

Please check the examination details below before entering your candidate information

Candidate surname <b>Amlai</b>		Other names	
Centre Number	Candidate Number		
<b>13277</b>	<b>3182</b>		
<b>Pearson Edexcel Level 3 GCE</b>			
<b>Monday 5 June 2023</b>			
Morning (Time: 2 hours)		Paper reference	<b>9EC0/03</b>
<b>Economics A</b>			
<b>Advanced</b>			
<b>PAPER 3: Microeconomics and Macroeconomics</b>			
You do not need any other materials.			Total Marks <b>78</b>

### Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- There are two sections in this question paper.
- In Section A, answer **all** questions 1(a) to 1(c) and **one** question from 1(d) or 1(e).
- In Section B, answer **all** questions 2(a) to 2(c) and **one** question from 2(d) or 2(e).
- Answer the questions in the spaces provided  
– *there may be more space than you need.*

### Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets  
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

### Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ►

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## SECTION A

Read Figures 1 and 2 and the following extracts (A and B) before answering Question 1.

Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

### Question 1

#### The UK economy

Figure 1: UK gas prices in pence per therm, August 2002 to August 2022

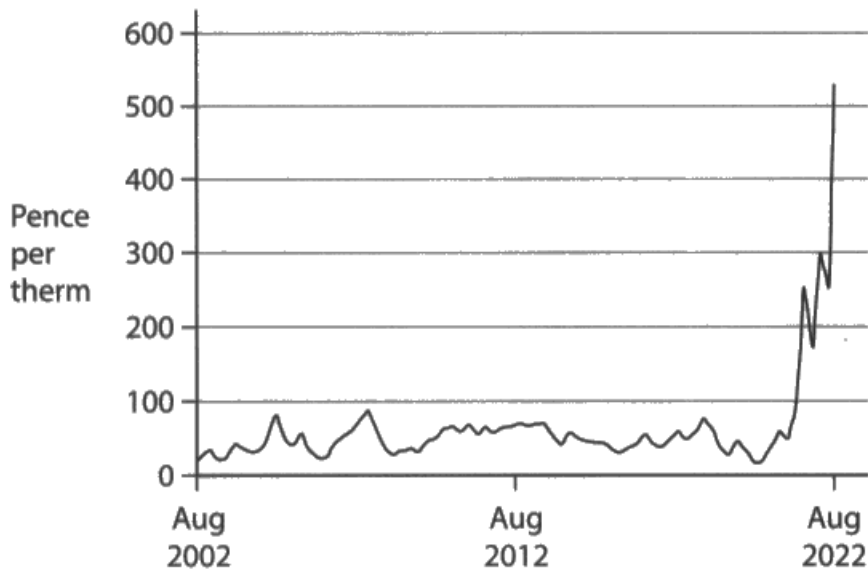
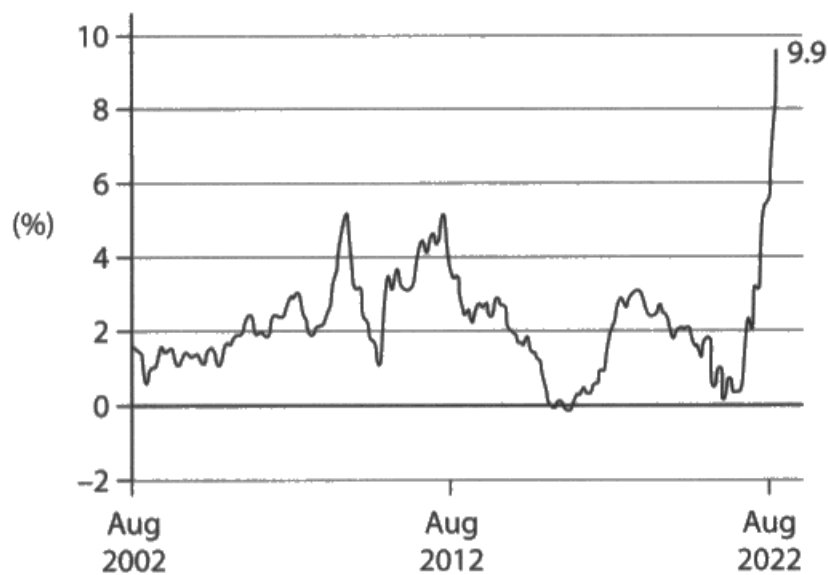


Figure 2: UK inflation, CPI, August 2002 to August 2022



## Extract A

### Fiscal policy changes in the UK, Autumn 2022

After many changes in policy, people earning above £150 000 will now no longer benefit from the tax cut in the September 2022 mini-budget, which proposed the removal of the 45% tax band. The proposed change in the main 20% standard rate of income tax moving to 19% has been postponed.

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In April 2022, a 1.25% rise in national insurance contributions was implemented, labelled as a health and social care levy. It was cancelled in Autumn 2022. Britain's poorest households would have lost £7.56 a year from the national insurance rise. The richest 10% of households, earning an average of £108 000, would have lost £1 800.

Another measure in the Truss Government's £30 billion tax cut proposals that would have benefitted the rich, was the removal of the 2023 planned rise in corporation tax from 19% to 25%. The former chancellor wanted to cut the tax to 15% but this was the wrong time to do this. The former chancellor also removed the 2014 cap on bankers' bonuses, clearly an unfair decision at the time when public sector workers were told to accept pay caps to keep inflation under control.

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The reflationary fiscal policy triggered warnings that the Monetary Policy Committee of the Bank of England would raise interest rates further – having already raised them from 0.1% in 2021 to 2.25% in September 2022. This meant an end to the fiscal rules set by the government in the recent past: debt to be falling as a share of national income by 2024 and no borrowing for day-to-day spending.

20

(Source: adapted from 'Tax cuts benefit high income earners the most' R Merrick  
The Independent: 19 September 2022 and FT Source: adapted from  
Sebastian Payne and Chris Giles in London 29 August 2022)

## Extract B

### Inequality to rise in the UK

The rising cost of living is expected to affect low-income families the most. Inflation in Autumn 2022 is expected to hit 14% for families in the poorest tenth of the income distribution, compared with 8% for families in the richest tenth, driven in large part by rising energy costs and food prices. Around half of the food consumed in the UK is imported, and the 20% fall in the value of the pound in 2022 has affected lower income groups more because food is a higher proportion of their spending. The government's decision to freeze benefits, rather than allowing them to rise in line with current inflation, means that the support provided is a real terms cut for families currently receiving high levels of benefits. A two-year freeze on energy price caps will now only last until April 2023, which would have kept the average energy bill at £2 500 rather than £3 500.

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(Source: adapted from IFS Report: Living standards, poverty and inequality  
in the UK: July 2022 and <https://www.ft.com/content/6de5b52e-64c8-4997-8939-e1c59172daa7?shareType=nongift>)



- 1 (a) Explain the difference between a positive and a normative statement, using an example of each from Extract A. (5)
- (b) Examine **two** reasons for the rise in inflation in the UK. Refer to the information provided in your answer. (8)
- (c) Discuss the likely impact of a rise in gas prices on a firm that uses a large amount of gas in its production process. Use a cost and revenue diagram to support your answer. (12)

**EITHER**

- (d) Evaluate microeconomic and macroeconomic policies that could be used to reduce inequality in the UK. (25)

**OR**

- (e) Evaluate the likely microeconomic and macroeconomic effects of tax cuts in the UK. (25)



(a) Explain the difference between a positive and a normative statement, using an example of each from Extract A.

09:01

(55 Q01a

Normative statements, cannot be tested, that is to say proven true or false such as labelling something an "unfair decision", they are value judgements.

positive statements can be tested, true or false, such as lost ~~percentage~~ proportion of salary from national insurance rise, "lost £1800" or lost £7.56, these statements are value-free.



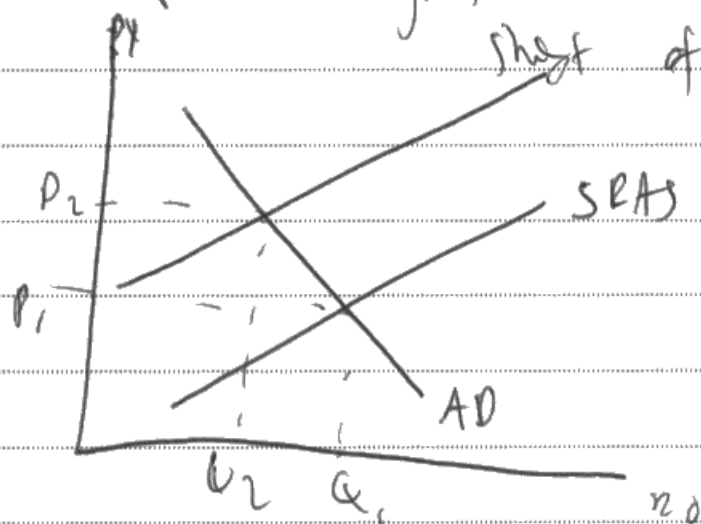
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(b) Examine **two** reasons for the rise in inflation in the UK. Refer to the information provided in your answer.

(8) 7 Q01b

9:04

One reason for the rise in UK inflation is an increase in import prices, exacerbated by a 20% fall in value of pound. The £ falling 20%, increases costs for importers importing food, as for each quantity of food, the £ is now able to purchase less quantity than before. ~~Such that~~ Moreover, ~~the~~ ~~an~~ an increase in imports means the cost of production for firms goes up, as many raw components such as "copper, ~~cost~~ steel etc" are more expensive, meaning firms will have to offset cost onto consumers causing a price-markup from  $P_1$  to  $P_2$ , as they are wanting to maintain profit margins. These scenarios see an inward shift of  $SRAS_1$  to  $SRAS_2$ .



However, to counter-evaluate it ~~it is~~ it is also plausible that firms are able to cut costs, via cancelling "referral schemes, advertising etc", such that a rise in import prices may not have necessarily caused an increase in inflation, as they may have had a diminutive effect on costs of production.

Moreover, the decision to ~~freeze benefits~~ may have decreased the ~~marginal propensity to consume~~ for those on "benefits", as they have less disposable income and feel more inclined to save as a result, this on energy price cap will in the long-run worsen inflation, as firms

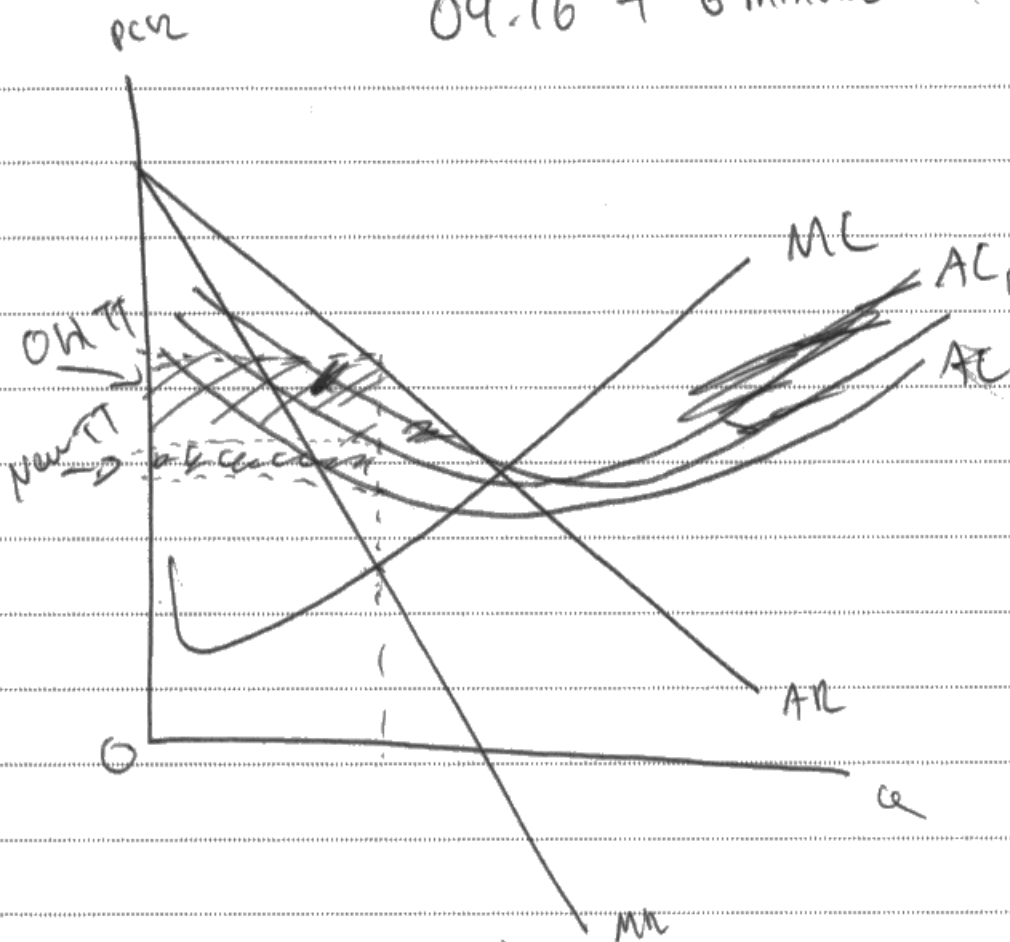
However, to counter evaluate external shocks such as the Russia-Ukraine war may be a more significant factor

which caused the extreme price hike and rapid rise in Aug 2022 at 600 pence per barrel a

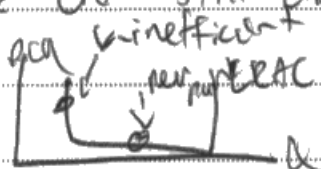
~~6 fold increase~~ 6 fold increase from 2020, suggesting it is a bigger factor, as supply lines and chains are disrupted and logistics exacerbating cost push inflation.



09:16 + 6 minute dash (12) 9 Q01c



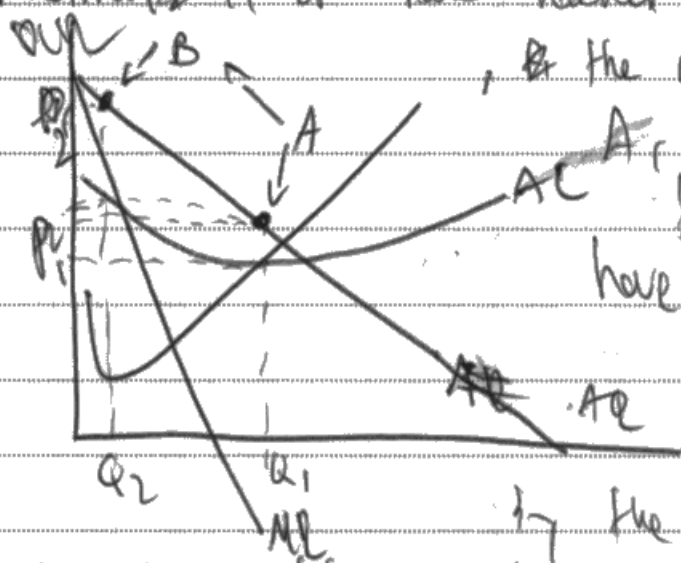
As a gas is a variable cost, a price markup for gas is reflected in the diagram by an increase in  $AC$  to  $AC'$ , as observed by the outward shift. This reduces the total supernormal profit ~~which~~. One impact this may have is less dynamic efficiency, as firms are unable to finance R&D as before due to reduced profits. However, this may prompt firms to tackle X-inefficiency such as organisational slack ~~and~~, to cut back on costs, ~~thus~~ such that they are still able to operate on the lowest LRAC point. ~~for~~ <sup>for</sup> ~~the~~ <sup>inefficient</sup> ~~LRAC~~ <sup>average</sup> ~~LRAC~~





However, in the long-run factors of production are not fixed such that, firms in their "production processes" may switch to more renewable energy, such as solar / wind. Although there may be a time lag, assuming firms wish to decrease AC, to increase Supernormal  $\pi$ , they may be incentivised to dynamically invest.

Another impact may be less competition such that a drastic price per therm increase of 100 in 2020 to >500 in Aug-2022, may be unsustainable for smaller energy firms who either cannot sustain long periods of decreased Supernormal  $\pi$  or have reached shutdown point, such that



the market shifts from point A, previously more competitive to point B, as firms have exited, allowing remaining firms to charge more, as indicated by the price mark as from  $P_1$  to  $P_2$ . However, to counter-evaluate this is assumptive in the sense that, it doesn't account for external global shocks, i.e., Russia vs Ukraine war, which disrupted gas pipelines, complicating supply planning, disrupting supply chains, which can also be reflected by the shift from  $P_1$  to  $P_2$ .





**EITHER**

- (d) Evaluate microeconomic and macroeconomic policies that could be used to reduce inequality in the UK.

(25)

**OR**

- (e) Evaluate the likely microeconomic and macroeconomic effect of tax cuts in the UK.

(25)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: Question 1(d) ☒ Question 1(e) ☒

21Sec01

Write your answer here:

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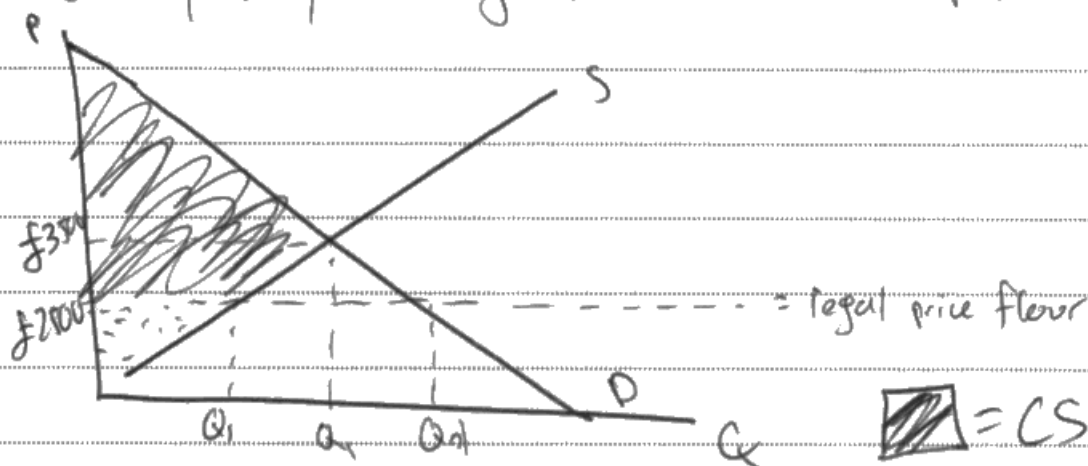
benefit  
~~An increase~~ Increased government spending into ~~education~~ <sup>regional</sup> may  
~~decrease~~ inequality into the UK. Such that ~~by~~ ~~both~~  
~~funding of schools~~, e.g. <sup>families with higher disposable income</sup> purchasing of computers, text books,  
equipment, may better enable ~~the~~ <sup>poor</sup> students to have access  
to and possess higher UK qualifications, e.g. "A-level / Thers.  
degree", such that they are now able to work in industries  
that offer higher wages, previously inaccessible due to lack  
of qualifications. This, in theory, leads to a higher quality  
of life as workers have more disposable income, which  
can be earmarked for leisure, ~~better~~ ~~a~~ ~~tax~~ cars,  
travel etc. This reduces inequality in the sense that,  
areas such as Blackpool have the lowest percentage of  
A-level holders (BCC or higher) and also receives the  
lowest designated education funding, which ~~is~~ ~~aggy~~ compared  
to Kensington and Chelsea which boasts the highest

and has increased levels of funding - which suggests that funding and % of qualification holders are pro-cyclical, moreover, this in the long-run can tackle regional unemployment difference in the North-South divide. Furthermore, if the government enabled benefits to rise-in line with inflation, consumers on the lowest level of income and ~~are~~ are more able to earmark benefits for necessities e.g. "drugs, food, energy", this may improve HPI, in particularly poverty stricken areas, such as Blackpool who has an infant mortality rate ~~of~~ 1.9x higher than Kensington and Chelsea. Such that health inequality is reduced.

However, to counter-evaluate this assumes that enfreezing benefits automatically translates to improved quality of life and a better HDI score, ~~not~~ all benefits recipients are not perfectly rational such that ~~to~~ increased funding may not tackle essential 'necessity goods' and may ~~not~~ ~~be used~~ ~~to~~ ~~due to~~ - Furthermore, it may take generations for these effects to materialise in a city such as Blackpool, suggesting in the short-run inequality is not tackled.



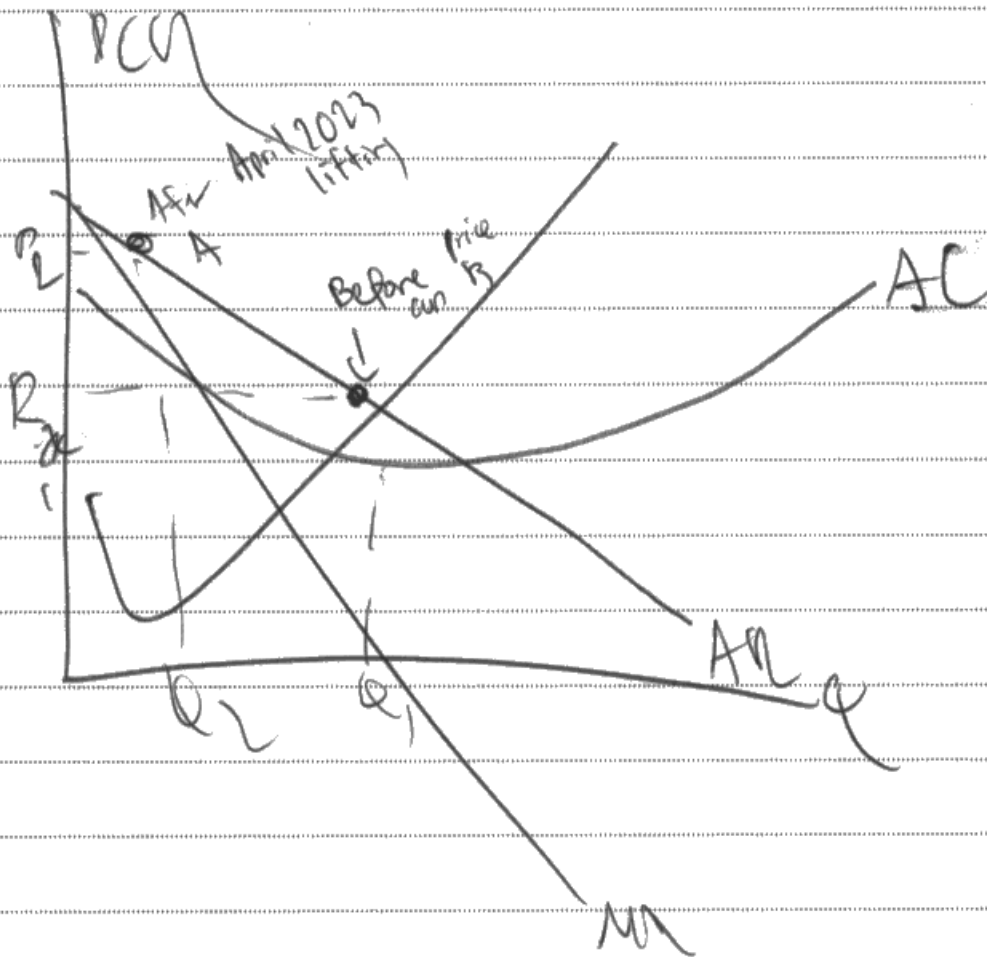
One micro-economic of freezing energy price cap of £2500, may be greater consumer surplus.



A Consumer surplus has increased, from the price-markdown of £3500 to £2500, such that for those on the lowest income band, energy expenditure is now a smaller % of total expenditure. In theory, this should benefit consumers ~~however this is not the case~~, as inequality is reduced in the sense that living inequality is reduced, as ~~more~~ a greater proportion of families will be able to ~~benefit~~ benefit from the price-markdown, though increased CS, however this is a risky approach as Q1 is less than Q2, which may suggest the most vulnerable in society, despite being able to access the price-cap, are literally unable to have energy provided (suggesting this is very regressive as consumers are unable to even access the energy market, moreover ~~it firms~~ ~~as shown by~~ ~~British~~ ~~Octopus~~ ~~and~~ ~~Boat~~ energy was unable to survive the price cap

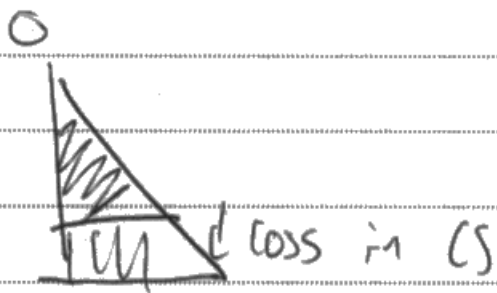
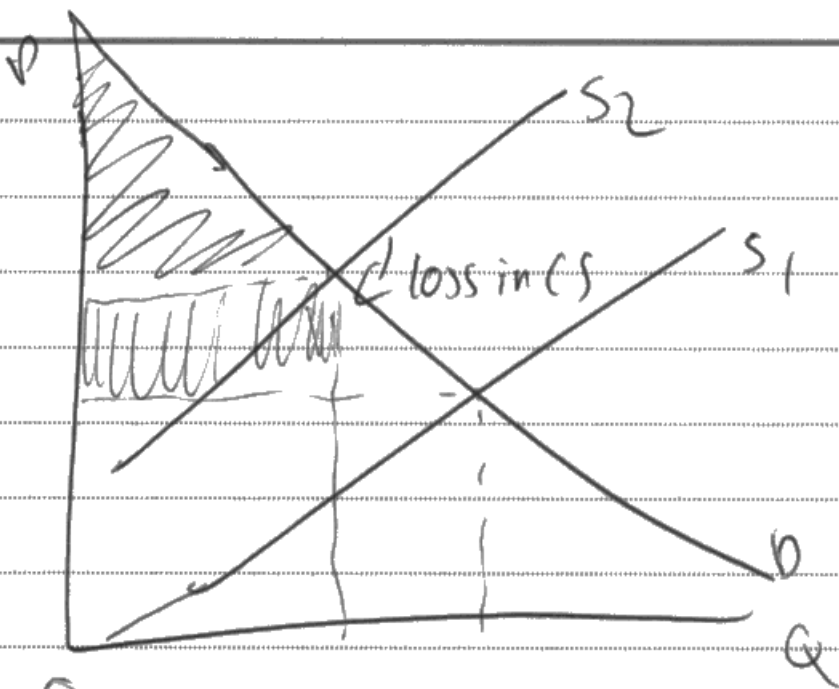
Such that October took over, thus a new micro-economic impact can be raised.

- That is a more ~~collusive~~ ~~to an~~ uncompetitive outcome is established.



After the April 2023 lifting, when the legal price floor is removed, the market may return to point A, as firms such as Book exit the market, thus there is a new uncompetitive point - A, which leads to higher prices from  $Q_1$  to  $Q_2$ , eroding CS.





Moreover, one could argue, <sup>not</sup> minimum price is ~~also~~ regressive in the sense that those on <sup>lower</sup> ~~higher~~ income bands ~~are~~ on the long run, may switch heating and cooking methods to wood-stove heating or cooking, ~~as~~ this is best reflected in 2020 ~~data~~ ~~GOV~~ GOV GOV data, which reported a 24% surge in wood-stove usage in the north ~~or~~ east of England. Furthermore, ~~regulate~~ stricter regulation of incumbent gas providers may prevent point A being reached ~~as~~, such as the CMA who may block future ~~energy~~ takeovers such as "Octopus taking over Boku", thus the new regressive  $P_2$  is not established.



To conclude, it ~~must be said~~ as Milton Friedman pointed out, "There is a smokesack on the back of every government programme... I think the government solution to a problem is often the worst one" - such that there are factors the government may be unable to account for, such as, fraudulent benefit claimers, ~~who seek to take~~ perhaps due to excessive administrative costs, or the law of ~~unintended~~ ~~consequences~~ ~~which~~ ~~may~~ ~~lead~~ ~~to~~ Qd being greater than Qs, and <sup>agency</sup> costs etc. Furthermore, it is difficult to value UK inequality due to the 'entrenched nature of information gaps', ~~the~~ Friedrich Hayek said "it is difficult for an economy to mobilise its information is dispersed", such that even if benefits did rise, those recipients on lower income levels possess asymmetric information to those perhaps on lower income levels due to inertia (tendency to not change), habitual behaviour (spending on non-desired goods) and computational error (not budgeting effectively). Moreover, it is relatively difficult to attach a monetary value to 'inequality', as several broad composite measures are used i.e. "HDI", thus ~~these~~ inequality reports may be unreliable in the sense that, the true monetary cost is not reflected.

(Total for Question 1 = 50 marks)

42

TOTAL FOR SECTION A = 50 MARKS





## SECTION B

Read Figures 3 and 4 and the extracts (C to E) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

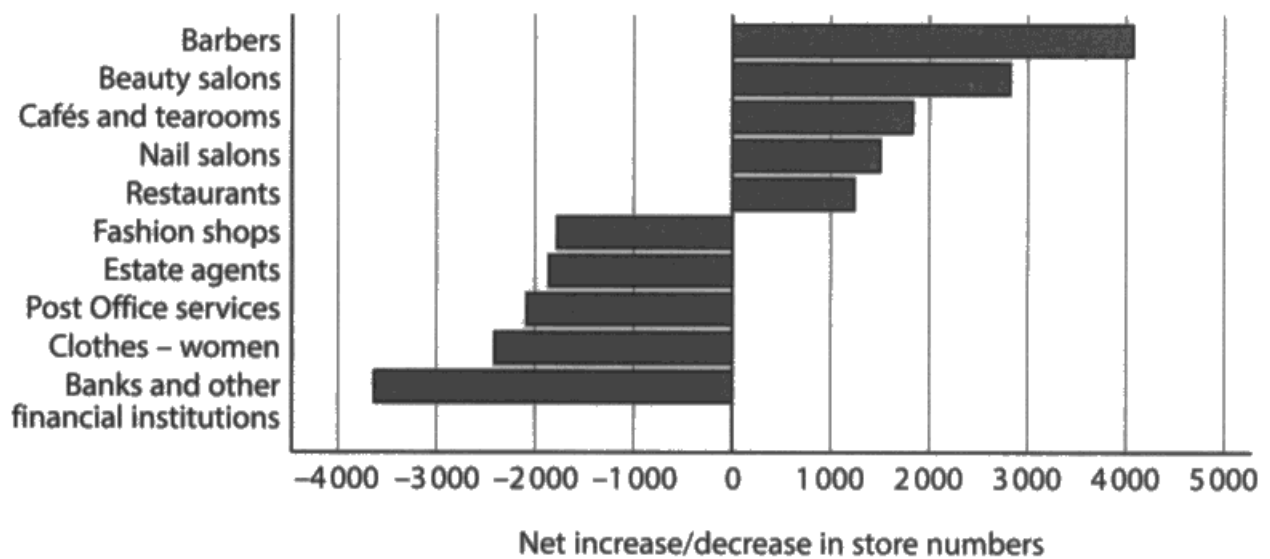
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

### Question 2

#### Changes in the nature of UK towns and cities

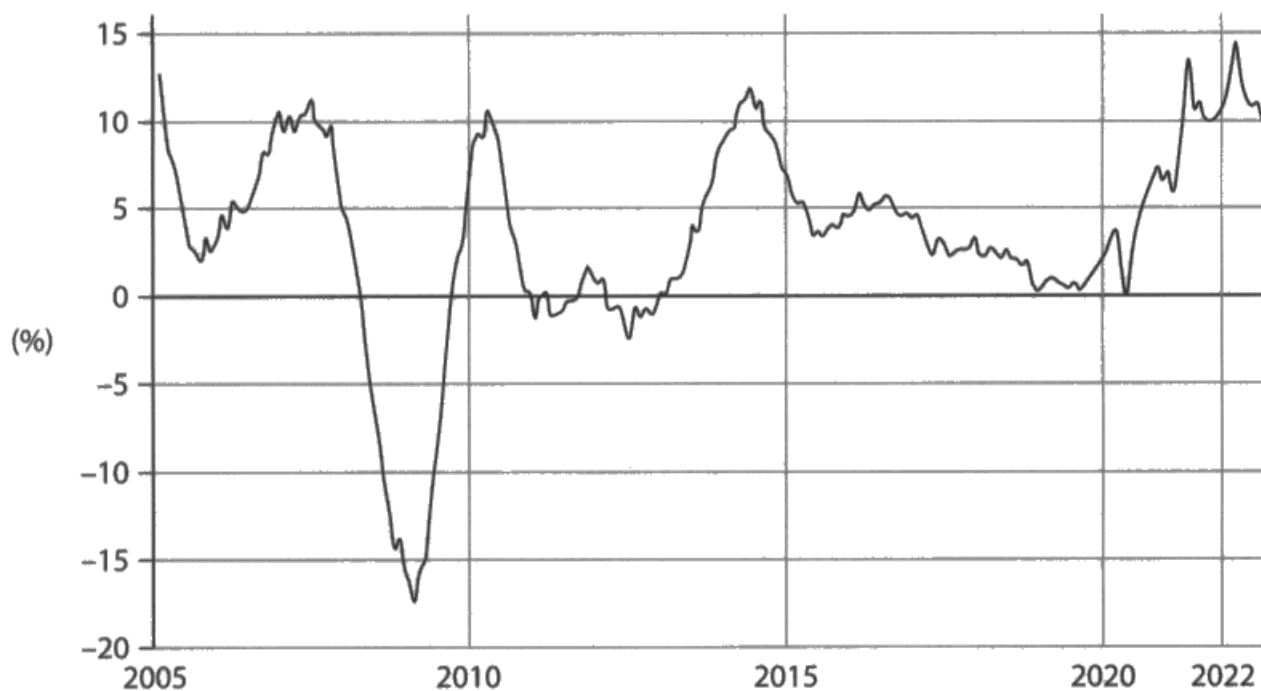
**Figure 3: Growing and declining high street firms – net change in store numbers, 2013–2022**



(Source: adapted from <https://www2.deloitte.com/uk/en/pages/consumer-business/articles/what-next-for-the-high-street.html>)



**Figure 4: House price changes in the UK (%), 2005 to 2022**



(Source: adapted from <https://www.theguardian.com/money/2022/sep/28/uk-house-prices-may-fall-20-amid-mortgage-carnage-warn-experts>)



## Extract C

### What next for the high street?

A high street is typically found in all UK towns and cities. Shops normally encountered in a typical UK high street can include successful small firms such as independent food retailers, cafés, nail and beauty salons, restaurants and charity shops. They differ from out-of-town shopping centres by being more diverse, family-run and offering local or personalised services. Customers are often very loyal. However, the high street may often have limited access by car or expensive parking facilities.

5

The rise of online retailers such as Amazon and eBay have placed huge pressures on UK high streets, with many well-known shops – and even successful retail chains – forced to close due to lost business. Many high street firms cannot compete on price with online retailers who – because they frequently have very low fixed costs – can significantly undercut the high street shops on price.

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Even before online shopping, competition was eroding high street activity, with out-of-town retail parks that were not necessarily cheaper but provide a larger range of shops and offer plentiful parking. They offer a shopping experience that other retailing cannot match – pleasant, safe pedestrian shopping, a clean environment, fun activities for children and spend-the-day-there potential.

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While the list of retail and leisure failures might suggest that the high street does not have a future, some analysts argue the opposite. Many believe that the high street is ideally placed to reinvent itself in response to the structural shift in working and shopping patterns that has resulted from the global health crisis 2020–22. The perceived weaknesses of the high street model – its fragmented ownership, lack of centralised coordination and high vacancy rates – become strengths as they lower the barriers to entry for new concepts and operators. They also enable risk taking and innovation that will ultimately lead to a more flourishing and diverse environment on our local high streets.

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It should be possible for small firms to flourish even when staff shortages are pushing up wages in the high street, and house price falls damage consumer confidence and spending on perceived luxuries.

(Source: adapted from <https://www.designingbuildings.co.uk/> and <https://www2.deloitte.com/uk/en/pages/consumer-business/articles/what-next-for-the-high-street.html>)



## Extract D

### UK house prices may fall up to 20%

Turmoil on the UK financial markets has prompted analysts to predict that house prices could fall dramatically, and many lenders in the mortgage sector are withdrawing deals. People coming to the end of their fixed-rate mortgages are seeing rises from 2% to over 5.5%, with increases in the cost of borrowing of over £5 200 a year by 2024 for the average mortgage in the UK. Many people think UK house prices will never fall, but analysts say the fall could be between 10% and 20%.

5

One mortgage lender said that a lack of housing supply will not keep house prices up when mortgage interest rates are somewhere between 5% and 7%. He claimed that 'the decade-long property bubble is about to burst [...] It's a buyer's market now'. The greatest impact will be seen in the southeast of England.

10

(Source: adapted from <https://www.theguardian.com/money/2022/sep/28/uk-house-prices-may-fall-20-amid-mortgage-carnage-warn-experts>)

## Extract E

### UK job vacancies hit record 1.1 million as labour shortages increase

The ratio of jobless people to vacancies is 1.45 to 1, lower than at any point in the last 40 years. Social care for example has 300 000 current unfilled posts.

'Today's figures show that labour shortages are now affecting the whole economy,' said one analyst. 'There are almost a million people fewer in the labour market, largely due to younger people staying in education and older people dropping out of the workforce.' The inactivity rate is 21.1%, and many people are not returning to work after the global health crisis. 'People seeking work do not have the skills or availability that employers need,' said Kitty Ussher, chief economist at the Institute of Directors. Firms offering higher wages does not solve the issue.

5

10

(Source: adapted from <https://www.ft.com/content/463f4fbd-3a50-45b5-891c-5cb5ba623df8>)



- 2 (a) Using the data provided in Extract D, explain **one** role of financial markets. (5)
- (b) Examine **two** reasons why retailers on the high street tend to remain small. (8)
- (c) Discuss possible methods of price and non-price competition that firms could use to increase the value of sales on the high street. (12)

**EITHER**

- (d) Evaluate the microeconomic and macroeconomic effects of falling house prices. (25)

**OR**

- (e) Evaluate the microeconomic and macroeconomic effects of labour shortages in the UK, or a developed economy of your choice. (25)

(a) Using the data provided in Extract D, explain **one** role of financial markets.

(5) 2 Q02a

10:02

Financial markets enable people to "lock in contracts" through forward markets, to reduce uncertainty ~~that leads to~~ over returns/losses. Such that fixed-rate mortgages can be locked in for X amount of years, if the home owner is worried "Speculating interest rates will rise".



(b) Examine **two** reasons why retailers on the high street tend to remain small.

186 Q02b

09:54

One reason may be because high street retailers wish to occupy a niche market, customers due to social conscience, but also preference, may prefer consuming at "family-run", essentially, Mom and pop shops that are local rather than homogenous "run-of-the-mill" clone goods.

Another reason may be because they lack the financial economy of scale to expand i.e. "purchase larger store", due to banks being unwilling to offer them business loans, due to the uncertainty of the successfulness of this business as many are "forced to close due to lost business".

However, to counter-evaluate, high costs may be more topical and prevalent for retailers in London than Nottingham as average brick-and-mortar store rent prices are 12.5% higher. Furthermore, Moreover, retailers on the high street may also tend to remain small due to "staff-shortages" which can limit expansion, i.e. "not enough employees to serve regular



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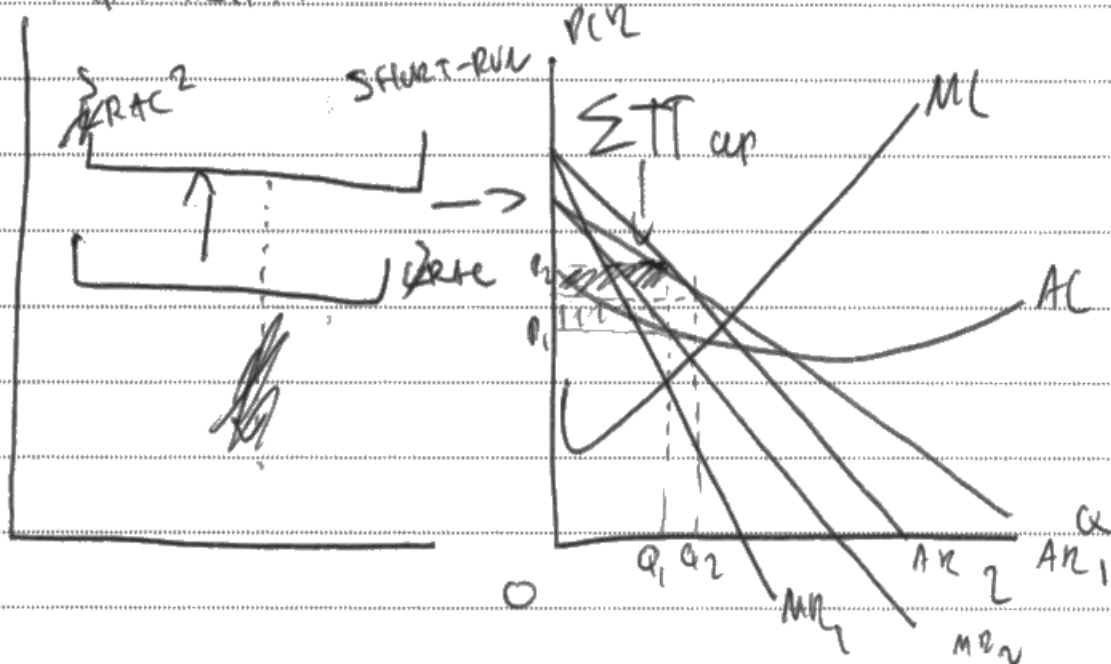
(c) Discuss possible methods of price and non-price competition that firms could use to increase the value of sales on the high street.

(128 Q02c

10:01

10:06 + 12 = 10:18

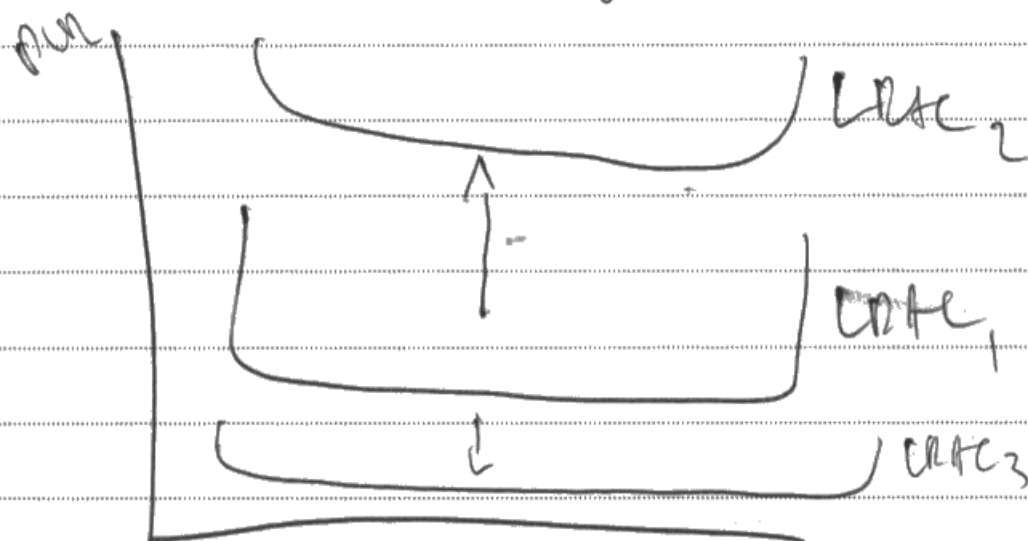
Non price competition could take place via advertising, as a form of ~~improving~~ dynamic efficiency improvement.



If advertising is successful then  $AD$  and  $MR$  may shift outwards to  $MR_2$ , such that total supernormal  $\Pi$  has increased. However, this is theoretical, as this may be counter-intuitive as advertising is a sunk cost and if  $SRAC$  shifts to  $SRAC_2$ , with no change in  $MR$  or  $AR$ , then firms are unable to recoupate lost sunk costs will have to erode, "eat away" at supernormal profit.

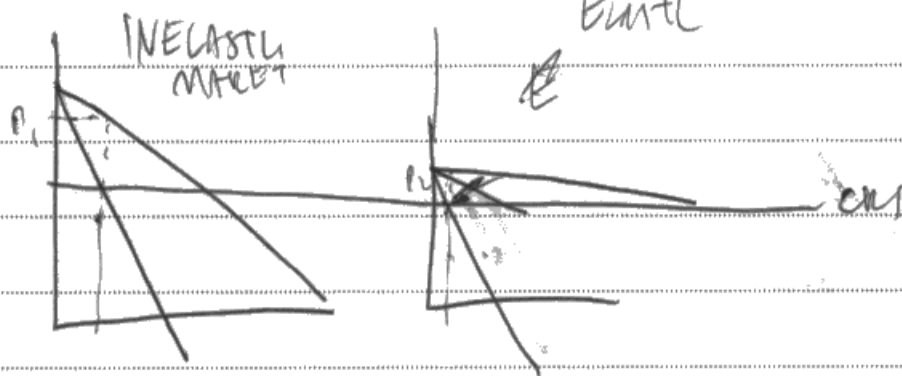


Another non-price dynamic efficient strategy is to be more dynamically efficient, i.e. "firms paying expert interior designer to maximise shelf space, attract potential customers, through updated brickwork colour or complete redesign, such that

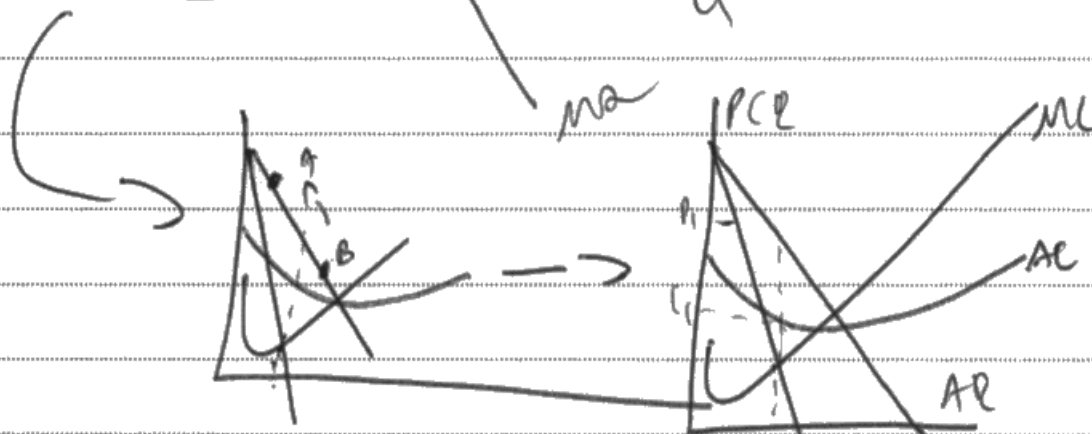
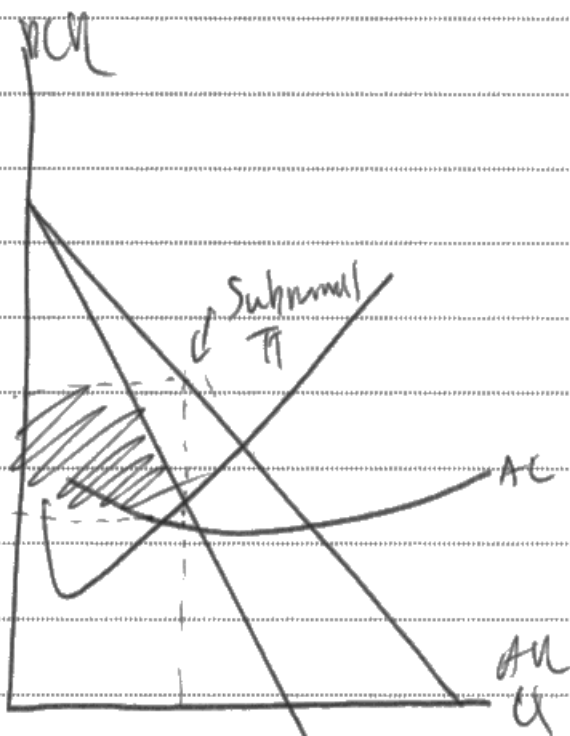


While in the ~~SR~~ <sup>CR</sup>, short-run cost rise from LRAC<sub>1</sub> to LRAC<sub>2</sub>, firms can ultimately reach LRAC<sub>3</sub>, and increase scale of sales through greater MN and AN shifts as a result.

Firms may also price-discriminate segmenting the market for different age-groups such that lower prices are offered to the more elastic sub-market.



2)



A final method, is through limit pricing. Firms may incur on sustaining significant losses in the SR, to "kill-off" competition, who are unwilling to retain customers by further lowering prices, as they are profit-incentive such that as firms exit the point A is reached and, in the long-run



# **EITHER**

(d) Evaluate the microeconomic and macroeconomic effects of falling house prices. (25)

# **OR**

(e) Evaluate the microeconomic and macroeconomic effects of labour shortages in the UK, or a developed economy of your choice. (25)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number:

Question 2(d) ☒

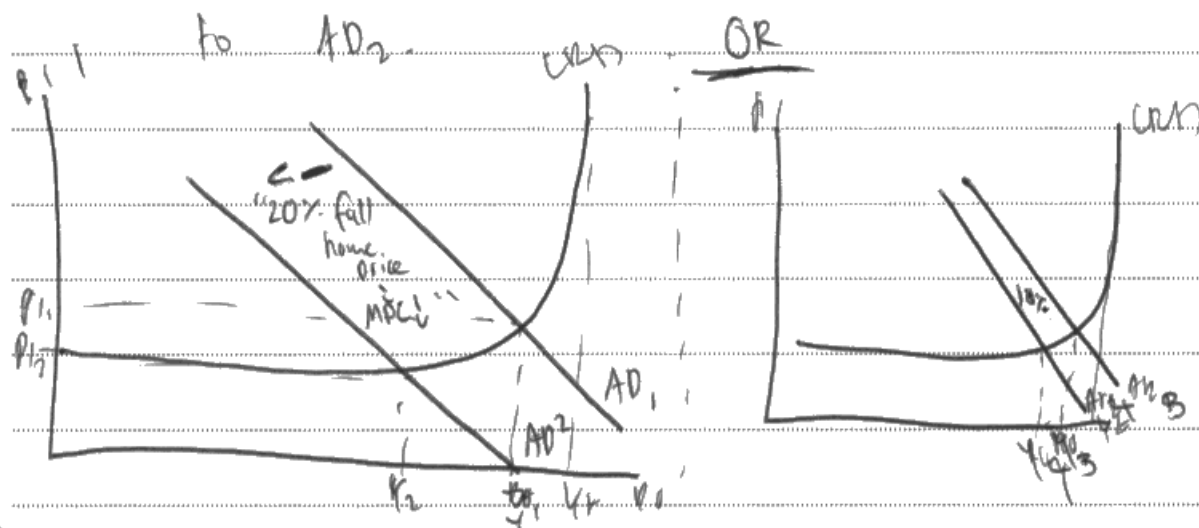
Question 2(e) ☐

20Sec02

Write your answer here:

10:19 ✱ 10:45

~~The~~ Falling house prices, may contribute to the negative wealth effect such that homeowners are less likely to take out equity withdrawals or remortgage as they know their assets are worth less. This as a result may encourage their marginal propensity to save, to increase thus their MPC to decrease, as the relationship between MPC and MPI is anti-cyclical. Such that AD will shift inward as consumption is a component of  $AD = C + I + G + (X - M)$ . This can be reflected from the inward AD shift from  $AD_1$  to  $AD_2$ .

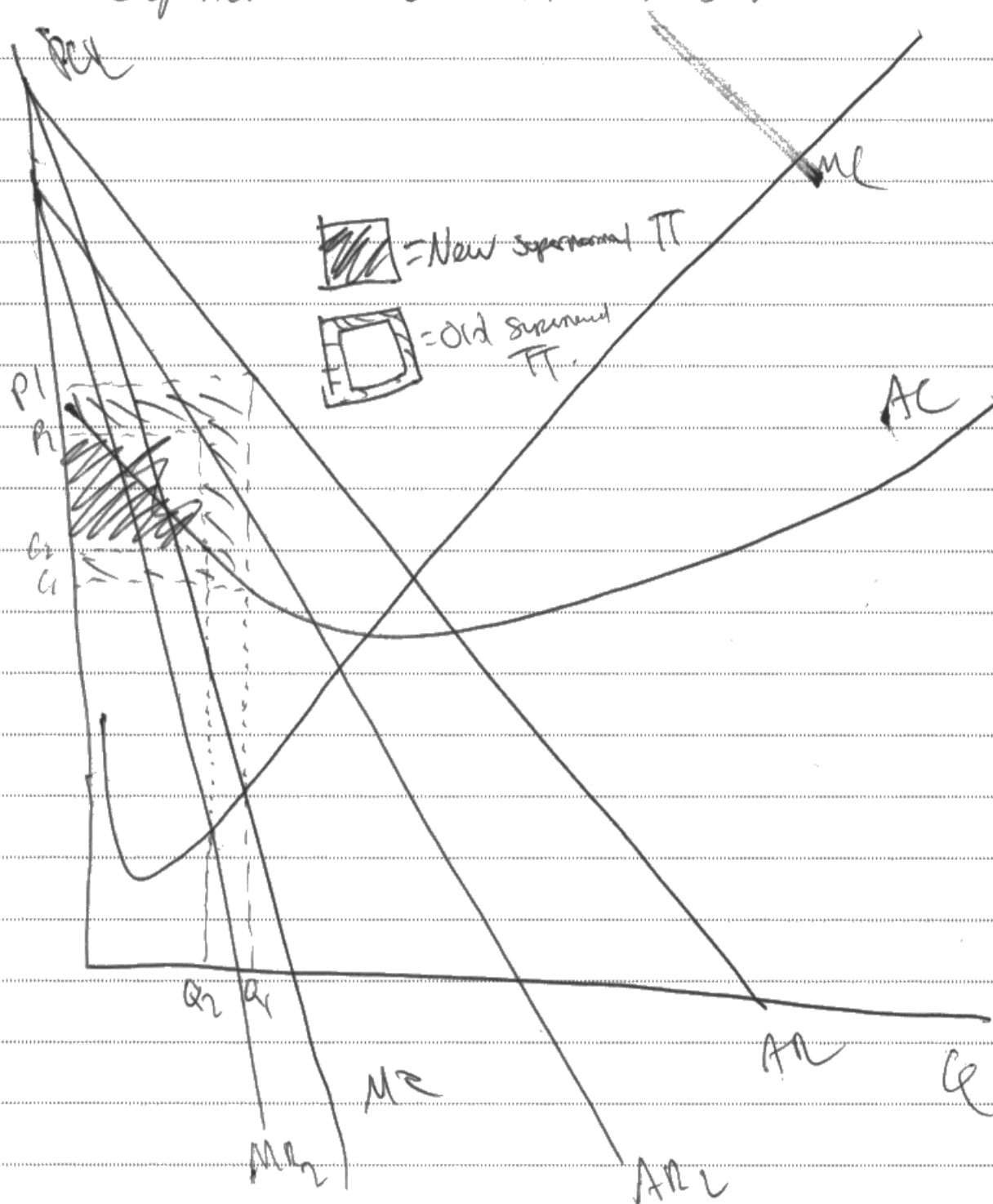


Having to counter-evaluate the magnitude of effects  
→ highly dependent on the fall ranging closer  
approximately to 10% or 20%, if it is  
closer to 20%, the effects are more  
drastic in the sense that the negative  
gap → much wider and RO falls more  
drastically from  $Y_R$  to  $Y_2$ , from  $Y_3$   
to  $Y_4$ . Moreover, as the extract points to  
the "greatest impact taken place 'on England's  
South-east'" which suggests effects will not  
be felt nationwide. However 68% of GDP is  
the UK's consumption is in the South-East with  
40% percent stemming from London, which suggests  
scale-wise, the entire UK will be affected  
not just London.

additional macro-economic

One ~~macro~~ economic impact of falling house prices  
→ increased unemployment, as employment and  
economic growth are pro-cyclical, a decrease  $Y_1$   
to  $Y_2$ , decrease in real output = decrease in real  
GDP, will lead to a rise in unemployment,  
Furthermore, However, it is difficult to assume the scale  
of unemployment as workers may be locked in  
contracts such that unemployment may only rise  
in the long-run.

One micro-economic effect may be firms make less supernormal  $\pi$  if ~~down~~ AD decreases, demand for ~~the~~ the goods of the firms decrease such that  $MR$  and  $AR$  experience an inward shift.



Such that a decrease in supernormal  $\pi$ , may see an industry such as luxury goods shrink, as firms are ultimately profit incentivised and may be unwilling to endure ~~per~~ significant periods of decreased supernormal profits, for example ~~st~~ stockholders and chairman may pressure luxury good firms to relocate elsewhere as such.

However, if unemployment increases and firms are able to offer lower wages, thus lower income, as workers due to excess supply, have less negotiating power, then normal ~~goods~~ inferior goods with a  $YED$  of  $< 1$ , may see an increase in consumption, thus firms who primarily sell inferior goods may see a rise in  $MR$  and  $AR$ , thus more supernormal profit.

To conclude, difficulty lies in evaluating micro-economic and macro-economic effects as the counterfactual is difficult to know, due to the presence of uncontrollable external shocks i.e. "global recession"

which can entrench ~~inequality~~ falling consumption. ~~Further~~ Furthermore, due to animal spirits and the fact house prices haven't fallen in the past 10 years, may have led homeowners to form a "bullish attitude" thus their consumption pattern and equity withdrawal/remortgage



perhaps may in fact not change,  
then AN assume no interest charge.





(Total for Question 2 = 50 marks)

36

**TOTAL FOR SECTION B = 50 MARKS**  
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