AQA

AS
ECONOMICS

Paper 2 The National Economy in a Global Context

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DO NOT WRITE ANY ANSWERS IN THIS INSERT. YOU MUST ANSWER THE QUESTIONS IN THE ANSWER BOOKLET PROVIDED.

CONTEXT 1: THE UK RETAIL INDUSTRY

Questions 21 to 26

- **Extract A:** UK retail sales, percentage change on same month a year earlier, January 2016–January 2019
- **Extract B:** The changing retail industry
- **Extract C:** Aggregate demand and economic activity

CONTEXT 2: CONFLICTING ECONOMIC OBJECTIVES

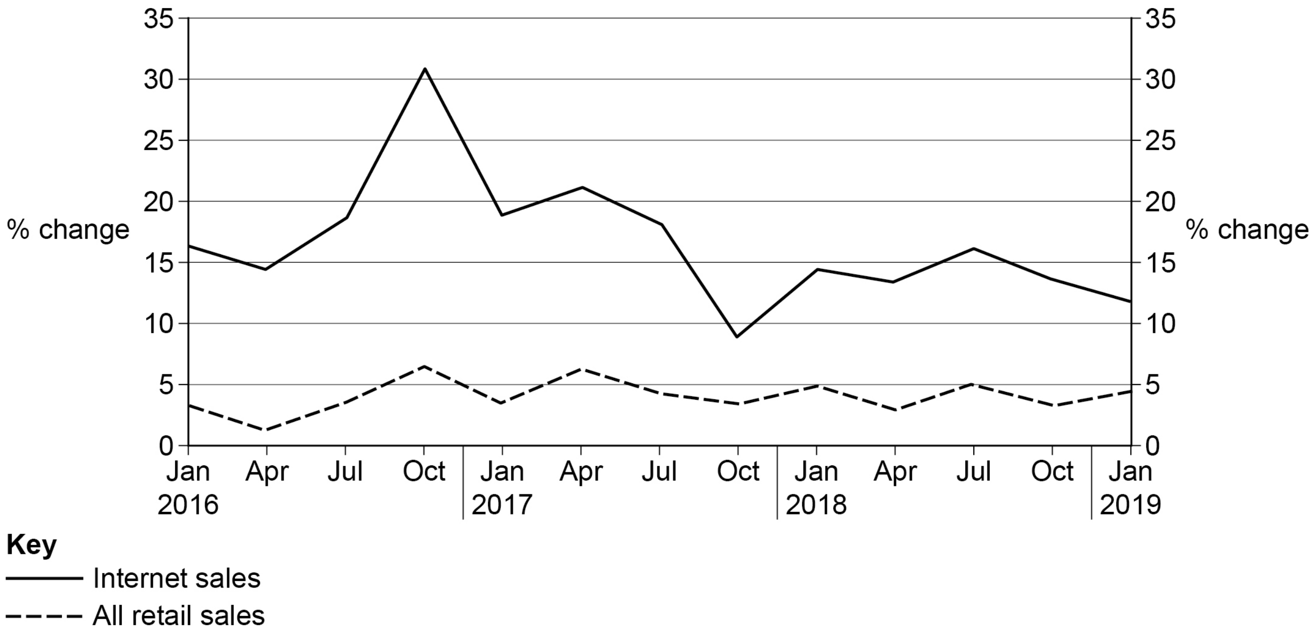
Questions 27 to 32

- **Extract D:** UK car production for export and home markets, percentage change on same month a year earlier, January 2016–January 2019
- **Extract E:** UK manufacturing and the objectives of macroeconomic policy
- **Extract F:** Conflicting objectives…or not?

Context 1 **Total for this context: 50 marks**

THE UK RETAIL INDUSTRY

Extract A: UK retail sales, percentage change on same month a year earlier, January 2016–January 2019



Note: All retail sales include internet sales but exclude automotive fuels.

Source: Retail sales: February 2019, Office for National Statistics

Extract B: The changing retail industry

The retail industry continues to grow, yet there is clear evidence that the pattern of consumer spending is changing. In November 2013, when Black Friday* was first introduced to the UK, the average weekly value of all retail sales in the UK was £6 806.7 million, including internet sales of £827 million. However, by November 2018, internet sales accounted for 21.5% of all retail sales, with a value of £1 819.6 million.

Clearly, high street retailers face difficult trading conditions. Falling demand and rising costs, due to rises in business rates, an increasing minimum wage and a falling exchange rate, have meant that some are unable to survive. According to the accountancy firm PWC, 2692 stores run by retailers with multiple outlets closed in the first half of 2018. Taking into account pubs, restaurants and other shops, a further 4042 premises became empty, increasing spare capacity in the economy.

Inevitably, job losses will follow. The Office for National Statistics (ONS) said there were 93 000 fewer retail jobs in the three months to the end of September 2018 compared to a year earlier. In 2017, the British Retail Consortium warned there could be up to 900 000 fewer jobs over the next decade, which is a huge concern given the industry is the biggest employer in the private sector.

In the November 2018 budget statement, the then Chancellor of the Exchequer, Philip Hammond, acknowledged the importance of the high street to communities and local economies. He announced ‘Our Plan for the High Street’, a range of supply-side policies designed to help town centres evolve. It includes reductions in business rates and an injection of £675 million into a ‘Future High Streets Fund’, to be used for local projects including improved transport infrastructure.

***Note**: Black Friday is the day after the US holiday of Thanksgiving, regarded as the first day of the Christmas shopping season, on which retailers make many special offers.

Source: News reports, February 2019

Extract C: Aggregate demand and economic activity

So, is the changing retail industry and the decline in the high street bad news for the economy? Not necessarily. Many new jobs are being created, for example, in technology, distribution and delivery. Household consumption accounts for approximately 60% of aggregate demand so has a vital role to play in the economy, but consumption also includes spending on services, and nowadays services spending is gaining a greater share of consumers’ disposable income. Slower growth in consumption can also help to prevent too much inflationary pressure.

Besides, what of the other components of aggregate demand? Unfortunately, investment is falling. The ONS estimated that business investment fell by 1.1% to £46.9 billion between the second and third quarters of 2018, the third consecutive quarter-on-quarter fall. The total trade deficit widened during 2018 to £32.3 billion; even though the value of exports increased, the increase in the value of imports was greater.

However, Keynesian economists believe that when an economy slows the government should increase its spending to stimulate economic activity. UK Government finances have improved recently and, if required, the Chancellor now has more flexibility to increase government spending to give the economy a boost.

Source: News reports, February 2019

Turn over for Context 1 questions

Context 1: – Questions 21 to 26

2 1 Define 'falling exchange rate' in **Extract B** (line 7).

[3 marks]

2 2 Use **Extract B** to calculate, to **two** decimal places, the ratio of internet sales to £1 worth of all retail sales in November 2013.

[4 marks]

2 3 Use **Extract A** to identify **two** significant points of comparison between the percentage change in the value of all retail sales and internet sales over the period shown.

[4 marks]

2 4 **Extract B** (lines 9–11) states: 'Taking into account pubs, restaurants and other shops, a further 4042 premises became empty, increasing spare capacity in the economy.'

Draw a production possibility curve diagram for an economy producing capital goods and consumer goods to show an **increase** in spare capacity in the economy.

[4 marks]

2 5 **Extract C** (lines 3–4) states: 'Household consumption accounts for approximately 60% of aggregate demand so has a vital role to play in the economy.'

Explain **two** factors that could cause a fall in consumption.

[10 marks]

2 6 **Extract C** (line 1) states: 'So, is the changing retail industry and the decline in the high street bad news for the economy?'

Use the extracts and your knowledge of economics to assess whether the changes taking place in the retail industry are likely to cause lasting damage to UK macroeconomic performance.

[25 marks]

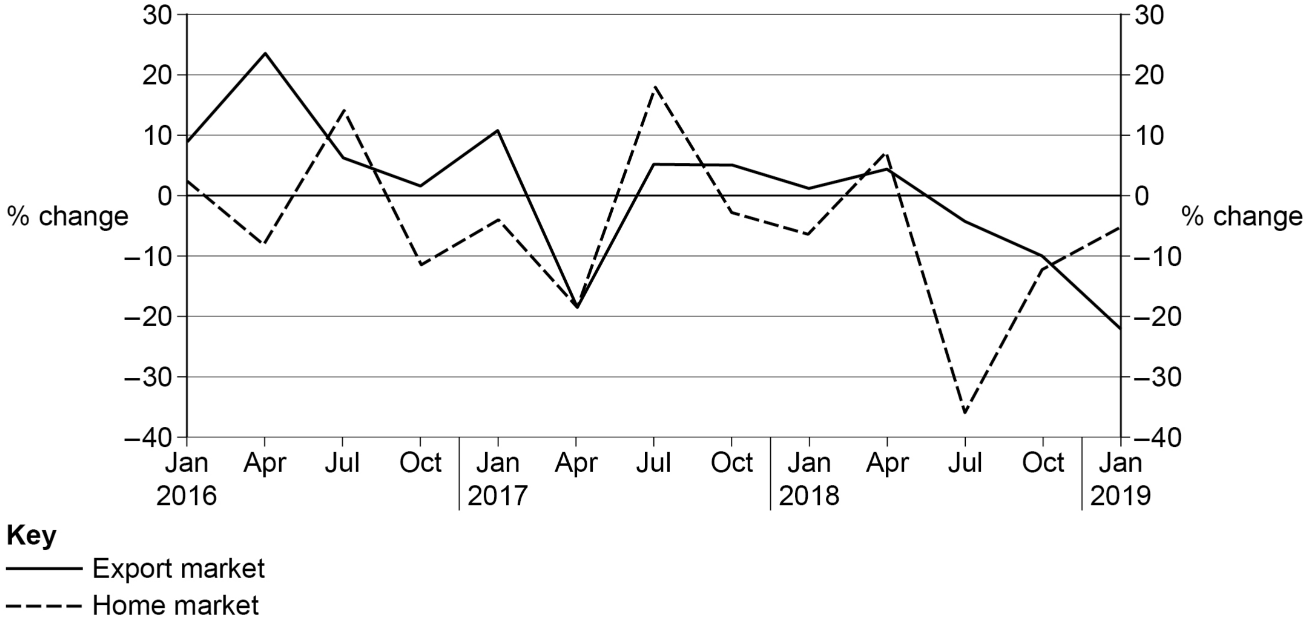
There are no extracts printed on this page

Turn over for Context 2

Context 2 **Total for this context: 50 marks**

CONFLICTING ECONOMIC OBJECTIVES

Extract D: UK car production for export and home markets, percentage change on same month a year earlier, January 2016–January 2019



Source: Adapted from UK Car Manufacturing, Society of Motor Manufacturers and Traders, accessed February 2019

Extract E: UK manufacturing and the objectives of macroeconomic policy

In recent years, car production has been the success story of UK manufacturing, the recipient of large amounts of foreign investment, and experiencing record employment, but now the future looks less bright. A 17-year high was reached in 2016, with 1.7 million vehicles produced, 1.35 million of which were exported overseas. In the year to December 2018, only 1 237 608 cars had been exported and 281 832 had been produced for the home market. Some car manufacturers, such as Jaguar Land Rover, have announced redundancies, and the Japanese firm, Honda, has decided to close its entire UK plant, with the loss of up to 3000 jobs. When the impact on component manufacturers and the negative multiplier effects are taken into account, the increase in unemployment will be considerably more. Inevitably, the volume of exports will fall, and it is highly likely that the trade deficit will increase further.

In the three months to November 2018, falling car production was the largest downward contributor to the decline in the manufacturing sector, as output contracted by 0.8%, but other areas are suffering as well. Philips intends to close its baby-bottle factory, Airbus is ceasing production of its A380 aeroplane, and Hitachi has suspended work on a multi-billion pound nuclear power plant.

Economic growth is one of the main objectives of macroeconomic policy. It leads to job creation and can help to reduce inequalities in the distribution of income and wealth. Yet such grim news in manufacturing makes growth more difficult to achieve. The Office for Budget Responsibility (OBR) and the Bank of England have reduced their growth forecasts for the UK for 2019, and it was not entirely unexpected that real GDP growth slowed to only 0.2% for the final quarter of 2018.

Source: News reports, February 2019

Extract F: Conflicting objectives…or not?

Despite the gloomy expectations within the economy, the unemployment rate remains very low at 4% and the employment rate hit a high of 75.8% in the final quarter of 2018, with 32.6 million people in work. Traditionally, economists would have predicted a trade-off between unemployment and inflation. As more workers receive higher in-work income, consumption would be expected to rise, leading to short-run economic growth. As firms' costs increase this adds to inflationary pressure. Yet this potential macroeconomic conflict has failed to materialise: CPI inflation fell to a below-target rate of 1.8% in January 2019, a two-year low, mainly due to lower energy and fuel prices.

Consequently, monetary and fiscal policies can remain expansionary, to provide the necessary stimulus to help reverse the slowdown in economic activity. The Government can devote its attention towards dealing with the challenges faced in manufacturing. It could use supply-side policies to create incentives to ease structural change; jobs lost in one industry could be created in another, and in the long term the economy can improve. However, it is not easy for a government to achieve all of its macroeconomic objectives at the same time as conflicts do arise. An increase in government spending or reduction in taxes could lead to a growing budget deficit. The Government should also be mindful that if confidence improves and the manufacturing industry picks up, it will be difficult to avoid more inflationary pressures.

Source: News reports, February 2019

Turn over for Context 2 questions

Context 2: – Questions 27 to 32

2 7 Define 'growing budget deficit' in **Extract F** (lines 15–16).

[3 marks]

2 8 Use **Extract E** to calculate, to **two** decimal places, the ratio of cars produced in the UK for export markets to each car produced for the home market, for the year ended December 2018.

[4 marks]

2 9 Use **Extract D** to identify **two** significant points of comparison between the percentage change in UK car production for export and home markets over the period shown.

[4 marks]

3 0 **Extract F** (lines 4–5) states: 'As more workers receive higher in-work income, consumption would be expected to rise, leading to short-run economic growth.'

Draw a production possibility curve diagram for an economy producing capital goods and consumer goods to show short-run economic growth.

[4 marks]

3 1 **Extract E** (lines 9–10) states: 'Inevitably, the volume of exports will fall, and it is highly likely that the trade deficit will increase further.'

Explain **two** factors that could cause a fall in the volume of UK exports.

[10 marks]

3 2 **Extract F** (lines 13–17) states: '… it is not easy for a government to achieve all of its macroeconomic objectives at the same time… if confidence improves and the manufacturing industry picks up, it will be difficult to avoid more inflationary pressures.'

Use the extracts and your knowledge of economics to assess the view that as the rate of economic growth increases, a rise in inflation is inevitable.

[25 marks]

END OF SOURCES