

# **PiXL Independence:**

## **Economics – Student Booklet**

### **KS5**

Style of All Exam Boards, Economic Growth,  
Unemployment & Inflation

#### **Contents:**

- I. Multiple Choice Questions – 10 credits in total
- II. Knowledge Questions – 50 credits per section
- III. Short Answer Questions – 10 credits per question
- IV. Diagram Questions – 30 credits per question
- V. Short Essay Questions – 50 credits per question
- VI. Essay Questions – 100 credits per essay with an additional 20 for marking
- VII. Wider Reading – 50 credits each

## I. Multiple Choice Questions

*10 credits in total for this section.*

1. The minimum wage in the UK has increased, resulting in job losses as the demand for workers decreases. This is an example of:
  - a. Structural unemployment
  - b. Classical unemployment
  - c. Casual unemployment
  - d. Cyclical unemployment
  
2. As the economy moves from recession to recovery there is unlikely to be higher:
  - a. Business activity
  - b. GDP growth
  - c. Unemployment
  - d. Inflation
  
3. The rate of inflation has fallen from 5% in June to 4% in July. This is an example of:
  - a. Reflation
  - b. Deflation
  - c. Disinflation
  - d. Hyperinflation
  
4. RPI differs from CPI in that:
  - a. The data is collected weekly rather than monthly
  - b. It takes mortgage interest payments into account
  - c. It looks at twice as many goods as CPI
  - d. The basket of goods never changes
  
5. Which of the following is likely to be a consequence of deflation?
  - a. A fall in the value of money
  - b. Increased investment
  - c. A rise in consumption
  - d. A rise in the value of debt

6. Which one of the following is an example of demand-pull inflation?
  - a. A rise in the price of oil
  - b. A rise in consumer spending
  - c. A rise in real wages
  - d. A rise in the government surplus
  
7. Which one of the following groups is counted as unemployed in the Claimant Count?
  - a. Full-time university students actively seeking a part time job
  - b. 17-year-olds in education and actively seeking a job
  - c. People out of work not collecting Jobseeker's Allowance
  - d. People not willing to work at the wage rate but claiming Jobseeker's Allowance
  
8. Recession is defined as:
  - a. One quarter of negative output growth
  - b. Two quarters of slowing output growth
  - c. Two quarters of growth below the trend line
  - d. Two quarters of negative output growth
  
9. Which stage of the economic cycle is most likely to see the use of previously unused spare capacity and low inflationary pressure in the economy?
  - a. Boom
  - b. Slump
  - c. Recession
  - d. Recovery
  
10. As UK steel production falls and factories are permanently closed as a result of competition from abroad, many thousands of jobs have been lost. This is an example of what?
  - a. Seasonal unemployment
  - b. Technological unemployment
  - c. Frictional unemployment
  - d. Structural unemployment

## II. Knowledge Questions

*50 credits per section.*

### 1. Economic Growth and the Economic Cycle

- a. Define the term 'economic growth'.
- b. What is the current economic growth rate for the UK?
- c. State two characteristics of a positive output gap.
- d. Draw a Classical diagram showing a negative output gap.
- e. State two characteristics of a recession.
- f. State two possible demand-side shocks for the UK economy.
- g. State two possible supply-side shocks for the UK economy.
- h. State a cause of short run economic growth.
- i. State a cause of long run economic growth.
- j. Draw a PPB showing an increase in long run economic growth.

### 2. Employment and Unemployment

- a. What are the 2 types of measurement for unemployment?
- b. What is the current unemployment rate?
- c. There have been thousands of job losses in the steel and coal industries recently. This is an example of what type of unemployment?
- d. If minimum wage increases to £10 it could increase unemployment. Which one primarily?
- e. Name the term: the 2 types of unemployment that make up equilibrium unemployment.
- f. Name the term: When someone is unable to move jobs because they lack the required skills.
- g. Name the term: When someone is better off out of work financially than actually working.
- h. It is forecasted that there will be huge job losses across manufacturing in many industries over the next 30 years. Which unemployment type is the cause of this?
- i. Name the term: when workers are able to find work in London but are unable to take jobs because of the cost of rent.
- j. Name the term: When there are job losses due to a recession.

### 3. Inflation and Deflation

- a. Define the term 'inflation'.
- b. What is the current UK inflation rate?
- c. Explain the difference between disinflation and deflation.
- d. What are the two main measures of inflation?
- e. What is the main difference between these two measures of inflation?
- f. Explain the meaning of 'the core inflation rate'.
- g. What is meant by demand-pull inflation?
- h. Draw a Keynesian diagram showing demand-pull inflation.
- i. What is meant by cost-push inflation?
- j. Draw a Classical diagram showing cost-push inflation.

### III. Short Answer Questions

*10 credits per question*

#### 1. Economic Growth and the Economic Cycle

- a. Explain, with examples, the difference between short run economic growth and long run economic growth.
- b. Explain, with examples, why increases in economic growth do not necessarily lead to rises in inflation.
- c. Explain the impact a rise in the price of oil may have on economic growth in the UK.
- d. Describe a positive effect of economic growth to the economy.
- e. Describe a negative effect of economic growth to the economy.
- f. Explain, with the use of a diagram, the impact a rise in productivity will have on the UK economy.
- g. Explain how economic growth may positively affect living standards in the UK.
- h. Explain why economic growth may not always increase living standards in the UK.
- i. Explain one problem of a fluctuating economic growth rate.
- j. Explain what is meant by 'investment in human capital'.

#### 2. Employment and Unemployment

- a. Explain what is meant by 'economically inactive'.
- b. Explain a problem with using the labour force survey as a measure of unemployment.
- c. Explain why the true unemployment rate may be significantly higher than the rate published by the ONS.
- d. Explain why it is important that unemployment is measured as accurately as possible.
- e. Explain how unemployment can still exist when a country is said to be at full employment.
- f. Explain the difference between structural unemployment and cyclical unemployment.
- g. The UK has a large amount of foreign direct investment. Explain the effect this will have on employment in the UK.
- h. Sample of regional unemployment rates in the UK: London – 6.0%, North East – 5.4%, South East – 3.5%. Explain why the unemployment rate differs so greatly between regions in the UK.
- i. Explain the impact of high net migration into the UK on the UK's employment rate.

- j. Explain two factors behind an increase in structural unemployment in the UK.

### **3. Inflation and Deflation**

- a. Explain why governments usually prefer low inflation to deflation.
- b. Since the pound has depreciated inflation has started to rise. Explain why depreciation can lead to inflation in an economy.
- c. Explain why the savings ratio may rise during a period of deflation.
- d. Explain why an increase in the money supply may lead to inflation.
- e. Explain the influence that business and consumer confidence have on the rate of inflation.
- f. There have been calls for the minimum wage to be increased from its current rate of £7.50 to £10. Explain the impact this would have on the inflation rate.
- g. Explain an issue with the use of CPI as a measurement of inflation.
- h. Many businesses tie employee pay increases to the CPI rate of inflation while tying their prices against RPI. Explain an issue with doing this.
- i. Explain an advantage to the UK economy if it were to experience deflation in the future.
- j. Explain why increases in the price of commodities such as oil can have such a big impact on the UK economy.

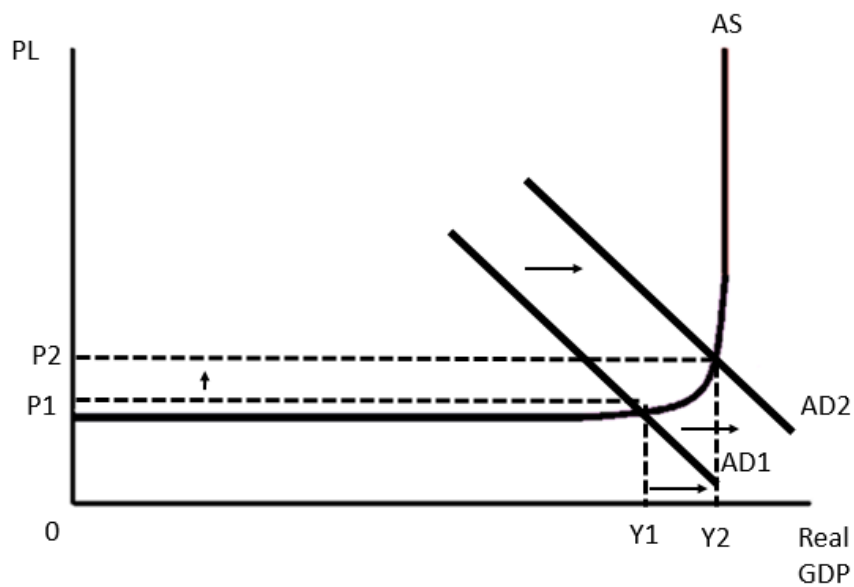
## IV. Diagrams

*30 credits per question.*

### Sample diagrams:

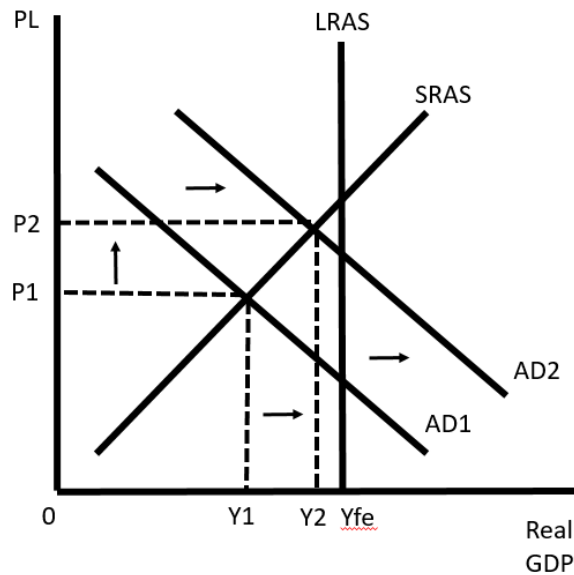
Remember to include relevant axis labels, labelling of AD, AS, changes in price level, GDP, 0, arrows.

A Keynesian diagram showing an increase in short run economic growth nearing full employment:



A Classical diagram showing an increase in short run economic growth nearing full employment:





## 1. Economic Growth and the Economic Cycle

- After the financial crisis, a rise in consumer spending helped get the UK out of recession. Draw a Keynesian diagram showing an increase in consumption following a recession.
- UK productivity has finally begun to increase following years of stagnation. Draw a Keynesian diagram showing an increase in UK productivity.
- The government continues to cut government spending in order to balance the budget. Draw a Keynesian diagram showing a fall in government spending.
- During the Eurozone crisis, Spain saw hundreds of thousands of workers move abroad to find better paid work and avoid the recession. Draw a Keynesian diagram illustrating the loss of labour and the recession.
- The London 2012 Olympics saw large investments in capital and other infrastructure projects. Draw a Classical diagram showing this.
- The UK is nearing full employment according to economists while consumer spending continues to increase. Draw a Classical diagram showing this.
- Business confidence continues to grow due to the good consumer spending figures with businesses now looking to increase capacity further. Draw a Classical diagram to illustrate this.
- Greece is still in a severe slump and the government has announced further spending cuts. Draw a Classical diagram to illustrate this.
- Draw a Classical diagram showing a positive output gap.
- Draw a Keynesian diagram showing a negative output gap.

## **2. Employment and Unemployment**

- a. Assuming the UK is at full employment, draw a Keynesian diagram to show what would happen if the UK government increased spending at that point.
- b. Draw a Classical diagram to show an economy with high unemployment.

## **3. Inflation and Deflation**

- a. UK inflation has increased due to the weak pound pushing up the prices of imported raw materials for producers. Draw a Classical diagram illustrating this.
- b. Draw a Keynesian diagram showing the effects of high consumption near full employment.
- c. Japan suffered from deflation for a long period of time in the 1990s and 2000s mainly due to decreasing levels of consumption and a fall in investment. Draw a Classical diagram to show this.

## **V. Short Essay Questions**

*50 credits per question.*

### **1. Economic Growth and the Economic Cycle**

- a. Explain why economic growth is important for improving living standards in a country such as the UK. (10 marks)
- b. Explain, with the aid of a diagram, why economic growth is likely to lead to inflation. (10 marks)
- c. The UK savings ratio has fallen from 7% in 2014 to 3.3% in 2017. Explain why the savings ratio has fallen. (10 marks)
- d. Explain four features of a boom. (15 marks)
- e. Explain four reasons why a country may move from a boom to a recession. (15 marks)

## **2. Employment and Unemployment**

- a. Explain why a country is always likely to suffer from structural and frictional unemployment. (10 marks)
- b. Explain, with the aid of a diagram, the impact a rise in the minimum wage will have on unemployment in the UK. (10 marks)
- c. Explain why increases in foreign direct investment may not always lead to increases in employment. (10 marks)
- d. Explain the impact that globalisation has had on employment and unemployment in the UK. (15 marks)
- e. Explain the importance of supply-side factors in determining the UK's unemployment rate. (15 marks)

## **3. Inflation and Deflation**

- a. Explain three factors that have contributed to cost-push inflation in the UK economy. (10 marks)
- b. Explain three factors that have contributed to demand-pull inflation in the UK economy. (10 marks)
- c. Explain the impact a volatile inflation rate may have on the UK economy. (10 marks)
- d. Real wages have fallen for many since the financial crisis in the UK. Explain how a fall in real wages may or may not reduce inflationary pressure for the UK economy. (15 marks)
- e. Explain the impact the economic rise of China and other developing countries has had on the UK inflation rate. (15 marks)

## VI. 25 Mark Essay Questions

*100 credits per essay with an additional 20 credits for marking your own.*

1. To what extent will economic growth always lead to trade-offs with other macroeconomic objectives?  

**(25 marks)**
  
2. Throughout the last ten years, the UK economy has suffered from low productivity. Evaluate the impact of low productivity on the UK economy.  

**(25 marks)**
  
3. The UK government has committed to many large infrastructure projects over the last decade including Crossrail which cost £18bn and HS2 which could cost upwards of £50bn. Assess the impact of increased spending on infrastructure on the UK economy.  

**(25 marks)**
  
4. Discuss the view that government attempts to reduce the unemployment rate will inevitably lead to inflation.  

**(25 marks)**
  
5. Discuss the importance of supply-side policies in reducing the unemployment rate in the UK.  

**(25 marks)**
  
6. To what extent is it likely that a sustained recovery will lead to inflation in the UK economy?  

**(25 marks)**
  
7. The UK inflation rate is now above its target rate and is forecast to rise in the future. Discuss the policies the UK government may use to reduce the rate of inflation in the UK.  

**(25 marks)**

8. The UK recently underwent a period of deflation. Evaluate the consequences of deflation for the UK economy.

**(25 marks)**

9. During the last period of deflation, the governor of the Bank of England, Mark Carney, warned that deflation must be avoided at all costs. Discuss the view that inflation is preferable to deflation.

**(25 marks)**

10. Oil prices fell from a high of \$147 per barrel to \$25 in 2016. Discuss the impact this would have on the UK's macroeconomic indicators.

**(25 marks)**

## VII. Wider Reading

*Hint: If you have received this as a paper copy, search the article title and website to find the article e.g. BBC Reality Check: What's this new measure of inflation?*

*50 credits per article with a 10-point summary.*

1. Reality Check: What's this new measure of inflation?

<http://www.bbc.co.uk/news/business-39328173>

2. What full employment really means

<http://www.economist.com/blogs/economist-explains/2017/01/economist-explains-19>

3. Nightclub fees out, coffee pods and leggings in: here's the new shopping basket used to calculate inflation

<http://www.telegraph.co.uk/business/2016/03/15/nightclub-fees-out-coffee-pods-and-leggings-in-heres-the-new-sho/>

4. Student loan interest rates set to rise by up to 75%

<http://www.independent.co.uk/news/business/news/student-loan-interest-rates-set-to-rise-by-up-to-75-a6982621.html>

5. Why falling inflation is a false pretext for keeping wages low

<https://www.theguardian.com/business/economics-blog/2015/mar/29/why-falling-inflation-is-a-false-pretext-for-keeping-wages-low>

6. E-cigarettes and craft beers in updated inflation basket

<http://www.bbc.co.uk/news/business-31920550>

7. How to stop Venezuela's fatal inflation

<https://www.forbes.com/sites/stevehanke/2017/04/03/how-to-stop-venezuelas-fatal-inflation/#49bfd6175d0d>

8. Wages will not rise until employers have to compete for talent

<https://www.theguardian.com/money/economics-blog/2014/sep/17/wages-rise-employers-compete-pay-labour>

9. UK productivity back at pre-crisis levels

<http://www.bbc.co.uk/news/business-37574985>

10. Inflation is on the way back in the rich world, and that is good news

<http://www.economist.com/news/finance-and-economics/21714375-deflationary-fears-are-last-point-being-banished-inflation>

11. Why the Fed is likely to raise rates, despite low inflation

<http://www.economist.com/blogs/freeexchange/2017/06/because-i-said-so>

12. UK economic growth: what the economists say

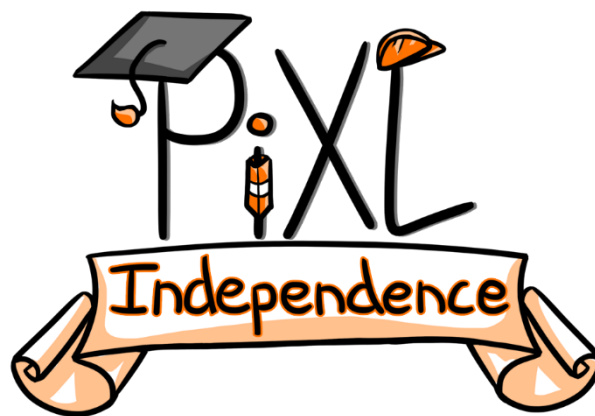
<https://www.theguardian.com/business/2016/sep/30/uk-economic-growth-what-the-economists-say>

13. How has the economy fared since the Brexit vote?

<http://www.bbc.co.uk/news/business-36956418>

14. UK economy slows more than expected as inflation hits spending

<https://www.theguardian.com/business/2017/may/25/uk-gdp-growth-inflation-ons-prices-brexit>



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