

## Exam Questions

# 11. Economic Performance

Economic Growth / The Impact of Economic Growth / The Economic Cycle /  
Employment & Unemployment / Price Level: Inflation / Price Level: Deflation / Price  
Level: Global Influences / Conflicts Between the Macroeconomic Objectives

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**Total Marks****/205**

**1 Essay 2** During 2018, the UK experienced an annual growth rate of 1.4%, an unemployment rate of around 4.1%, inflation close to target at 2.5% and a reduced current account deficit on the balance of payments. However, in November 2018, the Bank of England warned that economic shocks could damage the UK's prosperity.

Explain how demand-side **and** supply-side shocks might increase unemployment in an economy.

This image shows a full page of white paper with horizontal dashed lines, typical of primary school writing paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

**(15 marks)**

**2 Essay 2** During 2018, the UK experienced an annual growth rate of 1.4%, an unemployment rate of around 4.1%, inflation close to target at 2.5% and a reduced current account deficit on the balance of payments. However, in November 2018, the Bank of England warned that economic shocks could damage the UK's prosperity.

Evaluate the view that the main objectives of UK government macroeconomic policy can be achieved without conflicting with each other.

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(25 marks)

3 **Table 1** contains data for the rates of growth of nominal and real GDP and the rate of inflation for an economy in a given year. Which one of the following combinations, **A, B, C** or **D**, shows the correct relationship between the three variables?

|          | Nominal GDP growth | Real GDP growth | Inflation |
|----------|--------------------|-----------------|-----------|
| <b>A</b> | -2%                | 0%              | +2%       |
| <b>B</b> | +4%                | +3%             | -1%       |
| <b>C</b> | +5%                | +5%             | +1%       |
| <b>D</b> | -5%                | -2%             | -3%       |

(1 mark)

4 The long-run Phillips curve shows that

- A.** the expected rate of inflation is zero.
- B.** there is an inverse relationship between unemployment and inflation in the long run.
- C.** there is no trade-off between reducing inflation and lower unemployment in the long run.
- D.** unemployment can only be reduced in the long run by an increase in aggregate demand.

**(1 mark)**

5 An economy is estimated to be experiencing a 2% rate of frictional unemployment plus a 3% rate of structural and real wage unemployment. If it is also experiencing cyclical unemployment of 4%, its natural rate of unemployment is most likely to be

- A.** 3%
- B.** 5%
- C.** 6%
- D.** 9%

**(1 mark)**

| Extract B: What is GDP?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Imagine £50 notes stacked on top of each other, stretching almost 4500 kilometres into the sky. This fantastically large amount of money (more than £2 trillion) is the current estimated value of the UK's Gross Domestic Product (GDP).                                                                                                                                                                                                                                                                                                                                             | 1       |
| GDP is the standard measure of the size and health of a country's economy but it is important to distinguish between nominal and real GDP. It's the way we measure and compare how well or badly countries are doing. In other words, it is the total value of the output of goods and services produced in an economy over a period of time. The higher the value of GDP, the bigger the economy. If injections into an economy's circular flow of income increase, then this may generate multiple increases in GDP, depending upon the size of the marginal propensity to consume. | 5<br>10 |
| Why is the measurement of GDP important? Well, it's a way of keeping track of how the economy is doing, and whether it is growing. We can also use it to measure one economy against other economies using purchasing power parity exchange rates. If real GDP goes up, the economy is doing well; this is associated with higher incomes, more jobs and higher spending. If real GDP goes down, the economy is not doing so well; this is associated with falling incomes, lower consumption and a lower standard of living.                                                         | 15      |

Source: News reports, 2017

**Extract B** (lines 13–15) states 'If real GDP goes up, the economy is doing well; this is associated with higher incomes, more jobs and higher spending.'

Using the data in the extracts and your knowledge of economics, assess the view that to improve the living standards of their citizens, governments across the world should prioritise achieving economic growth.

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Blank lined area for writing.

**(25 marks)**

## 7 Essay 3

In the past few years, CPI inflation has often differed by more than 1% from its 2% target. In the winter of 2015 the UK experienced a brief period of deflation but, more recently, inflation has been over 3%. Explain the main causes of a rise in inflation.

This image shows a full page of blank primary-ruled paper. It features ten sets of horizontal lines across the page. Each set consists of three lines: a solid top line, a dashed middle line, and a solid bottom line, providing a guide for letter height and placement. The paper is otherwise completely blank, with no margins, text, or other markings.

**(15 marks)**



## 8 Essay 3

In the past few years, CPI inflation has often differed by more than 1% from its 2% target. In the winter of 2015 the UK experienced a brief period of deflation but, more recently, inflation has been over 3%.

Evaluate the view that inflation is always preferable to deflation.

[illegible]

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(25 marks)

9 The table below contains selected data on a country’s macroeconomic performance over a 20 year period.

| Year | Unemployment (%) | Rate of inflation (%) | Balance of trade on current account (\$ bn) |
|------|------------------|-----------------------|---------------------------------------------|
| 1998 | 6.0              | 3.5                   | -20                                         |
| 2003 | 5.8              | 3.0                   | -19                                         |
| 2008 | 5.5              | 2.5                   | -12                                         |
| 2013 | 5.2              | 2.0                   | -2                                          |
| 2018 | 5.0              | 1.5                   | +3                                          |

All other things being equal, which one of the following, **A**, **B**, **C** or **D**, can be inferred from the above data?

- A.** The natural rate of unemployment is falling
- B.** The price level is increasing more slowly
- C.** The volume of exports is increasing
- D.** There is an inverse relationship between unemployment and inflation

**(1 mark)**

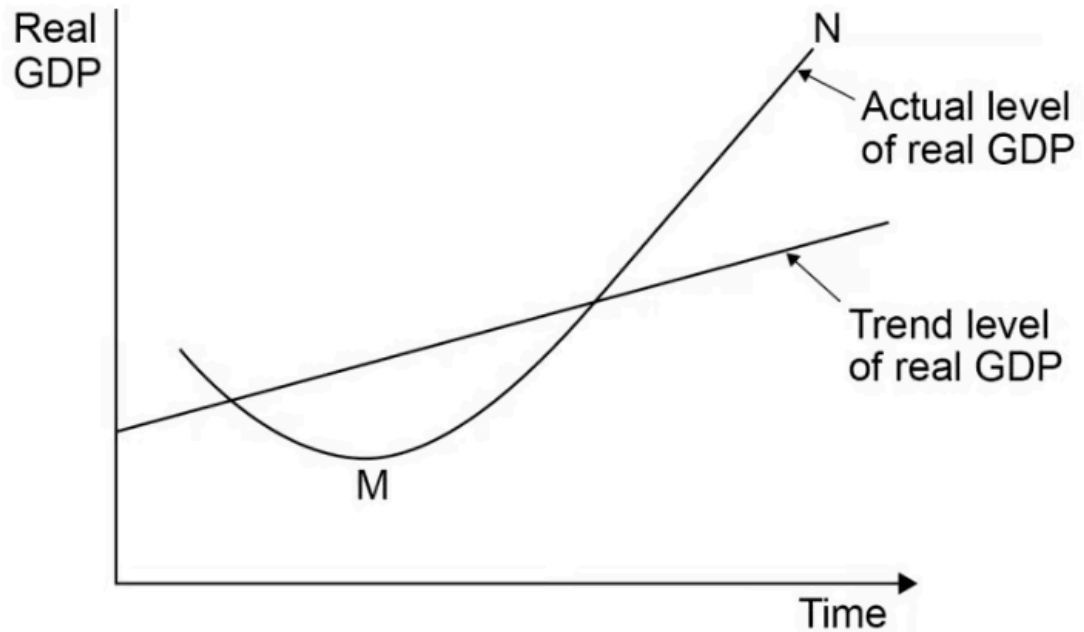
- 10** All other things being equal, if the velocity of circulation is constant, the quantity theory of money based on Fisher's equation of exchange,  $MV=PQ$ , predicts that an  $x\%$  increase in the money supply will always cause an  $x\%$

- A.** decrease in the rate of interest.
- B.** increase in nominal national income.
- C.** increase in real national income.
- D.** increase in the rate of economic growth

**(1 mark)**

- 11** The diagram below shows the actual level of real GDP and the trend level of real GDP over time for an economy. The economy starts its recovery from recession at point M.

After several years of growth the economy reaches point N.



All other things being equal, which one of the following is the most likely consequence of the economy's growth path between points M and N?

- A.** A decrease in the level of interest rates due to deflation.
- B.** A decrease in the rate of inflation due to increased output.
- C.** An increase in investment due to the accelerator process.
- D.** An increase in the value of the multiplier due to a rise in the savings ratio.

**(1 mark)**

## 12

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**Extract E** (lines 16–17) states ‘However, some argue that trying to maintain stable prices and low unemployment could create trade-offs.’

With the help of a diagram, explain why a trade-off between price stability and low unemployment might occur.

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(9 marks)

### 13 Essay 3

In July 2017, more people were employed in the UK than ever before. At the same time, the UK unemployment rate fell to 4.3%, the lowest rate for 40 years. Whilst this suggests that the government's policies for employment are working, some claim that zero-hours contracts, low real wages and temporary jobs have made many people worse off.

Explain the causes of cyclical **and** structural unemployment.

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(15 marks)

**14 Essay 3**

In July 2017, more people were employed in the UK than ever before. At the same time, the UK unemployment rate fell to 4.3%, the lowest rate for 40 years. Whilst this suggests that the government's policies for employment are working, some claim that zero-hours contracts, low real wages and temporary jobs have made many people worse off.

Assess the view that falling unemployment will inevitably lead to an improvement in the standard of living for people in the UK.

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**(25 marks)**



- 15** The short-run Phillips curve below illustrates the relationship between unemployment and inflation in an economy.

The Phillips curve shows that in this economy.

- A.** high inflation leads to high unemployment.
- B.** there is an inversely proportional relationship between unemployment and inflation.
- C.** the trade-off for reducing inflation from 7% to 3% is a 4% increase in unemployment.
- D.** the trade-off for reducing unemployment from 7% to 4% is 3% inflation.

**(1 mark)**

- 16** The table below shows indices for real GDP and consumer prices in an economy over six quarters.

| Quarter | Index of real GDP | Index of consumer prices |
|---------|-------------------|--------------------------|
| 1       | 106               | 100                      |
| 2       | 105               | 105                      |
| 3       | 104               | 111                      |
| 4       | 105               | 116                      |
| 5       | 107               | 120                      |
| 6       | 110               | 123                      |

During these six quarters the economy experienced

- A.** deflation and a recession
- B.** disinflation when in recession
- C.** disinflation when recovering from recession.
- D.** rising inflation when recovering from

**(1 mark)**

## 17 Extract D

**Figure 3: CPI inflation rates (%) for Japan and the UK, 2010 to 2015**

| Year | Japan | UK   |
|------|-------|------|
| 2010 | -0.72 | 3.29 |
| 2011 | -0.28 | 4.48 |
| 2012 | -0.03 | 2.83 |
| 2013 | 0.36  | 2.56 |
| 2014 | 2.75  | 1.46 |
| 2015 | 0.80  | 0.05 |

Using the data in **Extract D (Figure 3)**, calculate, to **two** decimal places, the mean inflation rate for Japan from 2010 to 2015.

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**(2 marks)**

## 18 Extract D

Figure 3: CPI inflation rates (%) for Japan and the UK, 2010 to 2015

| Year | Japan | UK   |
|------|-------|------|
| 2010 | -0.72 | 3.29 |
| 2011 | -0.28 | 4.48 |
| 2012 | -0.03 | 2.83 |
| 2013 | 0.36  | 2.56 |
| 2014 | 2.75  | 1.46 |
| 2015 | 0.80  | 0.05 |

Explain how the data in **Extract D (Figure 4)** show that Japan has been less successful than the UK in achieving a stable rate of economic growth.

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(4 marks)

## 19 Essay 1

Between 2011 and 2016, UK unemployment fell from a high of 8.5% to 4.8%. Some argue that government attempts to reduce unemployment inevitably lead to trade-offs with other macroeconomic policy objectives.

Discuss the view that falling unemployment will inevitably lead to trade-offs with other macroeconomic policy objectives.

This image shows a full page of primary-ruled paper. It features multiple sets of horizontal lines designed to guide young learners' handwriting. Each set consists of three lines: two solid outer lines defining the height of the letters and a dashed middle line indicating where to form ascenders or x-height. The pattern repeats down the entire page, providing ample space for practice.

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(25 marks)

- 20 The primary measure of unemployment in the UK is based on the
- A. number of people joining the labour force minus the number of people leaving the labour force.
  - B. number of people not working who are of working age.
  - C. the number of people actively seeking work and available to start work.
  - D. proportion of the population of working age without a job.

(1 mark)

21 The table below shows the Consumer Prices Index for a country over a number of years.

| Year | End of year prices index |
|------|--------------------------|
| 1    | 100                      |
| 2    | 98                       |
| 3    | 103                      |
| 4    | 105                      |
| 5    | 106                      |
| 6    | 104                      |
| 7    | 107                      |

Which one of the following can be concluded from the table?

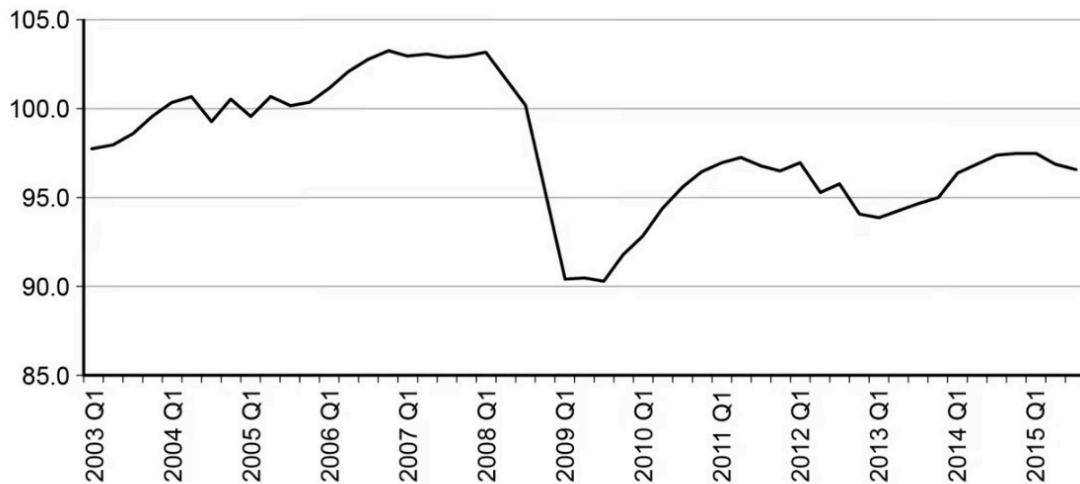
- A.** The country suffered disinflation in Year 5
- B.** The inflation rate was highest in Year 7
- C.** The only time the country suffered deflation was in Year 2
- D.** Real incomes fell between Year 1 and Year 7

**(1 mark)**

## 22 Extract B: Trends in UK manufacturing

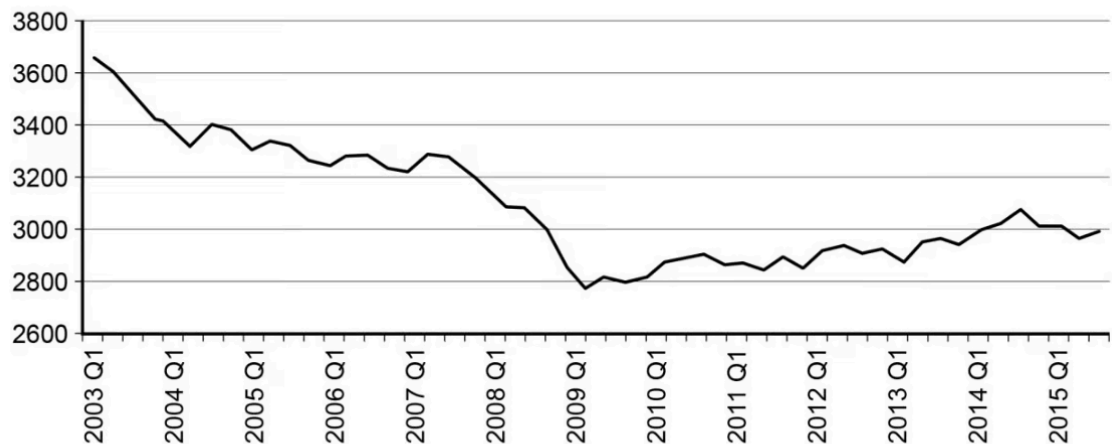
**Figure 1: Index of manufacturing output 2003 to 2015, 1997 = 100**

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**Figure 2: Manufacturing employment Jan-Mar 2003 to Oct-Dec 2015, thousands**

**Figure 2: Manufacturing employment Jan-Mar 2003 to Oct-Dec 2015, thousands**



**Figure 3: Value of UK trade in goods 2003 to 2015, £ billion at current prices**

| Year | Exports | Imports | Balance |
|------|---------|---------|---------|
| 2003 | 188.5   | 239.5   | -51.0   |
| 2004 | 191.6   | 253.5   | -61.9   |
| 2005 | 212.1   | 282.2   | -70.1   |
| 2006 | 244.0   | 322.9   | -78.9   |
| 2007 | 223.0   | 313.5   | -90.5   |
| 2008 | 254.6   | 349.6   | -95.0   |
| 2009 | 229.1   | 315.7   | -86.6   |
| 2010 | 270.2   | 367.6   | -97.4   |
| 2011 | 308.2   | 401.7   | -93.5   |
| 2012 | 304.3   | 410.8   | -106.5  |
| 2013 | 306.2   | 421.5   | -115.3  |
| 2014 | 293.7   | 416.9   | -123.2  |
| 2015 | 285.6   | 410.7   | -125.1  |

**Figure 4: Annual average rate of growth in UK manufacturing output and real GDP, 1949 to 2015**



| Years       | Average rate of growth of UK manufacturing (%) | Average rate of growth of UK real GDP (%) |
|-------------|------------------------------------------------|-------------------------------------------|
| 1949 – 1973 | 3.4                                            | 3.4                                       |
| 1974 – 1992 | 0.1                                            | 1.9                                       |
| 1993 – 2007 | 0.9                                            | 3.0                                       |
| 2008        | –2.8                                           | –0.5                                      |
| 2009        | –9.4                                           | –4.2                                      |
| 2010 – 2015 | 1.1                                            | 2.0                                       |

Source: Official statistics for all data in Extract B

To what extent, if at all, do you consider that the UK manufacturing sector has been in decline since 2003? You must use the data in **Extract B** to support your assessment.

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**(10 marks)**