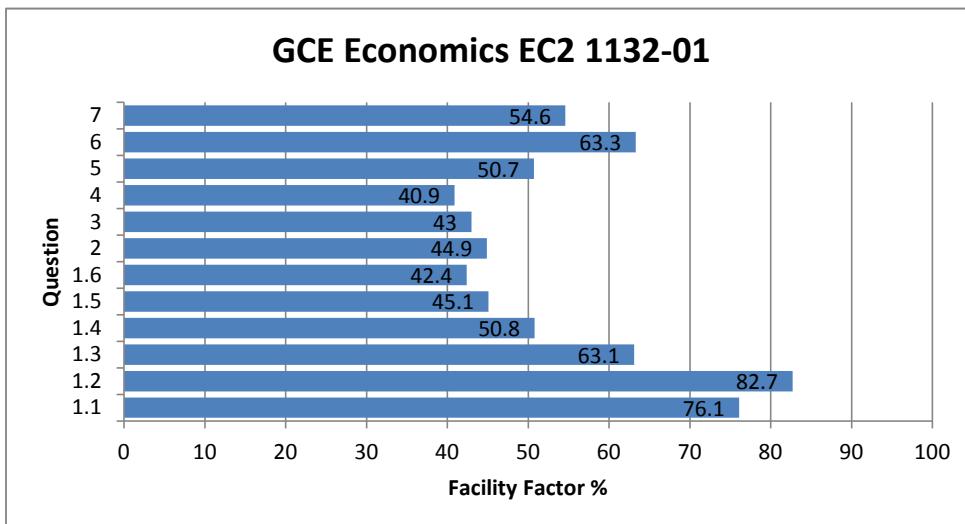
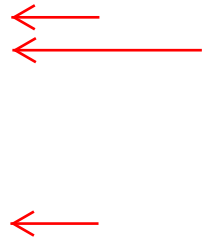
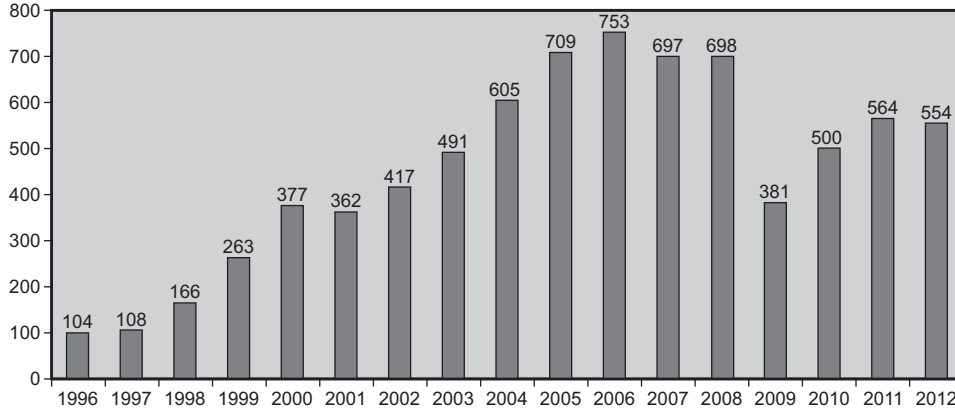


Figure 2

US Trade deficit by Year

\$ Billions



1	6
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Discuss whether “spending less on defence and more on both improving America’s crumbling infrastructure and boosting spending on education and training” (lines 15-16) will be enough to reduce the US trade deficit. [10]

Write the two digit question number *inside* the boxes next to the first line of your answer
 Ysgrifennwch rif dau ddigid y cwestiwn yn y blychau gyferbyn â llinell gyntaf eich ateb

Answer
Ateb

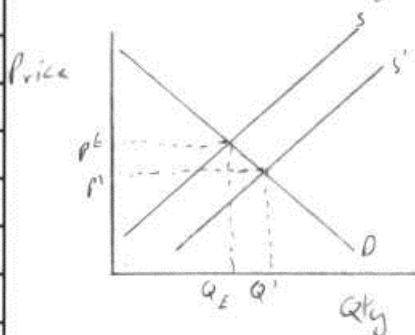
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1 6.

If the American government reduced its spending on defence by \$110 bn and spent it on infrastructure and education and training. It would improve the factors of production as productivity increases with a more skilled work force. This then would cause the ~~the~~ product possibility boundary out and especially is they specialized in a good then trade for that good may increase causing the balance of payments to improve and the trade deficit to fall from \$554bn in 2012

~~AD would change as government spending has stayed the same so exports and imports in~~

Improving the productivity would increase the supply of goods. This increase of supply shifts S to S' causing quantity to move from Q_e to Q' and



price to fall p^e to p' as price has fallen the economy is more competitive and exports increase as the good is cheaper as price has fallen

However spending on infrastructure and education and training could cause economic growth which means GDP may also increase, so people have more disposable income spending it on imports. Therefore spending on infrastructure, education and training may not reduce the trade deficit from \$554bn.



Write the two digit question number *inside* the boxes next to the first line of your answer
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Answer
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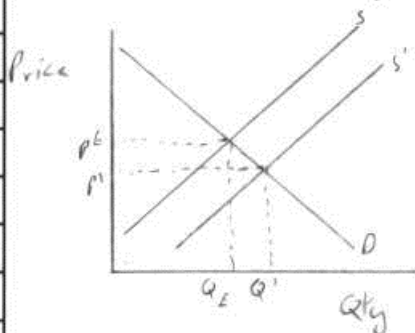
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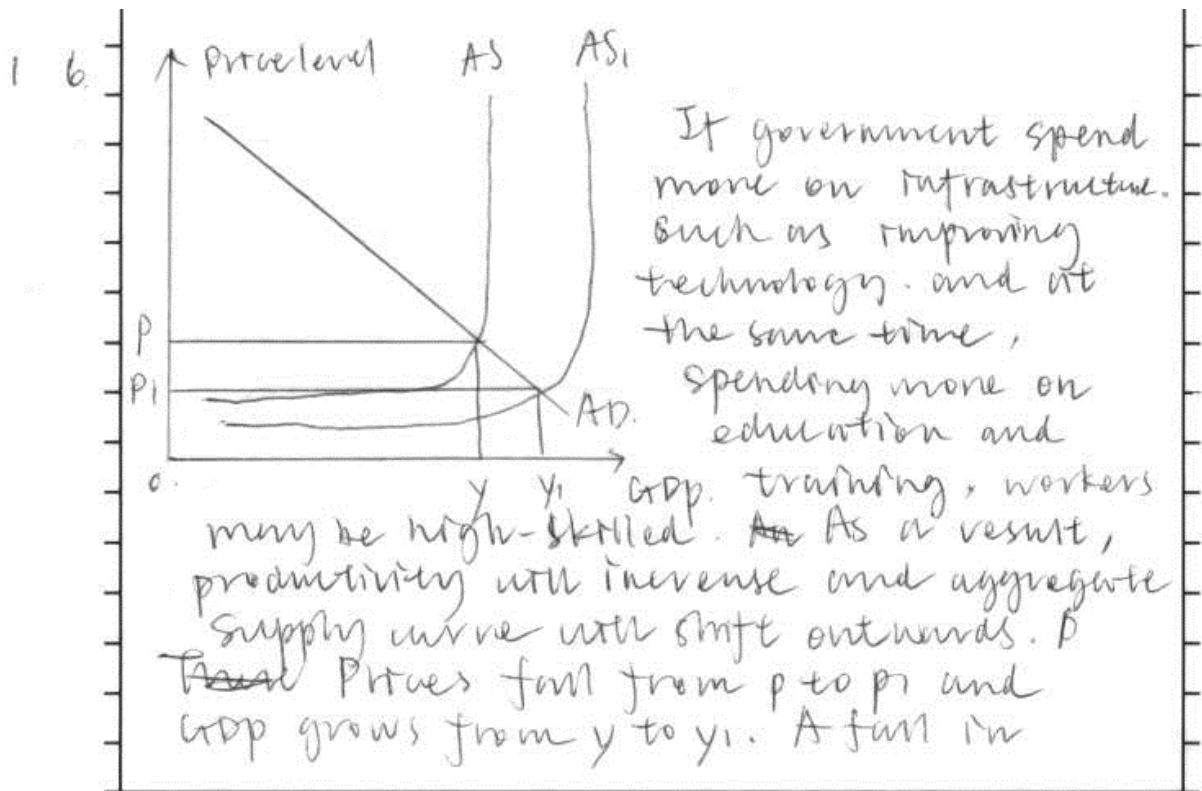
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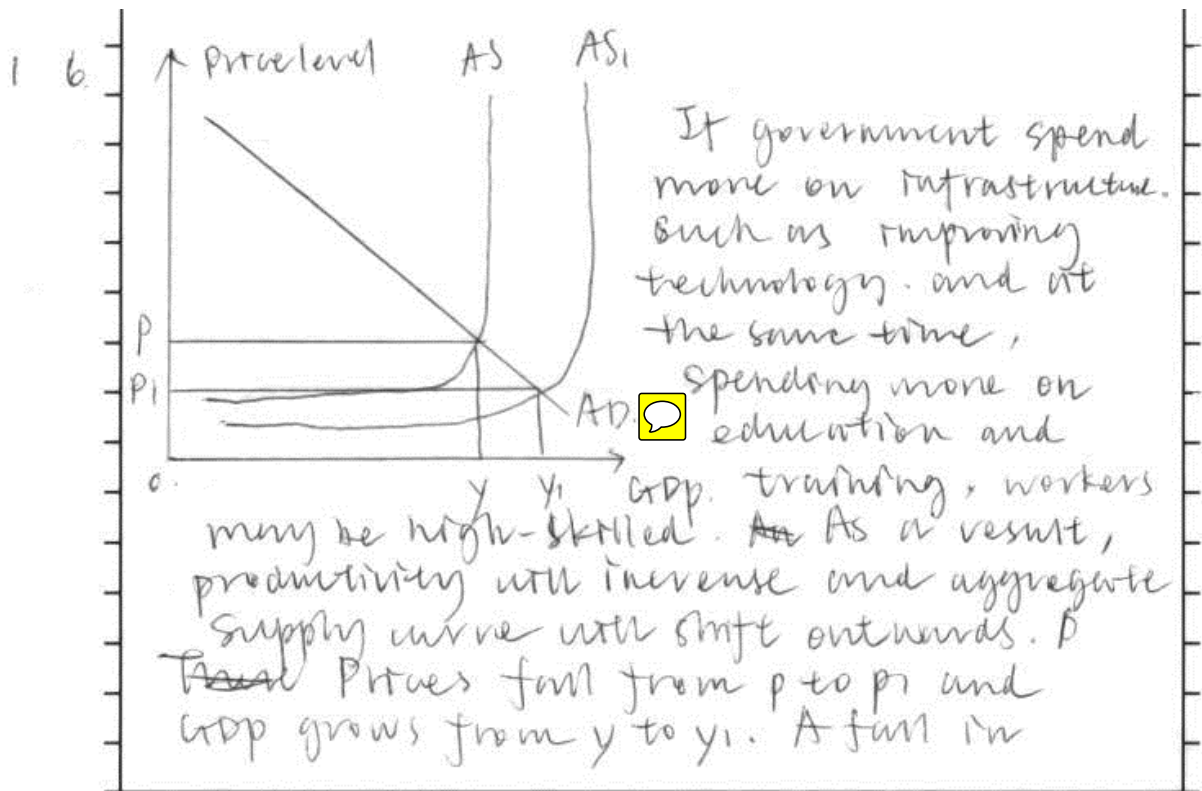


Write the two digit question number *inside*
the boxes next to the first line of your answer
Ysgrifennwch rif dau ddigid y cwestiwn yn y
blychau gyferbyn â llinell gyntaf eich ateb

Answer
Ateb

prices may ~~lead~~^{let} the America become more competitive in international trade and ~~also~~ demand for exports will go up. Therefore, trade deficit may be improved because of the rising revenue for exports.

However, it depends on the price elasticity ~~of~~ of demand of the exports. If it's ~~elastic~~ inelastic which means a bigger change in price but a smaller change in demand. That may not increase the revenue. Also, it depends on the exchange rates of dollars ~~ago~~ against other currencies. And it may take a long time to show the effects. Interest rate may also affect.



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7.6

The US trade deficit is currently at \$554B in 2012. By spending less on defence and more on infrastructure ~~as well~~, the government could create jobs in the construction sector, leading to lower unemployment of less than 7.7%. Moreover, improving roads could lead to increased productivity, increasing the productive potential of the economy. This is because firms can transport goods and services faster ~~betw~~ within the country. Congestion, a negative externality could also be reduced leading to workers reaching work faster. An increase in productivity leads to lower production costs ~~and~~ and lower prices and lower inflation. This could increase competitiveness of the US with other ~~industries~~ countries. Exports become cheaper and export demand might rise, depending to the price elasticity of demand (PED) for exports. If PED is inelastic, demand might not rise. If PED is elastic, this could lead to a reduction in the trade deficit. A trade deficit occurs when earnings from exports and returns from investment abroad is less than spending on imports and investment income going abroad. However, there are time lags involved and the effects may not be seen until a long time after. It would also worsen the budget deficit or lead to higher taxes.

By boosting spending on education and training, the government is investing in human capital development. This could increase the productivity of the work force and improve skills, flexibility and mobility. This



Write the two digit question number **inside**
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Ysgrifennwch rif dau ddigid y cwestiwn yn y
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Answer
Ateb



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yn wag

could increase productive potential of the economy and ^{improve} ~~improving~~ productivity and increase labour demand and reduce unemployment to < 7.77. However, this is often labour intensive and has high administrative costs. This could lead to rising taxes or worsening budget deficit to > \$1100 B. There are also time lags involved.

Spending on infrastructure and on education and training might not reduce the US trade deficit if other countries are in a recession, i.e., export demand is affected by ~~the level~~ foreign incomes (GDP). If ^{US} trading partners are in a recession, there might be no increase in demand for US exports. Moreover, ~~ex~~ if there is an increase in the exchange rate, ~~the~~ exports would become more expensive and this could reduce demand if demand is elastic. Moreover, a high exchange rate might lead to cheaper imports, demand for imports might rise, leading to a worsening trade balance.



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SECTION B

Answer one question from this section.

2. 'LIVING WAGE' £7.65 PER HOUR OUTSIDE LONDON

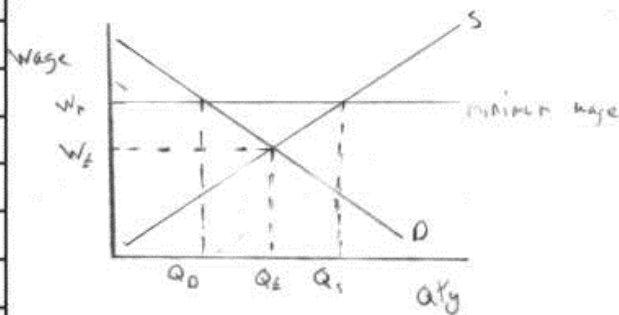
2	1
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Explain why the equilibrium wage rate for some jobs is below the national minimum wage. [8]

Write the two digit question number *inside*
the boxes next to the first line of your answer
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blychau gyferbyn â llinell gyntaf eich ateb

Answer
Ateb

2 1



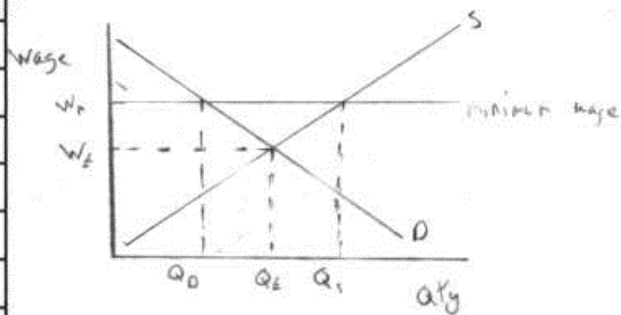
The minimum wage rate is deliberately set above the equilibrium point by the government at w_m . The reason for this is because for a minimum wage to have an effect it has to be greater than the equilibrium wage of w_e . This is one reason for the minimum wage being above the equilibrium point. Another is that if supply for a job is high and demand is low then the equilibrium point will also be low resulting in the minimum wage being above the equilibrium point. This only occurs when the ~~job~~ demand for a job is extremely low but supply is high, this tends to mean it is a low skilled job with the needs of many.

Write the two digit question number *inside* the boxes next to the first line of your answer
Ysgrifennwch rif dau ddigid y cwestiwn yn y blychau gyferbyn â llinell gyntaf eich ateb

Answer
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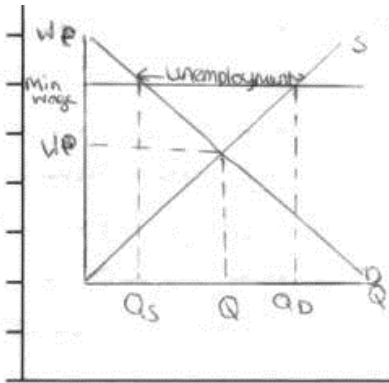
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In some ~~many~~ jobs the equilibrium wage is below the national minimum wage. This is because there maybe an excess of supply. For instance, delivery



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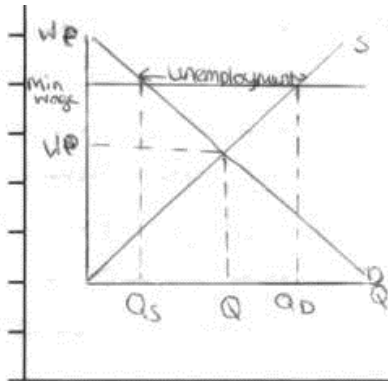
Answer
Ateb

drivers ~~are~~ market if flooded with people from ~~the~~ Eastern Europe. This creates an increase of supply which therefore lowers the equilibrium lower than the minimum wage. This causes unemployment in that industry. ~~Thereof~~

Also ~~if~~ due the minimum wage increasing the price for firms to pay it leads to a fall in demand. Therefore the equilibrium falls due to the change in demand. For instance, for cleaners the demand has fallen since the introduction of the minimum wage. This has lead to higher unemployment in the cleaning industry.

Another reason why equilibrium rates are below minimum wage is due to the education^{required} for the job. For instance, there is a high supply of bricklayers due to the fact it is lower skilled. Therefore more people can complete the job increases. Therefore supply increases causing the equilibrium to be below minimum wage.

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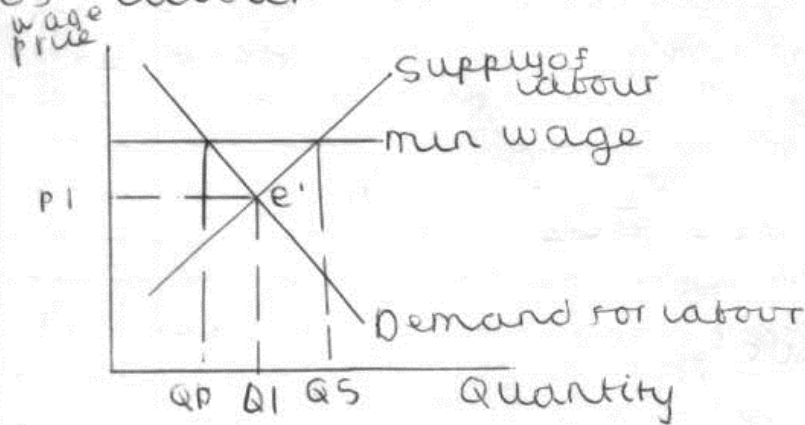
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 Ysgrifennwch rif dau ddigid y cwestiwn yn y blychau gyferbyn â llinell gyntaf eich ateb

Answer
Ateb

21

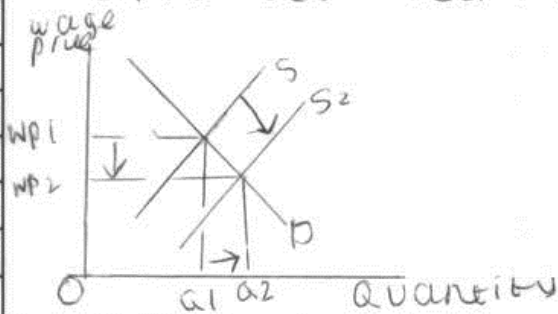
Section B

The equilibrium wage price is determined due to the demand and the supply of labour.



For some jobs, there is less demand for labour or excess supply of labour.

For example, an increase in the supply of labour, perhaps due to an increase in the inflow of immigrants seeking employment, can decrease the equilibrium wage price, causing an ~~expansion~~ ^{expansion} ~~contraction~~ along the demand curve.

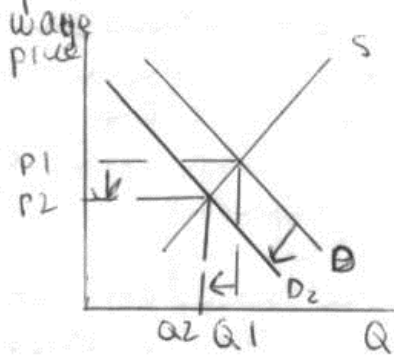


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Ysgrifennwch rif dau ddigid y cwestiwn yn y
blychau gyferbyn â llinell gyntaf eich ateb

Answer
Ateb

Leave
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Gadewch
yn wag

A decrease in the demand for labour, perhaps due to a decrease in the demand for the goods / services, the labour produces (as labour has derived demand). This could cause a fall in the equilibrium wage price.



A decrease in demand for labour, causes a contraction along the supply curve, and lowers

the market equilibrium wage price.



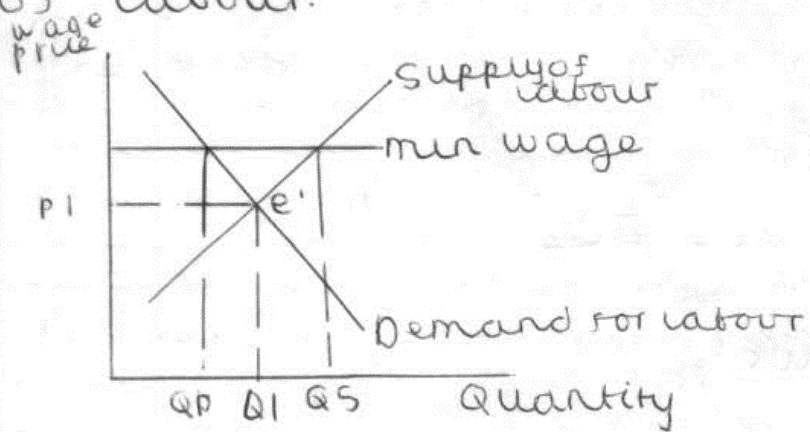
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Answer
Ateb

21

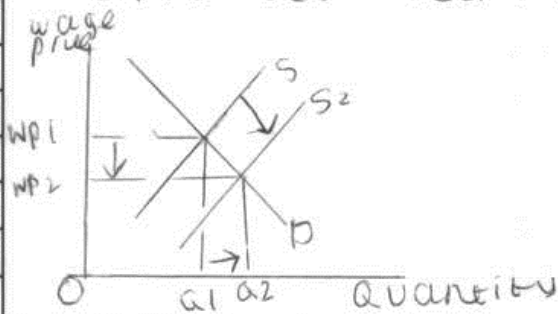
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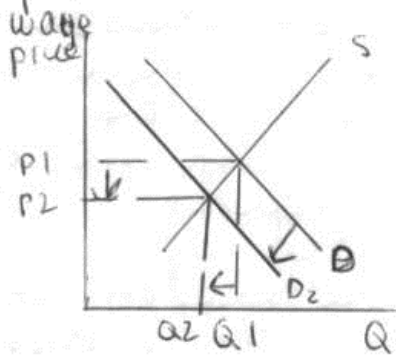


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SECTION C

Answer one question from this section.

7. POUND SET TO FALL AS TRADE DEFICIT WIDENS

[8]

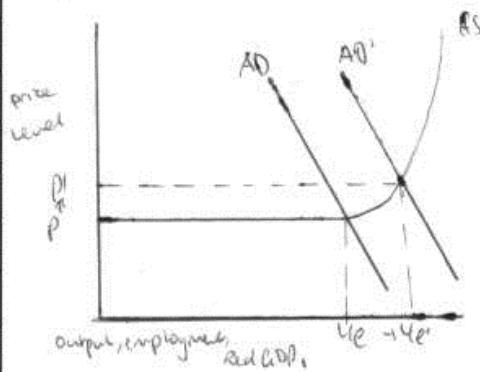
7	2
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Discuss whether a sharp fall in the value of the pound will be beneficial for the UK economy.

[12]

7 2.

A sharp fall in the value of the pound may be beneficial to the economy because the decrease in value will lead to exports becoming relatively cheaper and imports becoming relatively more expensive. This means that the balance of payments improves. It will also shift AD to the right.



The shift in AD from AD to AD' will cause output to increase from Y_e to Y_e' which will increase the demand for labour as there is a derived demand. This will decrease unemployment. Also increase government revenue from the same tax base. Decrease government



Write the two digit question number *inside*
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blychau gyferbyn â llinell gyntaf eich ateb

Answer
Ateb

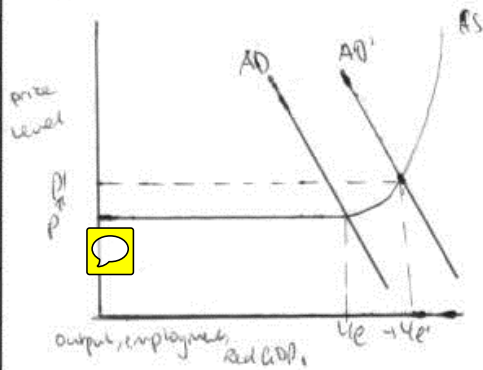
Spending on social security payments. ~~It will also increase inflation from~~ It will also increase GDP and therefore increase living standards. ~~At~~ It will increase inflation from P to P' causing a decrease in international competitiveness. Also the fall in the value of the pound will cause hot money to flow out of the UK. The increase in exports will also improve the trade deficit.

This all depends on the size of the decrease in the value of the pound, the economic situation of the UK's main trading partners and the price elasticity of demand of the pound.



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**Answer
Ateb**

- ↑ exports
- ↑ investment
- ↑ GDP growth
- ↑ employment
- ↑ balance of payments
- ↑ competition

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- ↓ investment
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7 2

A sharp fall in the value of the pound will cause exports to become cheaper for foreign countries, depending on the current exchange rate. This in turn will increase exports for the UK. This will be very beneficial to the UK economy as employment ~~and~~ will increase, to cope with increasing demand (increasing AD). ~~and the UK~~ Domestic and foreign investment will also increase, ~~leading~~ ultimately leading to an increase in the UK productive potential (economic growth). Investment would increase as it is cheaper to 'set up shop' in the UK and ~~the cost of goods, costs and exports are cheap.~~ The cheap exports would also lead to a better balance of payments position for the government which is also increasing international competitiveness, for UK firms.

However with the fall in the value of the pound, imports will be much more expensive causing a fall in imports, improving the balance of payments position further. However this would be bad news for firms that import raw materials. This would increase firms' costs and may cause inflation in the form of cost push inflation if the firm decide to give the extra cost to the consumer. This wouldn't be beneficial to the UK economy. But again it depends on other the value of currencies to which the extent could be calculated.

UK tourists would potentially suffer as foreign holidays would become more expensive, but probably leading British people to ~~travel~~ holidays in Britain instead. The fall in the value of the pound would also ~~not~~ give the UK tourist industry a boost from foreign visitors.



~~As I have already said government revenue~~ A fall in the value of the pound would also lead to higher government revenues, as the employment increases and the welfare benefits do not decrease, thus providing the government with more tax revenues and less spending on welfare benefits. This money could be invested ^{back} into the UK economy in the form of capital spending or help cancel the government budget deficit, thus helping to reduce government cuts.

Apart from the possible increase in inflation, I believe that a fall in the value of the pound would be beneficial to the UK economy.



Write the two digit question number *inside* the boxes next to the first line of your answer
Ysgrifennwch rif dau ddigid y cwestiwn yn y blychau gyferbyn â llinell gyntaf eich ateb

Answer Ateb

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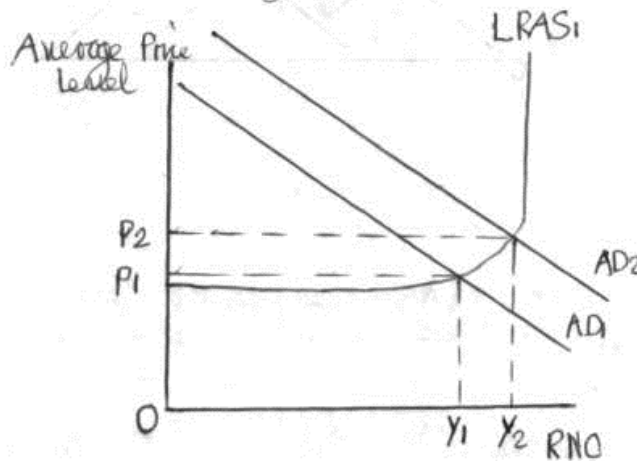


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Answer
Ateb

72

It could be argued that a sterling depreciation will be beneficial for the UK economy because it will lower the cost of British exports (Xs) in the international free trade market, increasing their competitiveness and therefore improving the UK Trade balance (X-M). This would stimulate Aggregate Demand, causing a rightward shift of the AD curve to AD₂, and since also increase injections into the circular flow of income, thus expanding the circular flow,



The rate of economic growth therefore increases to Y₂.

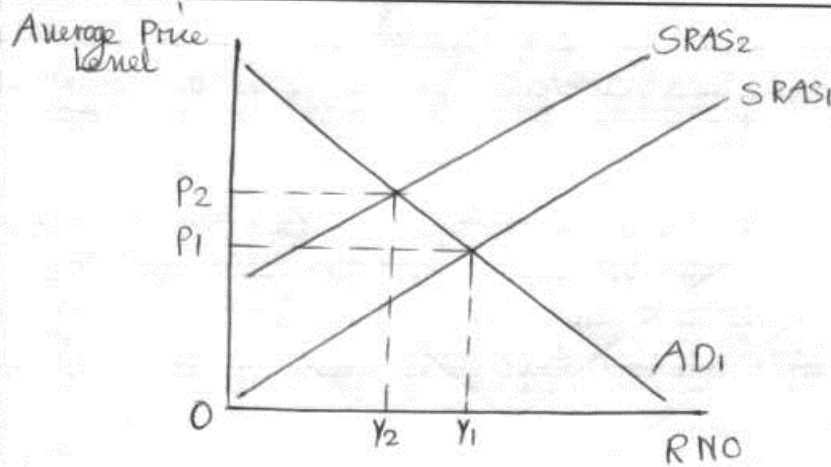
However, it is notable that ~~the~~ inflation demand pull inflation has risen to P₂, which could be detrimental to UK domestic consumers. Another point of note is that sterling depreciation can have negative effects upon firms by increasing importation costs, thus reducing Short-Run Aggregate Supply (SRAS).



Write the two digit question number *inside* the boxes next to the first line of your answer
Ysgrifennwch rif dau ddigid y cwestiwn yn y blychau gyferbyn â llinell gyntaf eich ateb

Answer
Ateb

Leave
blank
Gadewch
yn wag



There is hence a leftward shift of the SRAS curve to $SRAS_2$, causing cost push inflation to rise to P_2 , while economic growth slows to Y_2 .

Another issue is that while sterling depreciation may make UK exports more competitive, the trade balance ($X-M$) may not necessarily improve if domestic consumers have a propensity to import (i.e. YED for imports is inelastic). Thus, imports will continue and there will remain a trade deficit. The extent to which ~~large~~ exports increase also depends not only upon price, but the economic conditions in the target export markets. The UK, for example, imports a large proportion of its goods and services to the European market, meaning that when this market is in recession, UK exports may not increase even if sterling depreciation occurs. This has recently been observed.

Furthermore, business confidence is a significant factor, hence if expectations are poor,



Write the two digit question number *inside*
the boxes next to the first line of your answer
Ysgrifennwch rif dau ddigid y cwestiwn yn y
blychau gyferbyn â llinell gyntaf eich ateb

Answer
Ateb

firms will be unwilling to invest and expand production, despite UK exports becoming more competitive.

In conclusion, while ~~the~~ sterling depreciation can be ~~be~~ beneficial for the UK economy, these benefits are limited due to the aforementioned factors which ~~can~~ also need to be considered.

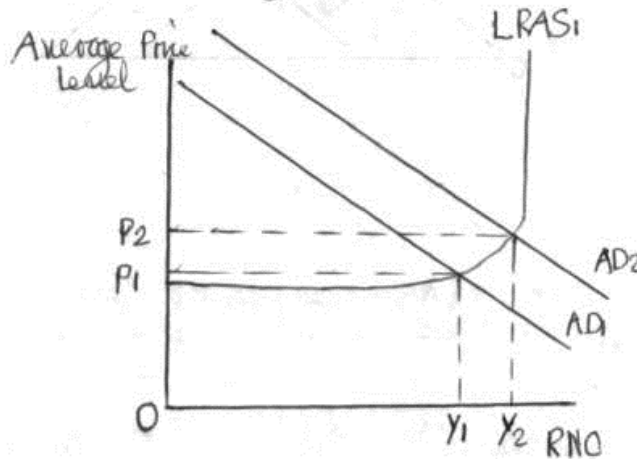


Write the two digit question number *inside* the boxes next to the first line of your answer
 Ysgrifennwch rif dau ddigid y cwestiwn yn y blychau gyferbyn â llinell gyntaf eich ateb

**Answer
Ateb**

72

It could be argued that a sterling depreciation will be beneficial for the UK economy because it will lower the cost of British exports (Xs) in the international free trade market, increasing their competitiveness and therefore improving the UK trade balance (X-M). This would stimulate Aggregate Demand, causing a rightward shift of the AD curve to AD₂, and since also increase injections into the circular flow of income, thus expanding the circular flow,



The rate of economic growth therefore increases to Y₂.

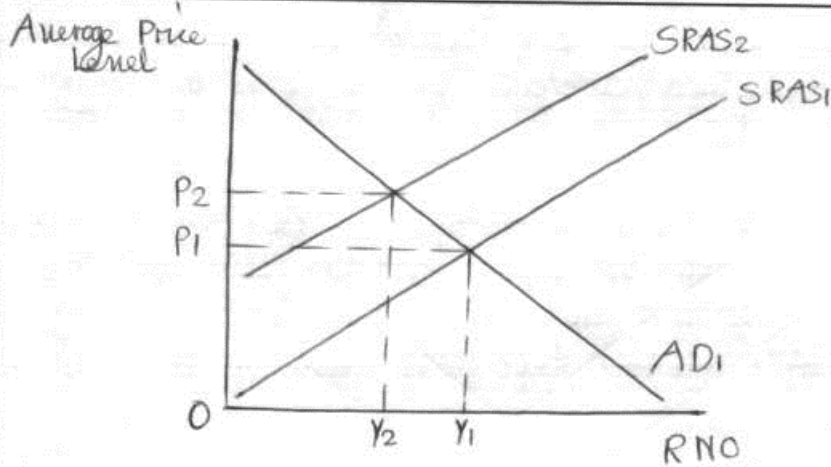
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 blank
 Gadewch
 yn wag



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Answer
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In conclusion, while the sterling depreciation
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