



# Edexcel A - AS Level Economics

## Theme 2 – The UK economy – performance and policies

### 2.1 Measures of economic performance

#### Worked Examples

# Contents

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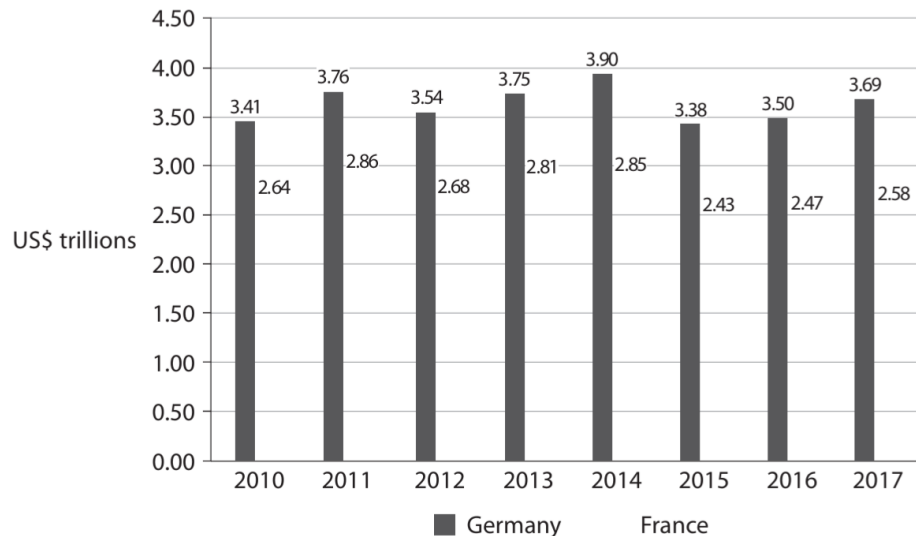
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- Economic growth
- Inflation
- Employment and unemployment
- Balance of payments

## 2.1.1 Economic growth

### Exam Style Question 1

GDP at Purchasing Power Parities, Germany and France (nominal, trillions of US dollars) 2010-2017.



(Source: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2017&locations=DE&start=1970&view=chart>)



## 2.1.1 Economic growth

### Exam Style Question 1

(a) From the data in the graph above, which **one** of the following may be deduced? [1]

- A France's rate of inflation was lower than Germany's in 2017
- B Germany's GDP is smaller than France's in every year shown.
- C In every year that France's GDP fell compared to the previous year, Germany's GDP did too.
- D The GDP of both Germany and France fell between 2015 and 2016.

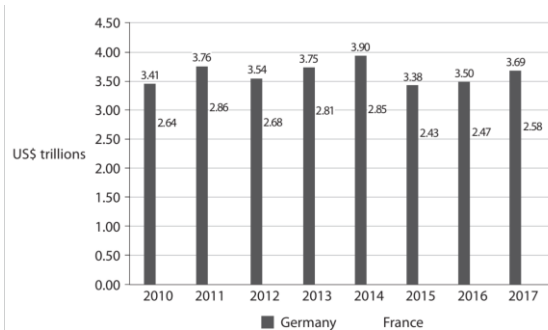
(b) Calculate the percentage change in Germany's nominal GDP from 2016 to 2017. [2]

(c) Explain **one** reason why Purchasing Power Parities are used. [2]

## 2.1.1 Economic growth

### Exam Style Question 1

GDP at Purchasing Power Parities, Germany and France (nominal, trillions of US dollars) 2010-2017.



(Source: <https://data.worldbank.org/indicator/NY.GDPMKTP.CD?end=2017&locations=DE&start=1970&view=chart>)

- (a) From the data in the graph above, which **one** of the following may be deduced? [1]
- A France's rate of inflation was lower than Germany's in 2017
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- C In every year that France's GDP fell compared to the previous year, Germany's GDP did too.
- D The GDP of both Germany and France fell between 2015 and 2016.
- (b) Calculate the percentage change in Germany's nominal GDP from 2016 to 2017. [2]
- (c) Explain **one** reason why Purchasing Power Parities are used. [2]



## 2.1.1 Economic growth

### Exam Style Question 1

**Answer:**

**(a) Answer: C:** "In every year that France's GDP fell compared to the previous year, Germany's GDP did too." [1]

- **Option A:** Incorrect because we do not have any information on inflation.
- **Option B:** Incorrect because Germany's GDP is larger than France's in every year shown.
- **Option D:** Incorrect because the GDP of both countries grew between 2015 and 2016.

**(b) Calculate the percentage change in Germany's nominal GDP from 2016 to 2017. [2]**

To calculate percentage change, use the formula:

$$\% \text{ change} = \frac{\text{New value} - \text{Old value}}{\text{Old value}} \times 100$$

For Germany's GDP:

- 2017: 3.69 trillion
- 2016: 3.50 trillion

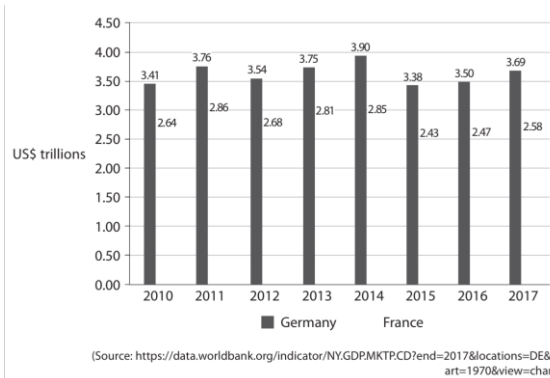
$$\% \text{ change} = \frac{3.69 - 3.50}{3.50} \times 100 = \frac{0.19}{3.50} \times 100 \approx 5.43\% \text{ [1]}$$

So, Germany's GDP increased by approximately **5.43%** from 2016 to 2017. [1]

## 2.1.1 Economic growth

### Exam Style Question 1

GDP at Purchasing Power Parities, Germany and France (nominal, trillions of US dollars) 2010-2017.



- (a) From the data in the graph above, which **one** of the following may be deduced? [1]
- A France's rate of inflation was lower than Germany's in 2017
  - B Germany's GDP is smaller than France's in every year shown.
  - C In every year that France's GDP fell compared to the previous year, Germany's GDP did too.
  - D The GDP of both Germany and France fell between 2015 and 2016.
- (b) Calculate the percentage change in Germany's nominal GDP from 2016 to 2017. [2]
- (c) Explain **one** reason why Purchasing Power Parities are used. [2]



## 2.1.1 Economic growth

### Exam Style Question 1

**Answer:**

**(c) Explain one reason why Purchasing Power Parities (PPPs) are used. [2]**

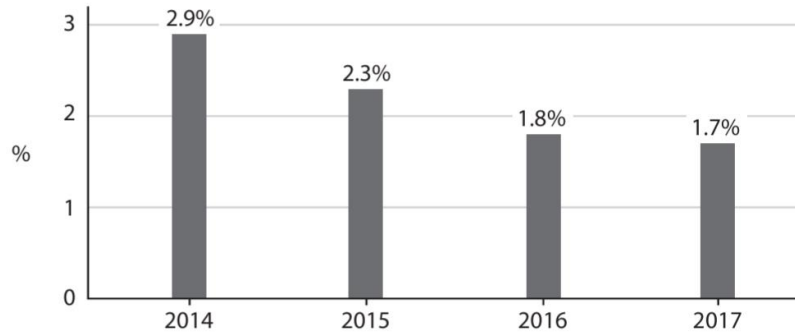
**Definition:** Purchasing Power Parities (PPPs) adjust GDP figures to account for differences in the cost of living between countries. Instead of just using exchange rates, PPPs measure what the same amount of money can buy in each country. It is also used to improve accuracy comparing data between countries. [1]

**Reason:** PPPs are used to make fairer comparisons between countries because they reflect the true value of goods and services in each country. For example, £1 might buy more goods in India than in the UK, so PPP adjusts for this difference to give a clearer picture of economic well-being. [1]

## 2.1.1 Economic growth

### Exam Style Question 2

UK real Gross Domestic Product (GDP), annual percentage change 2014-2017.



(Source: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyp/qna>)

- (a) Total real UK GDP in 2016 was £200,000 million. With reference to the chart above, calculate the total real UK GDP for 2017. You are advised to show your working. [2]
- (b) Explain the term 'real gross domestic product'. [2]
- (c) With reference to the chart on page 2, which **one** of the following is correct over the period shown? [1]
- A GDP per capita was highest in 2014
  - B Inflation rose in 2015
  - C The UK economy grew at the fastest rate in 2014
  - D The UK economy was in recession in 2015

## 2.1.1 Economic growth

### Exam Style Question 2

**Answer:**

**(a) Calculate the total real UK GDP for 2017.**

We know that the real UK GDP in 2016 was £200,000 million, and the GDP growth rate for 2017 is 1.7%. To calculate the GDP for 2017, we apply the formula:

$$GDP \text{ for 2017} = GDP \text{ for 2016} \times (1 + \text{growth rate})$$

First, convert the growth rate to decimal form (1.7% becomes 0.017), then multiply:

$$GDP \text{ for 2017} = 200,000 \times (1 + 0.017) = 200,000 \times 1.017 \text{ [1]}$$
$$GDP \text{ for 2017} = 203,400$$

So, the total real UK GDP for 2017 is **£203,400 million**. [1]

**(b) Explain the term 'real gross domestic product':**

"Real gross domestic product" (real GDP) refers to the total value of all goods and services produced in a country (total output of the economy), adjusted for inflation. [2]

**(c) With reference to the chart, which one of the following is correct over the period shown?**

**Answer: C** – The UK economy grew at the fastest rate in 2014.

**Option A** – Incorrect, we do not have any data on population

**Option B** – Incorrect, we do not have any data on inflation

**Option D** – Incorrect, economic growth is positive in 2015

## 2.1.1 Economic growth

### Exam Style Question 3

The table below shows average UK house prices between July 2014 and July 2017.

Year	Average house prices (£)	Index numbers of average UK house prices (2014 is the base year)
2014	189 709	100
2015	200 141	
2016	215 127	
2017	226 185	119.2

(Source: adapted from <http://landregistry.data.gov.uk/app/ukhpi/explore> - Crown Copyright)

## 2.1.1 Economic growth

### Exam Style Question 3

(a) Which **one** of the following is the most likely impact of an increase in average UK house prices on existing homeowners? [1]

- A Greater confidence
- B Higher income
- C Lower consumption
- D Negative wealth effect

(b) Using 2014 as the base year, calculate the index number for:

[2]

- (i) 2015
- (ii) 2016.
- (c) Define the term 'index number'.



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### Exam Style Question 3

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(b) Using 2014 as the base year, calculate the index number for:

[2]

(i) 2015

(ii) 2016.

(c) Define the term 'index number'.

## 2.1.1 Economic growth

### Exam Style Question 3

**Answer:**

(a) Which one of the following is the most likely impact of an increase in average UK house prices on existing homeowners?

**Answer: A – Greater confidence [1]**

**Option B:** Incorrect. An increase in house prices will lead to wealth effects and not an increase in income.

**Option C:** Incorrect. An increase in house prices will raise consumer confidence and increase consumption.

**Option D:** Incorrect. An increase in house prices will lead to positive wealth effects, which will lead to greater spending by existing homeowners.

(b) Using 2014 as the base year, calculate the index number for:

(i) 2015

To calculate the index number for 2015, we use the formula:

$$\text{Index number} = \left( \frac{\text{Price in 2015}}{\text{Price in 2014}} \right) \times 100$$

$$\therefore \text{Index number} = \left( \frac{200,141}{189,709} \right) \times 100 = 105.5$$

So, the index number for 2015 is **105.5. [1]**

(ii) 2016

Use:

$$\text{Index number} = \left( \frac{\text{Price in 2016}}{\text{Price in 2014}} \right) \times 100$$

$$\therefore \text{Index number} = \left( \frac{215,127}{189,709} \right) \times 100 = 113.4$$

So, the index number for 2016 is **113.4. [1]**



## 2.1.1 Economic growth

### Exam Style Question 3

The table below shows average UK house prices between July 2014 and July 2017.

Year	Average house prices (£)	Index numbers of average UK house prices (2014 is the base year)
2014	189 709	100
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(a) Which **one** of the following is the most likely impact of an increase in average UK house prices on existing homeowners? [1]

- A Greater confidence
- B Higher income
- C Lower consumption
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(b) Using 2014 as the base year, calculate the index number for:

[2]

- (i) 2015
- (ii) 2016.

(c) Define the term 'index number'.



## 2.1.1 Economic growth

### Exam Style Question 3

**Answer:**

(c) Define the term 'index number'.

An **index number** is an economic data figure that reflects price or quantity changes compared to a base year. [1] It shows the percentage change (either increase or decrease) in price or quantity from that base year. [1]

## 2.1.2 Inflation

### Exam Style Question 1

In October 2019 the annual rate of inflation in the UK was 1.5%, as measured by the Consumer Prices Index (CPI), and 2.1%, as measured by the Retail Prices Index (RPI).

- (a) Define the term 'inflation'? [1]
- (b) Explain **one** likely cause of inflation. [2]
- (c) From the above data, it can be deduced that the percentage point difference between CPI and RPI was:

[1]

- A 0.0
- B 0.2
- C 0.4
- D 0.6



## 2.1.2 Inflation

### Exam Style Question 1

**Answer:**

**(a) Define the term 'inflation'.**

Inflation is the sustained increase in the average price level of goods and services in an economy over time.

**(b) Explain one likely cause of inflation.**

One likely cause of inflation is **demand-pull inflation**. [1] This happens when there's too much demand for goods and services, but not enough supply to meet it. Sellers might increase prices because they know people are desperate to buy. Similarly, when demand across the economy outpaces supply, prices rise. [1]

**(c) From the above data, it can be deduced that the percentage point difference between CPI and RPI was:**

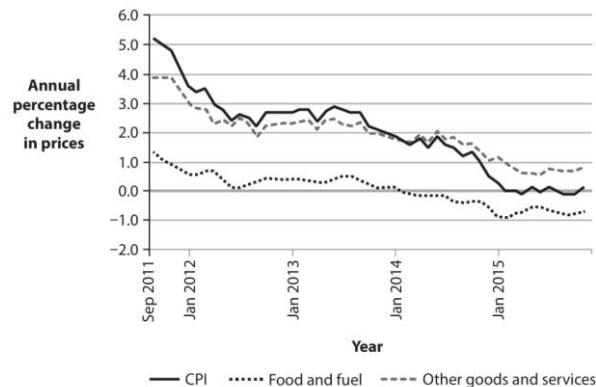
The RPI rate is 2.1%, and the CPI rate is 1.5%. To calculate the difference:

$$\text{Difference} = 2.1\% - 1.5\% = 0.6\%$$

The answer is **D: 0.6**.

## 2.1.2 Inflation

### Exam Style Question 2



(Source: [http://www.ons.gov.uk/ons/dcp171780\\_427182.pdf](http://www.ons.gov.uk/ons/dcp171780_427182.pdf))

The chart below shows UK inflation as measured by the Consumer Prices Index (CPI), 2011 to 2015.

(a) Which **one** of the following statements is correct about the UK's inflation record between September 2011 and January 2013?

Based on the data shown, the UK experienced:

- A Deflation [1]
- B Disinflation
- C Falling average prices
- D Falling money supply

(b) With reference to the data provided, explain the process of calculating the rate of inflation in the UK using the Consumer Price Index. Refer to the concept of weights in your answer. [4]

## 2.1.2 Inflation

### Exam Style Question 2

**Answer:**

(a) **Answer: B – Disinflation [1]**

Disinflation happens when prices are still rising, but they're rising at a slower rate.

- **Option A:** Incorrect. **Deflation:** This occurs when prices are actually falling (negative inflation rate).
- **Option C:** Incorrect. **Falling average prices:** This is another way of describing deflation, which is not the case here.
- **Option D:** Incorrect. **Falling money supply:** This would relate to changes in monetary policy, which isn't shown in the chart.

(b) **Explaining the process of calculating inflation using CPI:**

**1. Definition:**

The inflation rate tracks changes in the average prices of goods and services in the economy over a year. [1]

**2. Process:**

- A **basket of goods and services** is created to represent typical household spending. [1]
- Prices for items in the basket are collected through surveys.
- Items are **weighted** based on their importance in household budgets (e.g., food gets a higher weight than cinema tickets). [1]
- The costs of the basket in the current year are compared to a **base year**.

**3. Reference to chart:**

From the chart, **Food and Fuel** prices dragged inflation down in January 2015, contributing to the CPI being **0%** at the time. [1]

In essence, weights ensure the CPI reflects real spending patterns, and the basket is regularly updated to stay relevant.

## 2.1.2 Inflation

### Exam Style Question 3

UK Consumer Price Index (the base year 2005=100)

September 2013	126.8
September 2014	128.4
September 2015	128.2

(Source: <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-323657>)

- (a) Calculate the percentage change in the UK Consumer Price Index from September 2014 to September 2015. You are advised to show your working. [2]
- (b) Define the term 'deflation'. [1]
- (c) Which **one** of the following is most likely to be a cause of deflation? A fall in:
- [1]
- A Oil prices
  - B Unemployment
  - C Income tax rates
  - D Interest rates

## 2.1.2 Inflation

### Exam Style Question 3

**Answer:**

**(a) Calculate UK Consumer Price Index**

To calculate the percentage change:

$$\% \text{ change} = \frac{\text{New value} - \text{Old value}}{\text{Old value}} \times 100$$

UK consumer Price Index:

- September 2014: 128.4
- September 2015 128.2

$$\% \text{ change} = \frac{128.2 - 128.4}{128.4} \times 100 = \frac{-0.2}{128.4} \times 100 \approx -0.16\% \text{ [1]}$$

So, the Consumer Prices Index fell by **0.16%** between September 2014 and September 2015. [1]

**(b) Define the term 'deflation'.**

Deflation happens when the average prices of goods and services across the economy are falling over time. This means the inflation rate is negative, and the value of money increases.

**(c) Which one of the following is most likely to be a cause of deflation?**

Answer: **A: Oil Prices** [1]

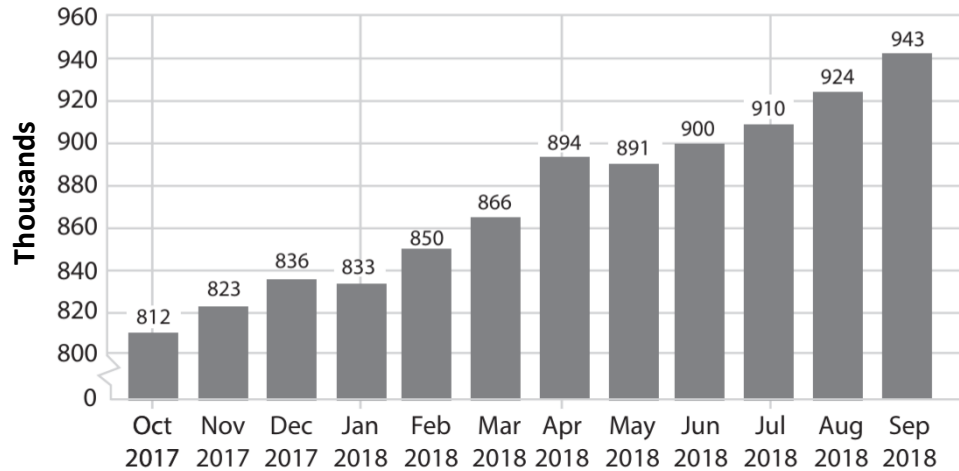
**Explanation:**

A fall in oil prices reduces the cost of production and transportation for many goods and services. As a result, businesses can pass these savings on to consumers by lowering prices, contributing to deflation.

## 2.1.3 Employment and unemployment

### Exam Style Question 1

Number of unemployed person, UK, as measured by the claimant count, thousands



(Source: <https://tradingeconomics.com/united-kingdom/unemployed-persons>)

(a) Calculate the percentage change in the number of UK unemployment persons between April and July 2018. You are advised to show your working. [2]

## 2.1.3 Employment and unemployment

### Exam Style Question 1

(b) Explain **one** likely reason for the increase in the number of people unemployed in the UK over the time period shown. [2]

(c) Which **one** of the following types of unemployment is most likely to be caused by a technological change in an industry? [1]

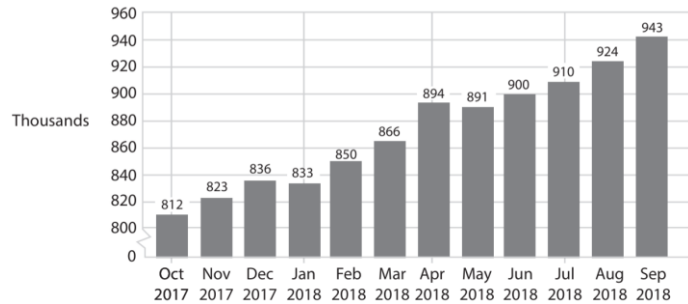
- A Cyclical
- B Real wage
- C Seasonal
- D Structural



## 2.1.3 Employment and unemployment

### Exam Style Question 1

Number of unemployed person, UK, as measured by the claimant count, thousands



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- (a) Calculate the percentage change in the number of UK unemployment persons between April and July 2018. You are advised to show your working. [2]
- (b) Explain **one** likely reason for the increase in the number of people unemployed in the UK over the time period shown. [2]
- (c) Which **one** of the following types of unemployment is most likely to be caused by a technological change in an industry? [1]
- A Cyclical
  - B Real wage
  - C Seasonal
  - D Structural

## 2.1.3 Employment and unemployment

### Exam Style Question 1

**Answer:**

- (a) Calculate the percentage change in the number of UK unemployed persons between April and July 2018.

To calculate the percentage change:

1. Initial value (April 2018): 894,000
2. Final value (July 2018): 910,000
3. Formula for percentage change:

$$\% \text{ change} = \left( \frac{\text{Final value} - \text{Initial value}}{\text{Initial value}} \right) \times 100$$

Substituting the values:

$$\% \text{ change} = \left( \frac{910,000 - 894,000}{894,000} \right) \times 100 \approx 1.79\%$$

Answer: The percentage change is approximately **1.79%**. [2]

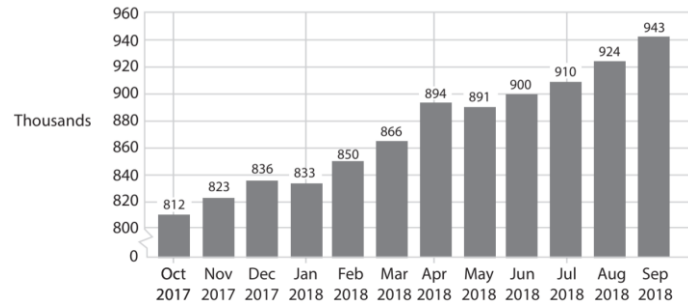
- (b) Explain **one** likely reason for the increase in the number of people unemployed in the UK over the time period shown.

Unemployment could rise due to **cyclical unemployment**, which happens when there is a slowdown in the economy (slower economic growth). [1] For example, if businesses experience lower demand for goods and services, they may cut costs by reducing their workforce. [1]

## 2.1.3 Employment and unemployment

### Exam Style Question 1

Number of unemployed person, UK, as measured by the claimant count, thousands



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- (a) Calculate the percentage change in the number of UK unemployment persons between April and July 2018. You are advised to show your working. [2]
- (b) Explain **one** likely reason for the increase in the number of people unemployed in the UK over the time period shown. [2]
- (c) Which **one** of the following types of unemployment is most likely to be caused by a technological change in an industry? [1]
- A Cyclical
  - B Real wage
  - C Seasonal
  - D Structural



## 2.1.3 Employment and unemployment

### Exam Style Question 1

**Answer:**

**(c) Which one of the following types of unemployment is most likely to be caused by a technological change in an industry?**

**Answer: D - Structural unemployment [1]**

Structural unemployment occurs when technological advancements make certain jobs or skills obsolete. For instance, the introduction of automation in manufacturing might replace workers with machines, leaving those workers unemployed unless they retrain for new roles.

## 2.1.3 Employment and unemployment

### Exam Style Question 2

UK employment rate as a % of all those economically active, seasonally adjusted, from 2008 to 2018



(Source: adapted from <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/timeseries/mgsx> Crown Copyright)

- (a) With reference to the chart above, explain **one** likely economic effect of the change in the UK unemployment rate between 2012 and 2018. [3]
- (b) Which **one** of the following policies is most likely to reduce the unemployment rate in the UK? [1]
- A A decrease in direct taxes on company profits
  - B A decrease in quantitative easing
  - C An increase in government payments to the unemployed
  - D An increase in the UK base interest rate

## 2.1.3 Employment and unemployment

### Exam Style Question 2

**Answer:**

**(a) Explain one likely economic effect of the change in the UK unemployment rate between 2012 and 2018**

Between 2012 and 2018, the UK unemployment rate fell significantly. [1] One key economic effect of this decline could be **increased consumer spending due to increase in disposable income**. [1] As more people gain employment, they have more income to spend on goods and services. This boosts demand in the economy, encouraging businesses to produce more and potentially hire even more workers. [1] It's like a positive cycle where employment bring about more economic activity.

**(b) Which one of the following policies is most likely to reduce the unemployment rate in the UK.**

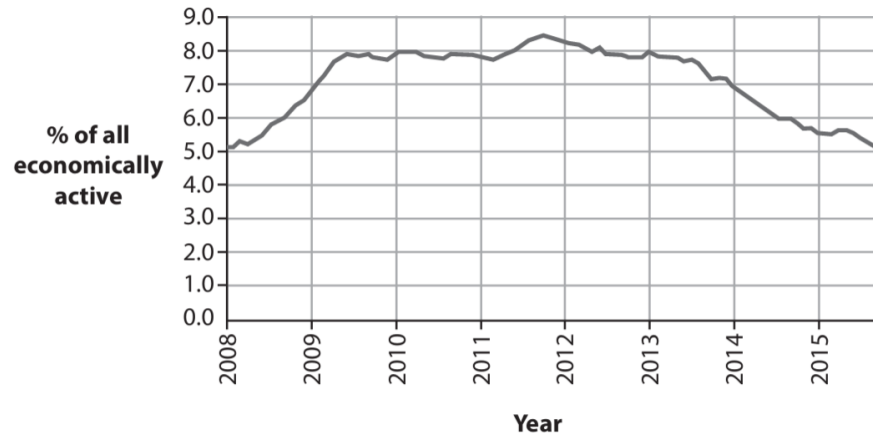
**Answer: A** – A decrease in direct taxes on company profits [1]

**Explanation:** When businesses pay less tax on their profits, they have more money to invest in growth. This could mean expanding operations or hiring new staff. Lower taxes incentivise businesses to increase production and, in turn, create jobs.

## 2.1.3 Employment and unemployment

### Exam Style Question 3

The chart below shows the UK unemployment rate, seasonally adjusted, from 2008 to 2015



(Source: <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/december-2015/statistical-bulletin.html#tab-8--Unemployment>)

Which **one** of the following types of unemployment best explains the change in the data between 2008 and 2010? [1]

- A Cyclical
- B Frictional
- C Seasonal
- D Voluntary



## 2.1.3 Employment and unemployment

### Exam Style Question 3

**Answer:**

The correct answer is **A: Cyclical unemployment**. [1]

**Explanation:** Between 2008 and 2010, the global economy experienced a massive financial crisis (the Great Recession). During this time, demand for goods and services dropped sharply because people and businesses were spending less. This led to what's called **cyclical unemployment**, which happens when there's not enough demand in the economy to keep everyone employed.

cks.com

## 2.1.3 Employment and unemployment

### Exam Style Question 4

The table below shows claimant count data for the UK.

	Number of Claimants
August 2014	961 149
September 2014	923 240
October 2014	887 771
November 2014	848 085
December 2014	823 880
January 2015	852 934
February 2015	858 344

- (a) Define the term 'claimant count'. [1]
- (b) Calculate the percentage change in the claimant count from August 2014 to February 2015. [2]
- (c) Which **one** of the following is likely to cause a reduction in the claimant count? [1]
- A An increase in the weekly payment for claimants
  - B A compulsory weekly interview for every claimant
  - C An increase in the size of the workforce
  - D A fall in employment

## 2.1.3 Employment and unemployment

### Exam Style Question 4

**Answer:**

(a) Define the term 'claimant count'.

The **claimant count** measures the number of people claiming unemployment-related benefits, such as Jobseeker's Allowance (JSA). [1]

(b) Calculate the percentage change in the claimant count from August 2014 to February 2015.

To calculate the percentage change:

$$\% \text{ change} = \frac{\text{New value} - \text{Old value}}{\text{Old value}} \times 100$$

- Old value (Aug 2014): 961,149
- New value (Feb 2015): 858,344

$$\% \text{ change} = \frac{858,344 - 961,149}{961,149} \times 100 \approx -10.7\% \text{ [1]}$$

So, the claimant count fell by 10,7% between Aug 2014 and Feb 2015. [1]

(c) Which **one** of the following is likely to cause a reduction in the claimant count?

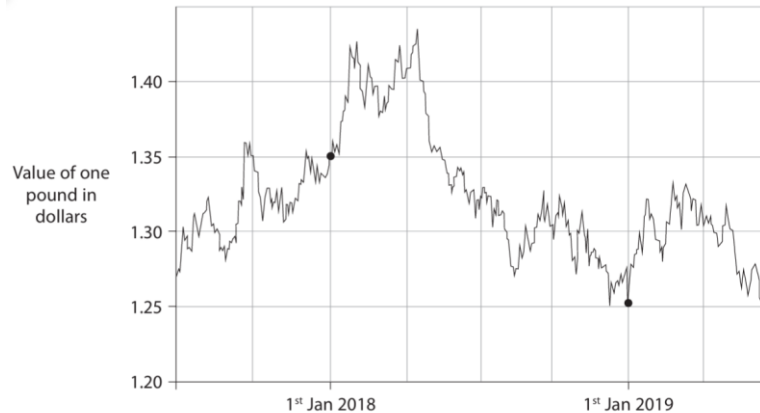
The correct answer is **B**. [1]

**Why?** A weekly interview requirement might discourage some people from continuing their claims if they're not seriously looking for work. It can reduce the claimant count by filtering out those who aren't actively job hunting.

## 2.1.4 Balance of payments

### Exam Style Question 1

British pound to US dollar exchange rate (value of one pound in dollars), June 2017 to June 2019.



(Source adapted from: <https://www.xe.com/currencycharts/?from=GBP&to=USD&view=2Y>)

(a) Which **one** of the following has been the overall change in the British pound to US dollar exchange rate from 1<sup>st</sup> Jan 2018 to 1<sup>st</sup> Jan 2019. [1]

- A Appreciation
- B Depreciation
- C Devaluation
- D Revaluation

(b) Explain the likely impact of the change in the exchange rate of the pound shown in the graph from 1<sup>st</sup> Jan 2018 to 1<sup>st</sup> Jan 2019 on the UK current account of the balance of payments. [4]

[tutorpacks.com](https://www.tutorpacks.com)

## 2.1.4 Balance of payments

### Exam Style Question 1

**Answer:**

(a) **Answer:** B - Depreciation.

**Explanation:** A depreciation means the value of a currency decreases compared to another currency. From the graph, the pound's value against the dollar starts above \$1.35 and ends below \$1.30, indicating that the pound lost value relative to the dollar over the time period.

(b) **Explain the likely impact of the change in the exchange rate of the pound shown in the graph from 1<sup>st</sup> January 2018 to 1<sup>st</sup> January 2019 on the UK current account of the balance of payments.**

**Answer:**

Between 1<sup>st</sup> January 2018 and 1<sup>st</sup> January 2019, the pound depreciated, making UK exports appear more attractive and competitive to US buyers. [1]

When the pound depreciates, it makes UK exports cheaper and more attractive to foreign buyers because they can get more pounds for their dollars. [1]

At the same time, imports into the UK become more expensive because more pounds are needed to buy the same amount of foreign goods. This leads to a decrease in the imports. [1]

This depreciation makes UK exports more competitive globally and may lead to higher export volumes. Simultaneously, expensive imports may reduce demand for foreign goods, improving the trade balance and the overall current account. [1]

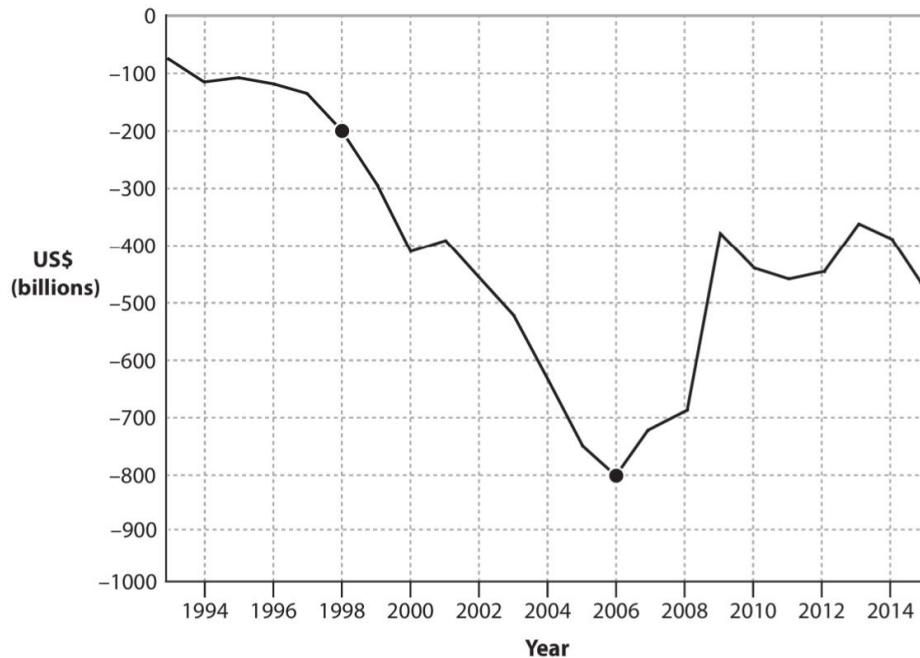
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## 2.1.4 Balance of payments

### Exam Style Question 2

US current account of the balance of payments, 1993-2015



(Source: <http://data.worldbank.org/indicator/BN.CAB.XOKA.CD?end=2015&locations=US&start=1993>)

- (a) Calculate the percentage change in the US current account deficit on the balance of payments between 1998 and 2006. [2]
- (b) Explain the term 'current account of the balance of payments'.



## 2.1.4 Balance of payments

### Exam Style Question 2

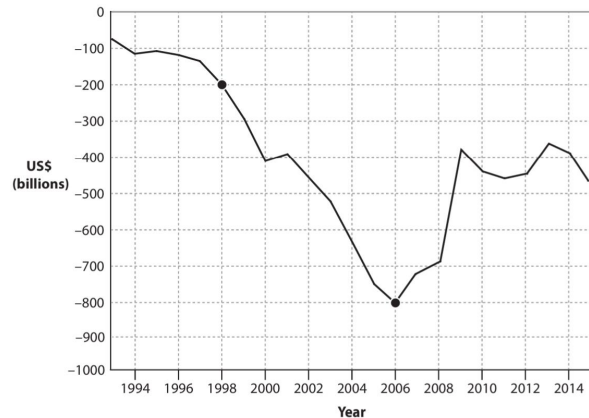
(c) Using the chart, which **one** of the following may be inferred about the US balance of payments? [1]

- A The current account deficit decreased between 2001 and 2006
- B The current account surplus increased between 2001 and 2006
- C There was a current account deficit for the entire period shown
- D There was a current account surplus for the entire period shown

## 2.1.4 Balance of payments

### Exam Style Question 2

US current account of the balance of payments, 1993-2015



(Source: <http://data.worldbank.org/indicator/BN.CAB.XOKA.CD?end=2015&locations=US&start=1993>)

- (a) Calculate the percentage change in the US current account deficit on the balance of payments between 1998 and 2006. [2]
- (b) Explain the term 'current account of the balance of payments'. [2]
- (c) Using the chart, which **one** of the following may be inferred about the US balance of payments? [1]
- A The current account deficit decreased between 2001 and 2006
  - B The current account surplus increased between 2001 and 2006
  - C There was a current account deficit for the entire period shown
  - D There was a current account surplus for the entire period shown

## 2.1.4 Balance of payments

### Exam Style Question 2

Answer:

- (a) Calculate the percentage change in the United States current account deficit on the balance of payments between 1998 and 2006.

To calculate the percentage change:

1. **1998 deficit:** -200 billion USD
2. **2006 deficit:** -800 billion USD
3. **Formula for percentage change:**

$$\% \text{ change} = \left( \frac{\text{New value} - \text{Old value}}{\text{Old value}} \right) \times 100$$

Substituting the values:

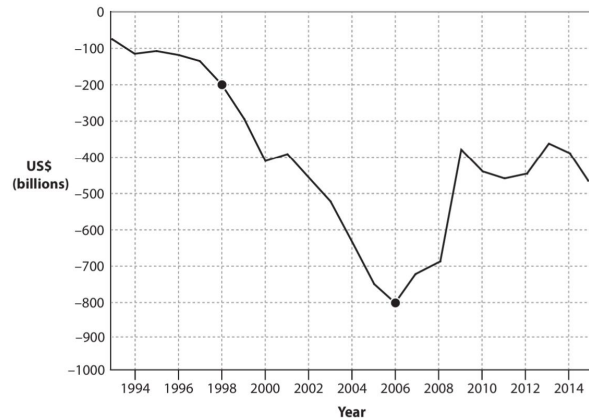
$$\% \text{ change} = \left( \frac{-800 - (-200)}{-200} \right) \times 100 \approx 300\% \text{ [1]}$$

**Answer:** The current account deficit increased by **300%** between 1998 and 2006. [1]

## 2.1.4 Balance of payments

### Exam Style Question 2

#### US current account of the balance of payments, 1993-2015



(Source: <http://data.worldbank.org/indicator/BN.CAB.XOKA.CD?end=2015&locations=US&start=1993>)

- (a) Calculate the percentage change in the US current account deficit on the balance of payments between 1998 and 2006. [2]
- (b) Explain the term 'current account of the balance of payments'. [2]
- (c) Using the chart, which **one** of the following may be inferred about the US balance of payments? [1]
- A The current account deficit decreased between 2001 and 2006
  - B The current account surplus increased between 2001 and 2006
  - C There was a current account deficit for the entire period shown
  - D There was a current account surplus for the entire period shown

## 2.1.4 Balance of payments

### Exam Style Question 2

#### Answer:

(b) Explain the term 'current account of the balance of payments'.

The **current account** of the balance of payments measures the flow of money into and out of a country due to international trade and transfers. It includes:

1. **Trade in goods:** Exports and imports of physical items like cars or food.
2. **Trade in services:** Exports and imports of services such as banking or tourism.
3. **Primary income:** Earnings from investments abroad, such as dividends and interest.
4. **Secondary income:** Transfers like foreign aid or remittances. [1]

It calculates the **value of exports minus the value of imports** and any inflows or outflows of money, indicating whether a country is in surplus (earning more than it spends) or deficit. [1]

(c) Using the chart, which **one** of the following may be inferred about the United States balance of payments?

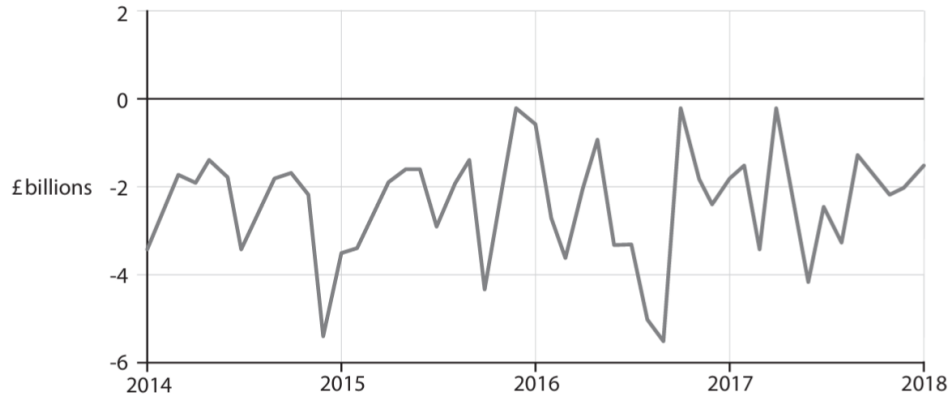
- **Option C: There was a current account deficit for the entire period shown. [1]**

From 1993 to 2015, the current account balance remains below zero throughout, indicating a consistent deficit.

## 2.1.4 Balance of payments

### Exam Style Question 3

The UK's net monthly balance of trade in goods and services, by value, Jan 2014 to Jan 2018, is shown in the chart below.



(Source: adapted from <https://tradingeconomics.com/united-kingdom/balance-of-trade>)

- (a) Which **one** of the following can be inferred from the above chart over the period shown? [1]
- A The government was spending more than it received in taxation
  - B The UK's balance of trade, by value, was always in equilibrium
  - C The value of imports was greater than the value of exports
  - D The value of inflows was greater than the value of outflows
- (b) Explain **one** likely reason for the UK's balance of trade in goods and services over the period shown. Refer to the chart in your answer. [3]



## 2.1.4 Balance of payments

### Exam Style Question 3

**Answer:**

- (a) The correct answer is **C: The value of imports was greater than the value of exports.**

**Explanation:**

The chart shows a negative net balance of trade throughout the period, indicating that the UK consistently imported more goods and services than it exported. This results in a trade deficit (negative balance), as exports are not sufficient to cover imports.

- (b) Explain one likely reason for the UK's balance of trade in goods and services over the period shown.

One likely reason for the UK's persistent trade deficit could be **increasing real incomes**. As incomes rise, UK consumers tend to spend more on imported goods because they have a high **marginal propensity to import** (they spend more on foreign products when they have extra money). [1] For instance, the chart shows consistent trade deficits, with outflows exceeding inflows, particularly towards the end of 2017, where the deficit remained under £2 billion. [1]

Additionally, **low productivity** in UK industries could make exports more expensive relative to imports. This reduces demand for UK exports, while rising **commodity prices**, such as oil (which the UK imports in significant amounts), further increase the import bill. All these factors combine to worsen the trade balance. [1]

Please see the '2.1 Measures of economic performance Revision Notes' pack for detailed notes.

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