

General Certificate of Education  
January 2009  
Advanced Subsidiary Examination



**ECONOMICS**

**ECN2/2**

**Unit 2 Part 2 Data Response: The National Economy**

Friday 16 January 2009 9.00 am to 10.00 am

**For this paper you must have:**

- an 8-page answer book
- the question paper for Part 1 (ECN2/1).

You may use a calculator.

Time allowed: the total time for papers ECN2/1 and ECN2/2 together is 1 hour

**Instructions**

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN2/2.
- Answer **EITHER** Question 1 **OR** Question 2.

**Information**

- The maximum mark for this paper is 25.
- The marks for questions are shown in brackets.
- You will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

**Advice**

- You are advised to spend at least 45 minutes on paper ECN2/2.

Answer **EITHER** Question 1 **OR** Question 2.

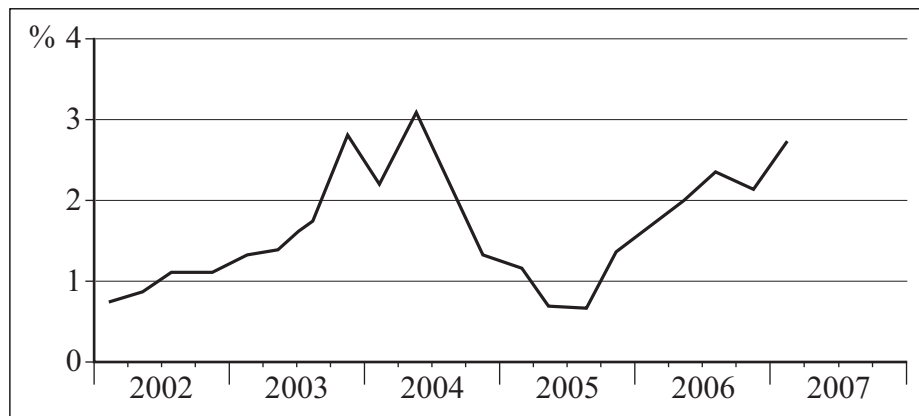
**EITHER**

**Total for this question: 25 marks**

## 1 PRODUCTIVITY

Study **Extracts A, B and C**, and then answer **all** parts of Question 1 which follows.

**Extract A: The rate of growth of UK labour productivity, annual % change, 2002–2007**



Source: adapted from [www.statistics.gov.uk](http://www.statistics.gov.uk), accessed on 29 August 2007

**Extract B: Productivity and the performance of the UK economy**

Economists, when using the term ‘productivity’, are usually referring to labour productivity. For the UK, the so-called productivity gap continues to cause concern. This is the difference between UK productivity and that of similar economies. In the recent past, UK productivity has been disappointing when compared to some of our major trading partners such as France, Germany and the US. 1  
5

International studies provide explanations for differences in labour productivity. Skills and investment levels are regarded as of vital importance. The UK may need higher-quality labour to be applied to more efficient machinery to bring improvements in productivity performance. In the US, it is felt that less job security than in the UK might be a factor. Labour may work harder to impress employers, and so avoid redundancy. The application of new technology is also important. 10

The UK Government views productivity growth as a key policy objective and points to competition, enterprise and innovation as important causes of improved productivity.

Source: news reports, 2008

**Extract C: We must have higher productivity in the UK economy**

Labour productivity is an important issue when considering UK macroeconomic performance. There is a greater likelihood that any rise in aggregate demand (AD) will be non-inflationary when improvements in productivity are able to generate greater output. This means that economic growth can be sustained over the long term, as can job creation. It must also be borne in mind that the improved competitiveness which higher productivity may bring will, in turn, help to bring the necessary improvements to the balance of payments on current account.	1 5
Of course, benefits are likely to be even greater if higher productivity is accompanied by other supply-side developments such as increased investment, research and development (R&D), and ‘welfare-to-work’ and tax reforms to encourage the unemployed back into work.	10

Source: news reports, 2008

*Question 1*

- 1 (a) Using **Extract A**, identify **two** main features of the annual rate of growth of UK labour productivity for the period 2002 to 2007. *(4 marks)*
- (b) **Extract B** (line 6) suggests that international studies ‘provide explanations for differences in labour productivity’.
- Explain **two** determinants of labour productivity. *(6 marks)*
- (c) Using the data and your economic knowledge, assess the importance of higher labour productivity in bringing about improvements to UK macroeconomic performance. *(15 marks)*

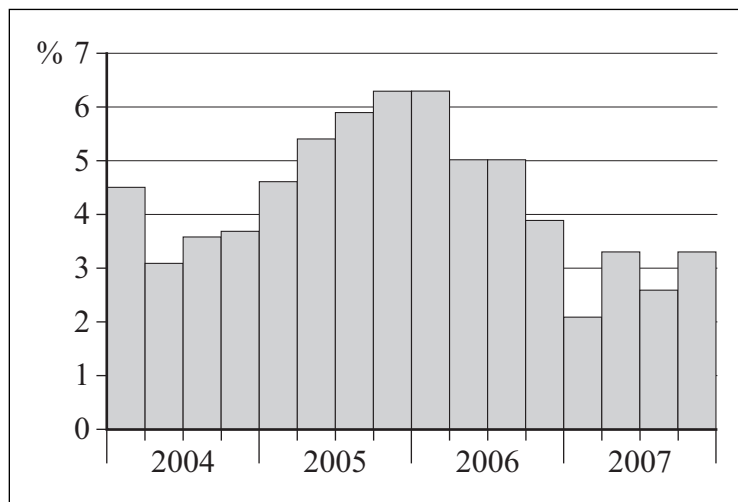
**Turn over for the next question****Turn over ▶**

OR

Total for this question: 25 marks

**2 HOUSEHOLD SAVINGS**

Study Extracts D, E and F, and then answer **all** parts of Question 2 which follows.

**Extract D: UK household savings ratio\* (%), 2004–2007**

- \* The household savings ratio is household savings expressed as a % of total disposable income (gross income less taxes but including welfare benefits).

**Extract E: UK savings ratio tumbles to lowest level for 50 years**

The data for 2007 have shown that the rate at which households are saving has plunged to the lowest level in almost half a century.	1
The fall indicates that, as a greater proportion of incomes is accounted for by taxation, higher mortgage payments and credit charges, some households are increasingly having to dig deeper into their savings to maintain a given life-style. However, there will also be those households which may be encouraged to save more as interest rates rise and which have the ability to do so. Providing for old age may be another reason for households to save.	5
Economists warn that consumers are beginning to struggle as the tax burden rises at the fastest rate in nine years and disposable income grows at the slowest rate in a quarter of a century. Households are increasing their borrowing to finance the desired level of current consumption. It may be, however, that borrowing cannot be maintained as interest rates rise further to deal with a worsening inflation problem.	10

Source: adapted from the *Daily Telegraph*, 30 June 2007

**Extract F: Does the savings ratio matter to the UK economy?**

The issue of household savings has perhaps not always been given the importance it deserves when discussing influences on an economy's macroeconomic performance. First and foremost, it is more likely that economists will discuss factors such as the role of government in inducing growth through, for example, promotion of enterprise and innovation, or the rate of growth of aggregate demand (AD), or the rate of growth of labour productivity.	1 5
However, the potential significance of household savings for UK macroeconomic performance needs to be recognised. Saving by households does, to some extent, provide the funds which financial institutions, such as banks, lend to businesses to finance investment, a prime mover in economic growth. Decisions to save from a given income will also help determine household consumption, a major component of AD. In turn, changes in household consumption may have consequences for the rate of inflation, jobs and the balance of payments on current account.	10

Source: news reports, 2008

*Question 2*

- 2 (a) Using **Extract D**, identify **two** main features of the UK household savings ratio for the period 2004 to 2007. *(4 marks)*
- (b) **Extract E** (lines 1-2) states that 'the rate at which households are saving has plunged to the lowest level in almost half a century'.
- Explain **two** determinants of saving by households. *(6 marks)*
- (c) **Extract F** (lines 7-8) argues that 'the potential significance of household savings for UK macroeconomic performance needs to be recognised'.
- Using the data and your economic knowledge, evaluate the significance of household savings for UK macroeconomic performance. *(15 marks)*

**END OF QUESTIONS**

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