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: POPULATION CHANGES AND THE UK ECONOMY

Questions 21 to 26

- **Extract A:** **UK population changes, 2015 to 2020**
- **Extract B:** **Why are changes in population important?**
- **Extract C:** **Making the most of the labour force: achieving a higher-skilled economy**

CONTEXT 2: BUSINESS INVESTMENT IN THE UK ECONOMY

Questions 27 to 32

- **Extract D:** **UK business investment and real GDP, 2017 to 2022**
- **Extract E:** **Why has UK business investment been weak?**
- **Extract F:** **How can business investment be increased?**

IB/M/Jun25/G4003/V3

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

POPULATION CHANGES AND THE UK ECONOMY

Extract A: UK population changes, 2015 to 2020

Year	Population (millions)	Population growth (%)	Natural change (thousands)	Net migration (thousands)
2015	65.1	0.8	174	329
2016	65.6	0.8	178	306
2017	66.0	0.6	148	228
2018	66.4	0.6	115	237
2019	66.8	0.5	108	206
2020	67.1	0.4	–8	275

Notes: 'Natural change' refers to the difference between births and deaths
'Natural change' data show a calendar year, the other data in the table show mid-year to mid-year
'Net migration' refers to the difference between the number of long-term immigrants (people moving into the UK for at least 12 months) and the number of long-term emigrants (people moving out of the UK for more than 12 months)

Source: ons.gov.uk, October 2023

Extract B: Why are changes in population important?

The UK population has grown every year since 1982. While it is predicted to exceed 70 million by 2041, the most recent data show that the rate of growth has slowed.

Population size has a direct impact on the productive capacity of an economy. All other things being equal, a growing population increases the supply of labour and is a determinant of long-run economic growth. Conversely, when there are shortages of workers in key industries, such as lorry drivers, this causes supply problems. A shortage of labour is one of the factors that has contributed to rising inflation, threatening macroeconomic stability.

The UK has an ageing population. In 1999, around one in six people was aged 65 years or over, with this estimated to increase to around 24% of the population by 2039. Meanwhile, the proportion of people aged under 16 is expected to fall from an estimated 20.4% of the population in 1999. In 2039, the proportion of the population aged between 16 and 64 years is expected to be 4.8 percentage points lower than in 1999, when it was 63.8% of the population.

An ageing population leads to changing patterns of consumption. It also requires greater spending on pensions, healthcare and social care. This adds to the burden on taxpayers when the working population is shrinking. If the additional spending is financed by increased borrowing it leads to a growing national debt. By the end of September 2023, the UK's national debt had risen to £2599 billion, around 97.8% of GDP.

Source: News reports, October 2023

Extract C: Making the most of the labour force: achieving a higher-skilled economy

For many years, the UK has experienced lower levels of productivity than other advanced economies. In 2021, it was estimated that Germany was 10%, France 18%, and the US 25% more productive than the UK in terms of output per hour worked. But a productivity gap also exists within the UK. In 2021, London was over 30% more productive than the UK average. All other regions, excluding the South East, had lower levels of productivity than the UK average. It has been suggested that UK GDP might rise by £180bn per year if output per worker increases to German levels.

Increased spending on education and training is likely to be essential to achieve a long-term improvement in macroeconomic performance. It should improve the quality of labour, a key determinant of long-run economic growth. This could ensure workers have appropriate knowledge and skills for their jobs and create a more efficient and productive workforce. Highly-trained workers are likely to be more innovative and entrepreneurial. These benefits should reduce the impact of higher wages on firms and lead to improvements in international competitiveness.

However, it is also important to create incentives for firms to invest in capital and new technology. In addition, effective industrial policies should ensure that the required infrastructure is in place and that spending is targeted at the right firms and regions. This is costly, and the Government is likely to have to make some tough budgetary decisions.

Source: News reports, October 2023

Turn over for Context 1 questions

Context 1: – Questions 21 to 26

2 1 Define 'national debt' **Extract B** (line 16).

[3 marks]

2 2 Assume that the UK population was 1.5% higher in September 2023 than in 2020.

Use **Extract A** and the information in **Extract B** (line 17) to calculate UK national debt per head in September 2023.

Give your answer to the **nearest thousand**.

[4 marks]

2 3 Use **Extract A** to identify **two** significant points of comparison between the natural change in the population and net migration into the UK over the period shown.

[4 marks]

2 4 Use the information in **Extract B** (lines 8–12) to complete a pie chart to show the forecast age structure of the UK population in 2039.

[4 marks]

2 5 **Extract B** (lines 6–7) states: 'A shortage of labour is one of the factors that has contributed to rising inflation, threatening macroeconomic stability.'

Explain how a shortage of labour might contribute to rising inflation.

[10 marks]

2 6 **Extract C** (lines 8–9) states: 'Increased spending on education and training is likely to be essential to achieve a long-term improvement in macroeconomic performance.'

Use the extracts and your knowledge of economics to evaluate the view that increased government spending on education and training is essential to achieve a long-term improvement in 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**

BUSINESS INVESTMENT IN THE UK ECONOMY

Extract D: UK business investment and real GDP, 2017 to 2022

Year	Business investment (at 2019 prices) (£bn)	Business investment (% change)	Real GDP growth (%)
2017	227.4	0.4	2.7
2018	223.8	–1.6	1.4
2019	228.6	2.1	1.6
2020	204.3	–10.6	–10.4
2021	208.3	2.0	8.7
2022	228.3	9.6	4.3

Source: ons.gov.uk, October 2023

Extract E: Why has UK business investment been weak?

From 2011 to 2016, investment by firms in the UK grew on average by 6% per year, but recently, the data have been disappointing. The UK's decision to leave the European Union (EU) created uncertainty and made firms reluctant to invest. The pandemic, a major demand-side and supply-side shock, left firms with spare capacity and less need for investment. The war in Ukraine increased global instability, adversely affected confidence, and disrupted planning. During 2022 and 2023, the UK economy faced a stubbornly high rate of inflation which reduced the real value of consumers' incomes. This contributed to industrial unrest and some groups of workers went on strike.

Macroeconomic policy focused on restoring price stability. The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate significantly between December 2021 and August 2023 when it reached 5.25%.

The Government was intent on reducing government borrowing. To increase revenue, the main rate of corporation tax, the tax payable on firms' profits, was increased to 25%. In addition, income tax bands were not increased to keep pace with inflation. This meant that even though wage rates increased, millions of workers ended up paying more tax. The resulting reduction in real disposable income contributed to falling consumption and was likely to deter investment.

According to the Office for National Statistics, the number of business start-ups in the UK fell to a 5-year low in 2020 before growing again in 2021. However, there were almost 1400 fewer 'high-growth' businesses in 2021 than in 2020. These are businesses with 10 or more employees, where there is an average growth in employment of over 20% per year.

Source: News reports, October 2023

Extract F: How can business investment be increased?

In a typical year, household consumption accounts for around 63% of aggregate demand in the UK, approximately 3.7 times the contribution from investment, with 18% coming from government spending. The remainder comes from net exports. However, whereas consumption expenditure tends to be fairly stable, investment spending is more changeable, and is a significant cause of fluctuations in GDP.

Investment benefits both the demand side and the supply side of the economy. It has positive multiplier effects, but the supply-side benefits are particularly important. Investment drives innovation and improves productivity. It also increases productive capacity and contributes to long-term job creation. It eases inflationary pressures, increases international competitiveness, and helps to improve the balance of trade.

There are signs that business investment is starting to increase again, but government intervention may be needed to encourage firms to continue investing, to try to ensure the increase in investment is sustained. This could be, for example, by using supply-side policies to create incentives, such as reversing the increase in taxation on firms' profits, and through industrial policy. Combined with appropriate use of monetary policy, this should build confidence, and create the necessary conditions to encourage entrepreneurs to set up new businesses and invest more.

Source: News reports, October 2023

Turn over for Context 2 questions

Context 2: – Questions 27 to 32

2 7 Define 'supply-side shock' **Extract E** (line 4).

[3 marks]

2 8 Use **Extract D** to calculate the index of business investment (at 2019 prices) in 2022, when 2017 is the base year.

Give your answer to **one** decimal place.

[4 marks]

2 9 Use **Extract D** to identify **two** significant points of comparison between the percentage change in business investment and the growth of real GDP over the period shown.

[4 marks]

3 0 Use the information in **Extract F** (lines 1 to 3) to complete the single, composite bar chart to show the shares of the components of aggregate demand in the UK in a typical year.

[4 marks]

3 1 **Extract E** (lines 12–13) states: 'To increase revenue, the main rate of corporation tax, the tax payable on firms' profits, was increased to 25%.'

Explain why an increase in the tax payable on firms' profits may lead to lower productivity growth.

[10 marks]

3 2 **Extract F** (lines 11–13) states: 'There are signs that business investment is starting to increase again, but government intervention may be needed to encourage firms to continue investing, to try to ensure the increase in investment is sustained.'

Use the extracts and your knowledge of economics to evaluate what more, if anything, the Government should do to achieve a sustained increase in investment in the UK economy.

[25 marks]

END OF QUESTIONS