



Surname _____

Other Names _____

Centre Number _____

Candidate Number _____

Candidate Signature _____

I declare this is my own work.

GCSE ECONOMICS

Paper 2 How the economy works

8136/2

Time allowed: 1 hour 45 minutes

At the top of the page, write your surname and other names, your centre number, your candidate number and add your signature.

[Turn over]



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**For this paper you will need no other materials.
You may use a calculator.**

INSTRUCTIONS

- **Use black ink or black ball-point pen.**
- **Answer ALL questions.**
- **You must answer the questions in the spaces provided. Do not write on blank pages.**
- **If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).**
- **Do all rough work in this book. Cross through any work you do not want to be marked.**

INFORMATION

- **The marks for questions are shown in brackets.**
- **The maximum mark for this paper is 80.**
- **Questions should be answered in continuous prose. You will be assessed on your ability to:**
 - **use good English**
 - **organise information clearly**
 - **use specialist vocabulary where appropriate.**

DO NOT TURN OVER UNTIL TOLD TO DO SO



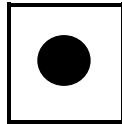
SECTION A

Answer ALL questions in the spaces provided.

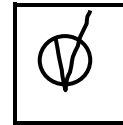
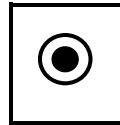
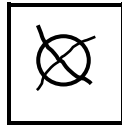
For questions with four responses, only ONE answer per question is allowed.

For each question, completely fill in the circle alongside the appropriate answer.

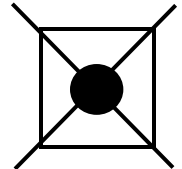
CORRECT METHOD



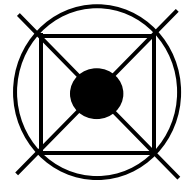
WRONG METHODS



If you want to change your answer you must cross out your original answer as shown.



If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.



0	1
---	---

A budget deficit is best described as which of the following? [1 mark]

☐

A Where government expenditure is more than government revenue

☐

B Where government revenue is more than government expenditure

☐

C Where the value of exports is greater than the value of imports

☐

D Where the value of imports is greater than the value of exports

[Turn over]



0	2
---	---

Which of the following is an example of a supply-side policy? [1 mark]

☐

A Decrease in interest rates

☐

B Decrease in the money supply

☐

C Increase in business taxation

☐

D Increase in training expenditure



0	3
---	---

Which of the following best describes the type of unemployment caused by a general lack of spending in the economy? [1 mark]

☐

A Cyclical

☐

B Frictional

☐

C Seasonal

☐

D Structural

[Turn over]



0	4
---	---

TABLE 1 shows the Consumer Prices Index (CPI) for an economy.

TABLE 1

Date	CPI
December 2018	114.6
December 2019	118.3
December 2020	123.1

Using **TABLE 1**, the annual inflation rate at December 2020 to 1 decimal place is:

[1 mark]

☐

A 3.2%

☐

B 3.7%

☐

C 4.1%

☐

D 4.8%



05

Which of the following pairs of policy changes is the most appropriate response to the problem of rising inflation and high economic growth? [1 mark]

		Government spending	Tax rates
<input type="radio"/>	A	Decrease	Decrease
<input type="radio"/>	B	Decrease	Increase
<input type="radio"/>	C	Increase	Decrease
<input type="radio"/>	D	Increase	Increase

[Turn over]



0	6
---	---

‘Using money means that people can buy products now but do not have to pay for them until sometime in the future.’

Which function of money does the above statement most closely relate to? [1 mark]

☐

A Means of deferred payment.

☐

B Medium of exchange.

☐

C Store of value.

☐

D Unit of account.



0	7
---	---

Which of the following is a direct tax? [1 mark]

☐

A Excise duty.

☐

B Income tax.

☐

C Sugar tax (on soft drinks).

☐

D Value added tax.

[Turn over]



08

Which of the following would best reduce income inequality? [1 mark]

		Welfare benefits	Personal tax-free allowances
<input type="radio"/>	A	Decrease	Decrease
<input type="radio"/>	B	Decrease	Increase
<input type="radio"/>	C	Increase	Decrease
<input type="radio"/>	D	Increase	Increase



0	9
---	---

Which of the following is the least likely reason for increased globalisation? [1 mark]

☐

A Faster and cheaper transport links.

☐

B Improvements in communications.

☐

C Increased tariffs and quotas on foreign trade.

☐

D Pressure on businesses to produce in low-wage economies.

[Turn over]



10

Which of the following identifies the effects a significant increase in the exchange rate will have on inflation and the current account balance? [1 mark]

		Inflation	Current account balance
<input type="radio"/>	A	Decrease	Improve
<input type="radio"/>	B	Decrease	Worsen
<input type="radio"/>	C	Increase	Improve
<input type="radio"/>	D	Increase	Worsen



1	1
---	---

**State TWO UK Government economic objectives.
[2 marks]**

Objective 1 _____

Objective 2 _____

[Turn over]



1	2
---	---

Explain ONE disadvantage of using supply-side policies. [2 marks]



1	3
---	---

Explain ONE benefit of globalisation to producers from a developed economy. [2 marks]

[Turn over]



14

TABLE 2 shows balance of payments data for an economy.

TABLE 2

	£ billion
Current account balance	−14.6
Primary income balance	−1.2
Secondary income balance	+2.8

14.1

Using **TABLE 2**, calculate the value of the balance of trade in £ billions. [2 marks]



£

1 4 . 2

Explain ONE reason why the value of a country's imports might be larger than the value of exports.
[2 marks]

[Turn over]



FIGURE 1

In 2020 the government expected to spend over £900 billion. This spending is mainly funded by tax revenue. Changes in government spending and tax rates are known as fiscal policy. Fiscal policy can be used to achieve the government's economic objectives. For example, governments can spend money on improving education, which may help reduce unemployment. Changes in tax can also reduce the unemployment rate.

1	5
----------	----------

Analyse how fiscal policy can help a government achieve lower unemployment. [6 marks]





1	6
---	---

State TWO government policies used to correct market failure associated with positive externalities. [2 marks]

Policy 1 _____

Policy 2 _____

[Turn over]



1	7
---	---

Explain ONE benefit of free trade for UK producers.
[2 marks]

1	8
---	---

Explain ONE role of the Bank of England. [2 marks]



1	9	.	1
---	---	---	---

An individual decides to open a savings account with a deposit of £8000. The annual interest rate paid on these savings is 1.2%. If they close the account after nine months, calculate how much interest they would receive on their account. [2 marks]

£

[Turn over]



19.2

Explain ONE effect of a fall in interest rates on UK producers. [2 marks]

20

FIGURE 2, on the opposite page, shows the US Dollar (\$) to the British Pound (£) foreign exchange market.

20.1

On the opposite page, on FIGURE 2, draw a supply and demand diagram, and label the effects on the exchange rate of increased UK exports to the USA. [3 marks]



FIGURE 2

US Dollars (\$)
 per Pound (£)



Quantity of
 Pounds (£)

[Turn over]



FIGURE 3

Since 2016, the British Pound (£) has remained at a low value against other currencies. This was partially caused by the uncertainty created following the UK's decision to leave the European Union (EU).

A low (or weaker) exchange rate will affect both consumers and producers in the economy. Businesses that export goods and services are affected when the currency changes in value. Import prices will change, which also affects UK businesses.

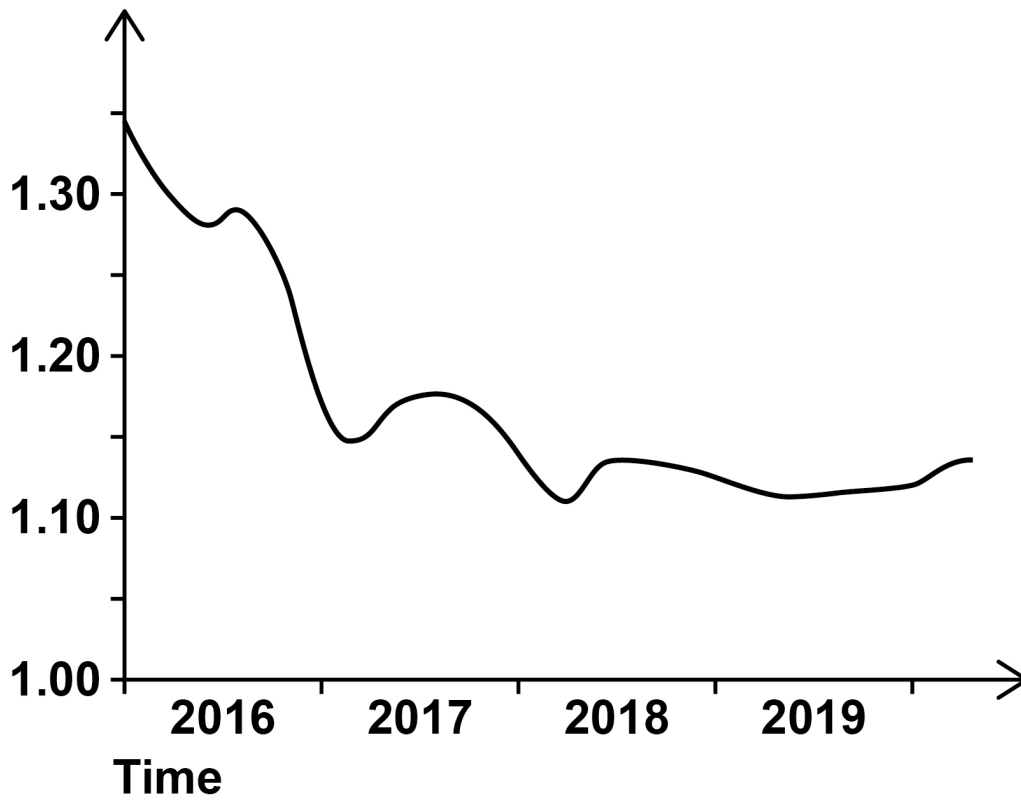
Consumers taking foreign holidays and those who buy goods from overseas are affected by changes in the exchange rate.

The diagram here shows that the exchange rate fell by approximately 20% and, although it has risen since, it has remained low against the Euro (€) more or less throughout this period.



Euro (€)/British Pound (£) exchange rate 2016–2019

Euros (€) per
Pound (£)



[Turn over]



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2	1
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Using FIGURE 3, on page 29, assess whether people in the UK benefitted from changes in the exchange rate between 2016 and 2019.

Justify your answer. [9 marks]

[Turn over]





48



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[Turn over]



SECTION B

Answer ALL questions in the spaces provided.

ITEM A

Some economists believe that the UK economy has not performed well in the years leading up to 2020. In 2019, economic growth was lower than it had been for a number of years. Inflation, partly caused by the fall in the value of the Pound (£), meant people's incomes fell in real terms for much of the period after 2010. Higher inflation might also affect the UK's export industries.

There is also uncertainty over the UK's future relationship with the European Union (EU) following the 2016 referendum. This uncertainty is likely to lead to fewer businesses locating in the UK and may lead to less business investment as future trading conditions reduce business confidence.

However, other economists are more optimistic about the UK's economic performance. Recession was avoided after the 2016 referendum and unemployment kept falling and looks likely to remain much lower than in other countries.

Government policy may also help improve people's living standards. Decreases in the amount of tax people pay on their incomes have boosted people's disposable incomes.



Promised increases in spending on health and education by the government may also improve people's lives. In addition, interest rates are unlikely to rise significantly above their historically low levels over the next few years. Government ministers point to the rising GDP per capita over the period as evidence of how living standards have improved.

TABLE 3 – UK population and GDP

	Population (in millions)	GDP (in £ millions)
2011	63	1 660 000
2016	65	1 995 000

[Turn over]



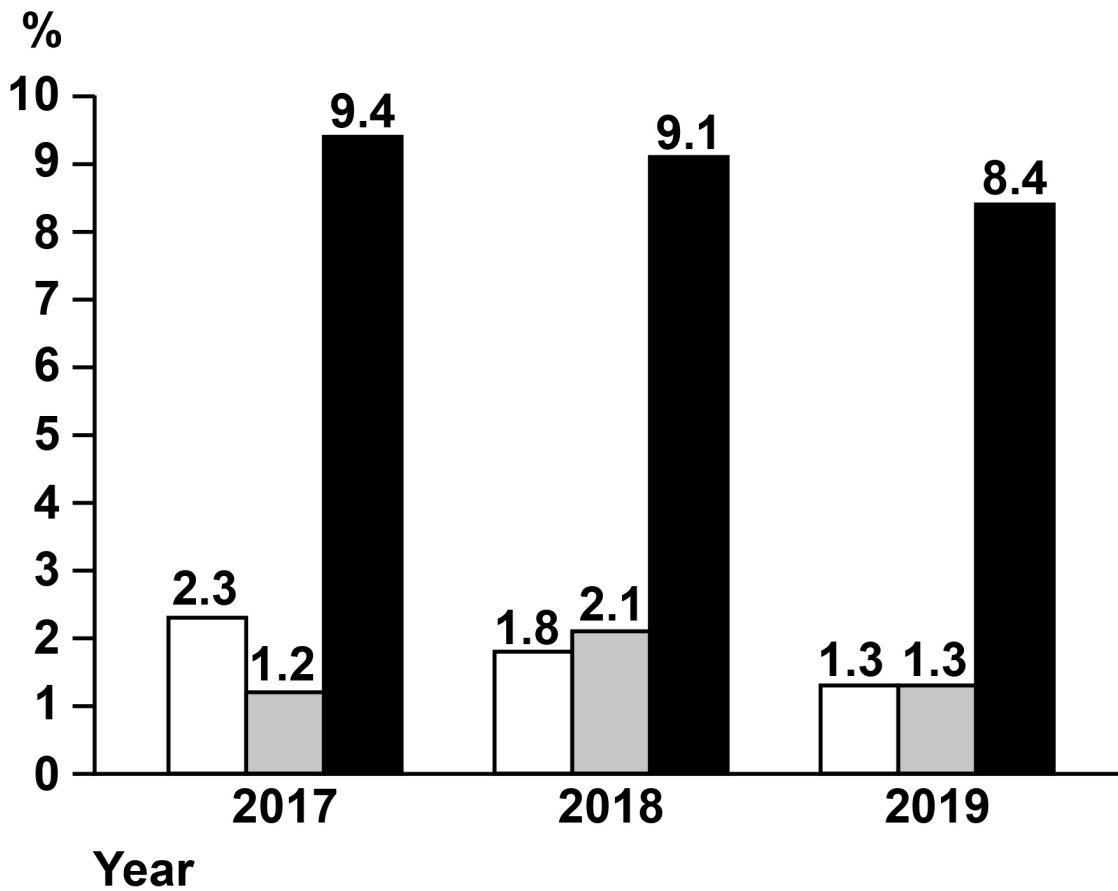
ITEM B

France and the UK have similar population sizes. The value of GDP per capita is also similar. However, there are differences in how the French and the UK economies have performed.

In France, economic growth has remained higher than that of the UK and is forecasted to continue to be higher than the UK for the next few years. Inflation has been lower in France compared with the UK, though this is because the fall in the British Pound's value increased cost-push inflation between 2017 and 2019. Although unemployment is falling in France, it is much higher than that experienced in the UK. This causes problems for the government, such as less tax being collected and more spending on benefits.

Given the similarities between France and the UK, there is disagreement over which economy is performing better.



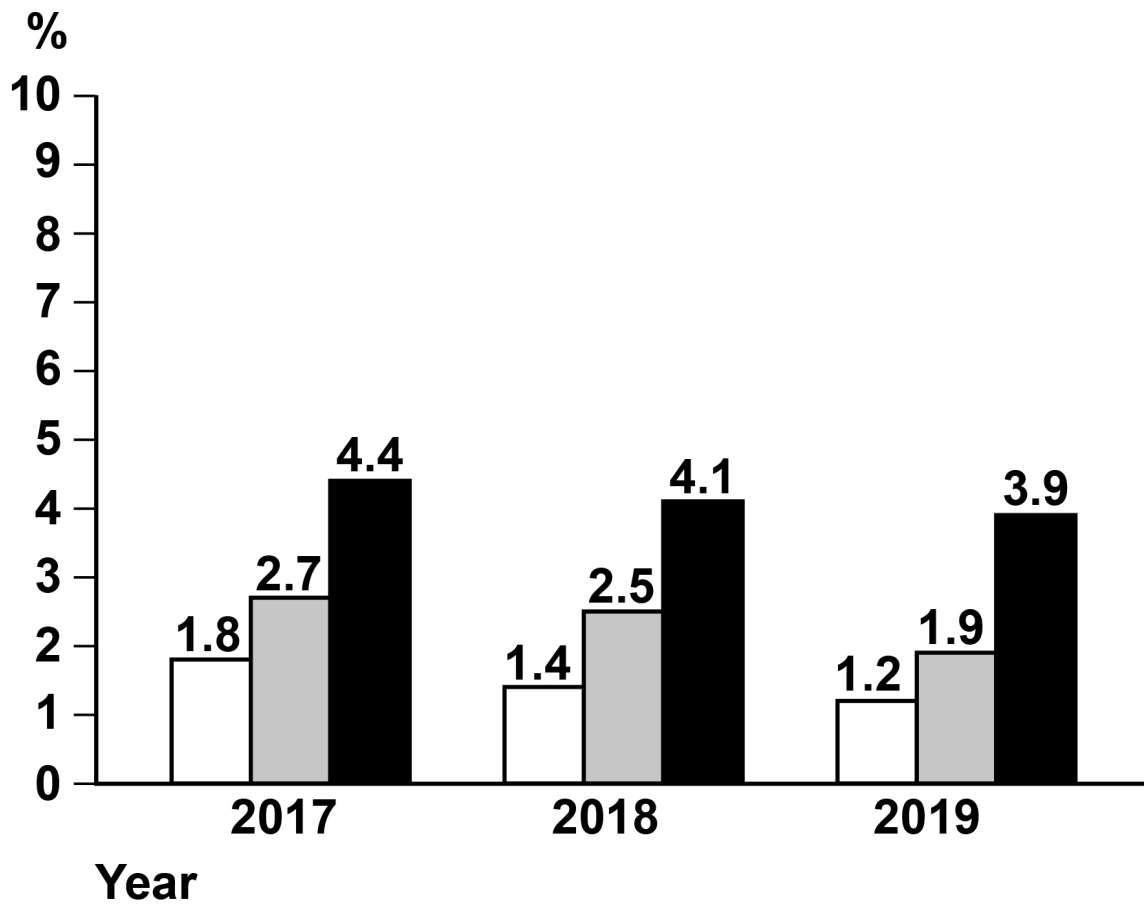
FRANCE ECONOMIC STATISTICS**KEY**

- ☐ Economic growth (%)
- ☐ Inflation (%)
- ☐ Unemployment rate (%)

[Turn over]



UK ECONOMIC STATISTICS



KEY

- ☐ Economic growth (%)
- ☐ Inflation (%)
- ☐ Unemployment rate (%)



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[Turn over]



2	2
---	---

Define the term cost-push inflation. [2 marks]

2	3
---	---

Using TABLE 3 in ITEM A, on page 37, calculate the percentage change in the UK's GDP per capita from 2011 to 2016.

Give your answer to 1 decimal place. [3 marks]



2	4
---	---

**Using ITEM A, on pages 36 and 37, explain TWO consequences of inflation for people in the UK.
[6 marks]**

Consequence 1 _____



Consequence 2

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[Turn over]



2	5
---	---

Using ITEM B, on page 38, analyse possible benefits to the government of low unemployment. [6 marks]

[illegible]

[Turn over]



2	6
---	---

Was the UK economy performing better than the French economy in 2019?

Use ITEMS A AND B, on pages 36-40, and your own economic knowledge to justify your view. [15 marks]

[illegible]

[illegible]





32



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Write the question numbers in the left-hand margin.

[illegible]

Additional page, if required.

Write the question numbers in the left-hand margin.

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For Examiner's Use	
Section	Mark
A	
B	
TOTAL	

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