



GCSE

ECONOMICS

Paper 2 How the Economy Works

8136/2

Insert

FIGURE 3 for use in answering Question 21

ITEM A and B for using in answering Section B.

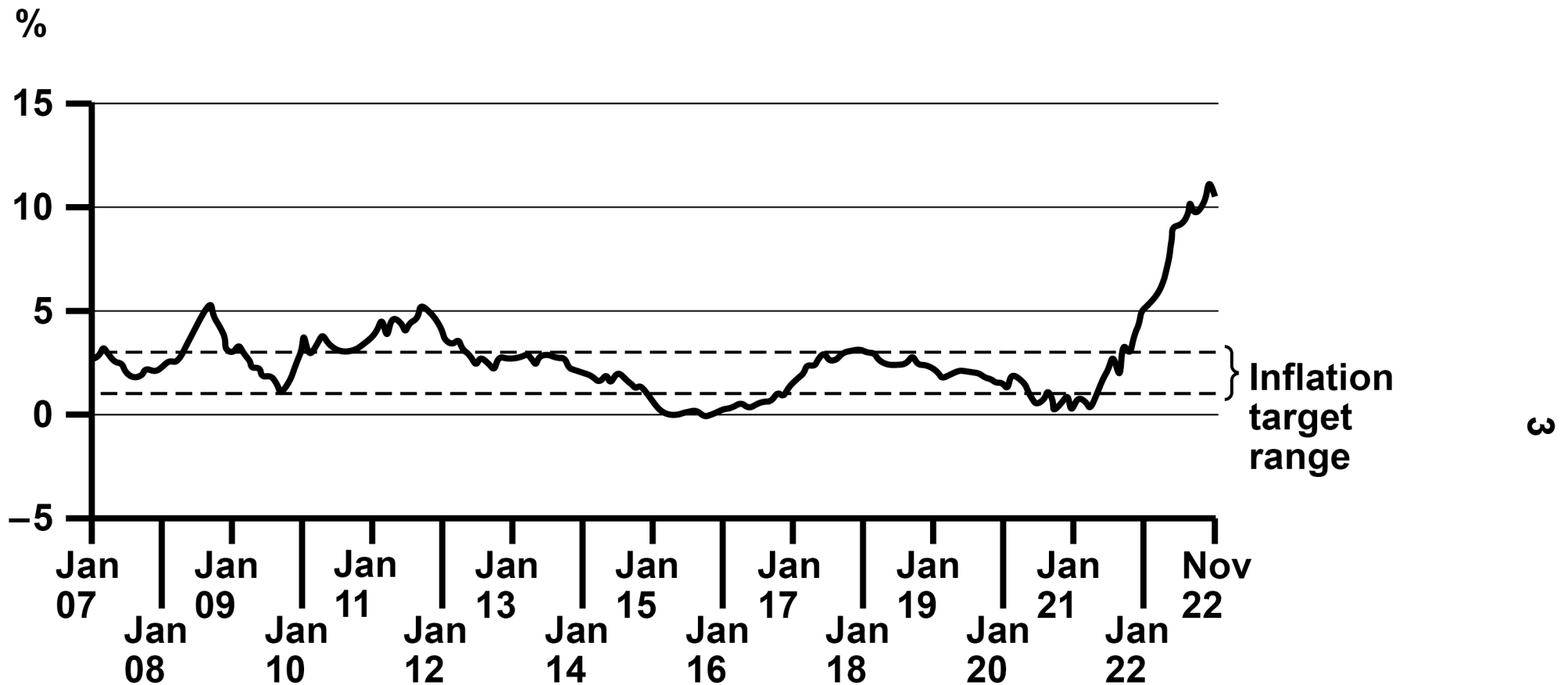
[Turn over]

FIGURE 3 – UK inflation

In 2022, UK inflation rose above 10%, its highest level for 40 years. This caused problems for the UK government and the population. Incomes did not rise as fast as prices so many people experienced falls in real incomes. This was especially harmful as household heating costs rose significantly over this period. There are other problems caused by rising inflation, such as changes to business confidence.

As shown on the chart, on the opposite page, inflation had been kept fairly stable between 1% and 3% for most of the time since the financial crisis of 2007–2008. Keeping inflation low and stable is one of the main objectives of the UK government. Some economists think policies used to reduce inflation can conflict with achieving other objectives and these policies may also have negative effects.

UK INFLATION RATE: 2007–2022



Source: ONS

[Turn over]

ITEM A

Achieving a satisfactory balance of payments is one of the UK government's economic objectives. In particular, improving the current account balance is desirable for a government. Jobs are created by businesses exporting goods and services to other countries.

Data for the UK current account of the balance of payments is shown in TABLE 3.

TABLE 3 – UK balance of payments data 2021

	£ m
Exports of goods and services	636 325
Imports of goods and services	653 897
Primary income deficit	9 947
Secondary income deficit	18 114

Source: ONS

Some economists think that the government should aim for balance on the current account of the balance of payments. Ways to achieve balance on the current account of the balance of payments include changes in the exchange rate or taxing imports to reduce demand for foreign goods.

Other economists believe that achieving balance on the current account is not a priority and that policies should focus on other objectives.

[Turn over]

ITEM B

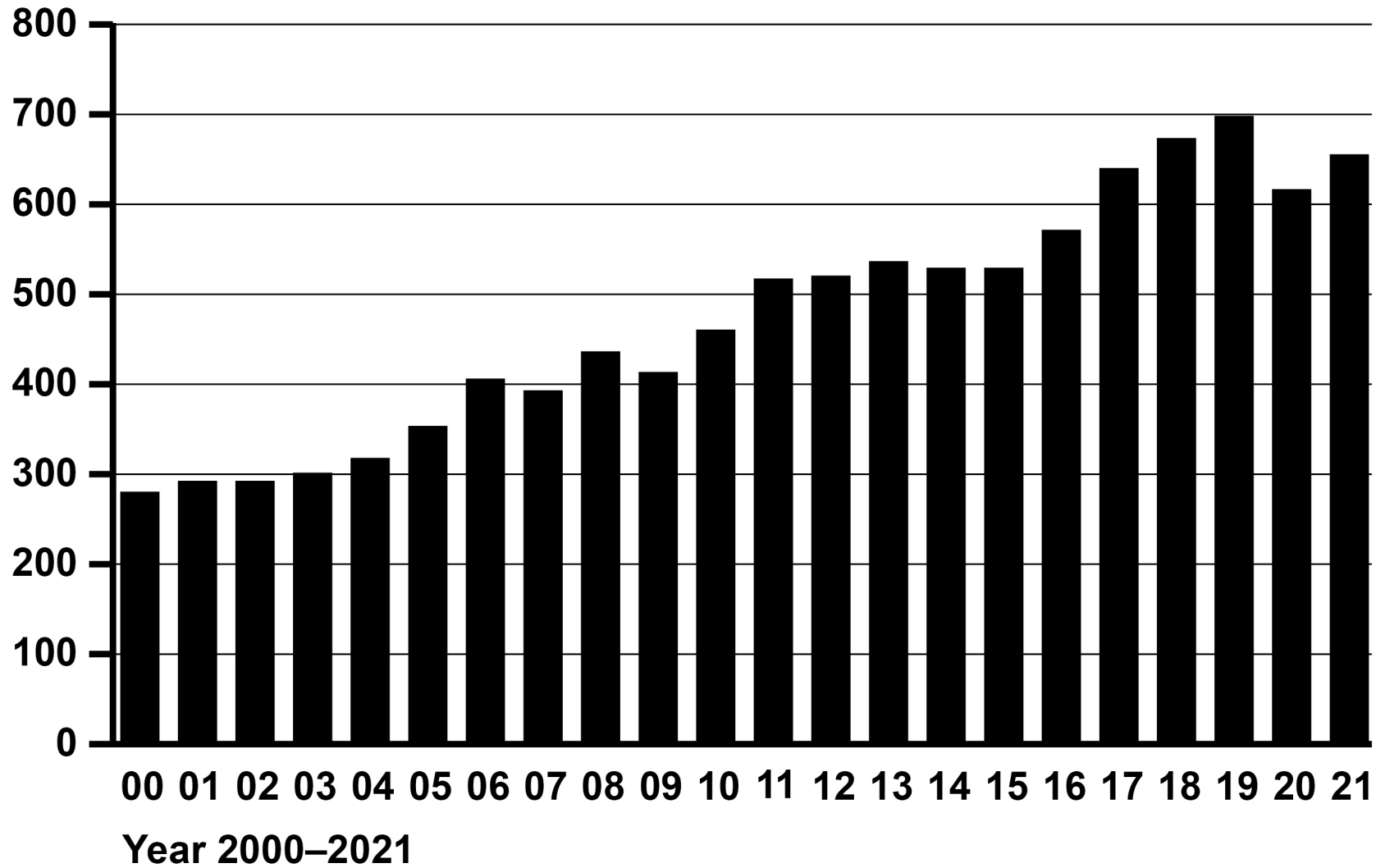
Globalisation creates winners and losers. These winners and losers will be found in both developed and less developed economies.

Consumers in developed economies can benefit from globalisation through buying goods at cheaper prices. Consumers in less developed economies may benefit from more jobs being created due to multinational companies setting up across the world. However, there are drawbacks to globalisation. Workers in less developed economies may be exploited by multinational companies and these companies can also make it harder for existing local businesses to survive.

Businesses in developed economies can benefit from access to more markets across the world. This can be seen in FIGURE 4, on the opposite page, which shows UK exports over recent years. However, producers in the UK will also face more competition from businesses in less developed economies.

FIGURE 4 – UK exports 2000–2021

UK exports in billions (£)



END OF SOURCE MATERIALS

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