

General Certificate of Education
January 2009
Advanced Level Examination



ECONOMICS

ECN6

**Unit 6 Government Policy, the National and International
Economy**

Wednesday 28 January 2009 9.00 am to 10.30 am

For this paper you must have:

- an 8-page answer book.
- You may use a calculator.

Time allowed: 1 hour 30 minutes

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 ECN6.
- In **Section A**, answer **all** parts of the question.
- In **Section B**, answer **one** question.

Information

- The maximum mark for this paper is 100.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- 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 approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

SECTION A

Answer **all** parts of this question.

Total for this question: 50 marks

1 THE MIDDLE EAST AND THE WORLD ECONOMY

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

Extract A: Crude oil prices, US dollars per barrel, June 2006 to May 2007

Extract A contained a graph adapted from the BBC.

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Extract B: One spark from disaster

The problems in the Middle East continue to have the potential to destabilise the whole world economy. If the region is rightly regarded as a ticking time-bomb, the detonation of that bomb would blow apart the global economy. 1

There is little doubt that the price of oil on world markets would soar; it is the view of many economists that the price per barrel would surge rapidly beyond \$100. Such a rise could easily plunge the world into recession, with obvious consequences for employment, trade and living standards. 5

There is widespread complacency, however. Part of the reason for this is that, in the past two years, the world economy has shown itself fairly immune to fluctuations in world oil prices. Certainly, Western economies, including the UK, are far less dependent on oil than they were in the troubled years of the 1970s. Fast-growing economies have also been able to shrug off the impact of higher oil prices to some extent. 10

However, a sustained rise in the price of oil would be an altogether different scenario. Although such factors as investment, the size and quality of the labour force, and government policy are amongst the important determinants of economic growth, few economists would discount the importance of stability in oil supplies. 15

The oil market has become exceptionally tight because of surging demand from high-growth emerging economies, with demand for oil set to rise further. Despite accounting for just 9% of global GDP, the so-called BRIC economies (Brazil, Russia, India and China) consume 17% of global supplies of oil. 20

The US Energy Information Administration predicts that by the end of 2008, total world demand for oil will exceed projected supply by 0.6 million barrels per day (bpd). For this reason, Iran has potentially a huge influence. It accounts for 11.5% of global oil reserves. Its current exports of over 2 million bpd make the world oil market extremely sensitive to the possibility of disruption to oil supplies by Iran or by other leading oil producers. The top ten oil exporters of the world, with Iran ranked fourth, export over 30 million bpd. 25

Prolonged disruption to oil supplies and the consequent much higher prices would be disastrous for oil-importing countries and the world economy as a whole. The years of buoyant growth which some countries, including the UK, have experienced and the very high growth of economies such as China, would come to an abrupt end. Property prices could decline, consumer spending would weaken, and an all-out recession would bring many City firms to their knees. A complacent attitude towards the Middle East situation must therefore be avoided at all costs. 30
35

Source: adapted from *The Business*, 7 April 2007

Question 1

- 1 (a) Identify **two** main features of the data for crude oil prices shown in **Extract A** for the period June 2006 to May 2007. (4 marks)

- (b) **Extract B** indicates that emerging economies' demand for oil is 'set to rise' (line 19), and also refers to the 'possibility of disruption to oil supplies by Iran or by other leading oil producers' (lines 26-27).

With the help of a supply and demand diagram, explain the impact on the world price of oil should these changes occur in the market. (6 marks)

- (c) **Extract B** (line 16) refers to 'the important determinants of economic growth'.

Analyse **two** determinants of economic growth. (10 marks)

- (d) 'Prolonged disruption to oil supplies and the consequent much higher prices would be disastrous for oil-importing countries and the world economy as a whole' (**Extract B**, lines 29-30).

Using the data and your economic knowledge, evaluate the impact on the macroeconomic performance of oil-importing countries such as the UK and China if such changes in the world oil market occur. (30 marks)

Turn over for the next question

Turn over ►

SECTION B

Answer **one** question from this section.

Each question carries 50 marks.

- 2 UK budget surpluses recorded in 2000 and 2001 were followed by a series of budget deficits. One estimate for the 2007-08 budget deficit was £35 billion.
- (a) Explain why a government budget might move from surplus to deficit. *(20 marks)*
- (b) Assess the extent to which rising budget deficits might benefit UK macroeconomic performance. *(30 marks)*
- 3 In March 2007, the UK rate of inflation as measured by the Consumer Prices Index exceeded 3%, which was above the Government's inflation target of 2%.
- (a) Explain the possible causes of a rise in the rate of inflation. *(20 marks)*
- (b) Do you agree with the view that interest rate policy alone can solve an inflation problem in the UK economy? Justify your answer. *(30 marks)*
- 4 In 1999, the UK balance of trade in goods recorded a deficit of £29 billion. In 2006, the annual deficit had risen to £77 billion.
- (a) Explain the possible causes of such an increase in the deficits in the UK balance of trade in goods. *(20 marks)*
- (b) Evaluate the ways in which rising deficits in the UK balance of trade in goods might be reduced. *(30 marks)*

END OF QUESTIONS

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