

Name:
(First name *and* surname - CAPITAL LETTERS please)

Current school:



St Paul's School
FOUNDED 1509

16+ Examination

SAMPLE PAPER

Economics

45 Minutes

Instructions to Candidates

- Write your name in the space at the top of this page.
- Answer all of the questions.
- Write your answers in the spaces provided on the question paper.

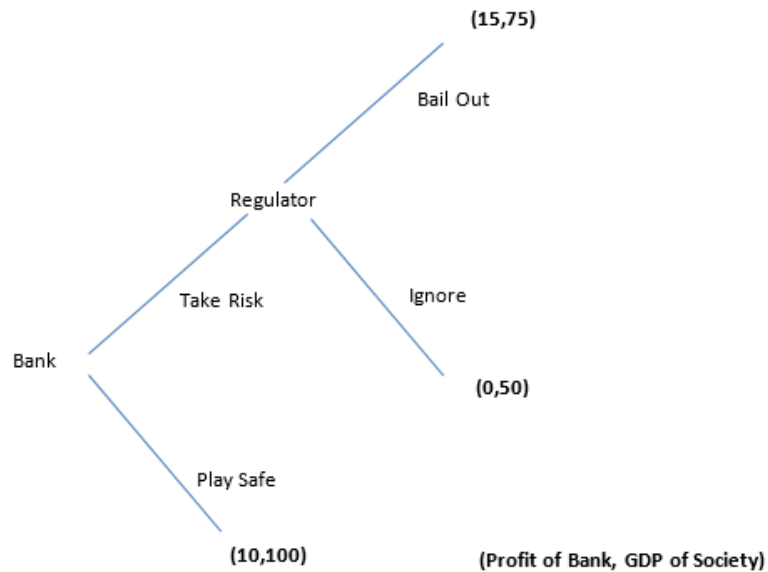
Information for Candidates

- The number of marks available is shown in brackets [] at the end of each question or part question. The total mark for the paper is 35.
- Use the marks allotted per question as a guide as to how much time to spend on each question.
- You may use a calculator.

Question 1 (15 marks)

Bank regulation

The following decision tree shows the outcomes for a bank's profits and the impact on an economy's GDP, or total output. The Bank decides whether to be safe or risky first and then the bank regulator can either bail out the bank or ignore the bank and allow bankruptcy.



a) If the Bank decides first, explain what the bank will do. **(2 marks)**

b) Given your answer to (a), explain what the regulator will do. **(2 marks)**

- c) Explain why the regulator might choose to ignore the bank's risk-taking and allow bankruptcy. **(2 marks)**

- d) Explain TWO ways the regulator can encourage banks to be less risky and take safer decisions. **(4 marks)**

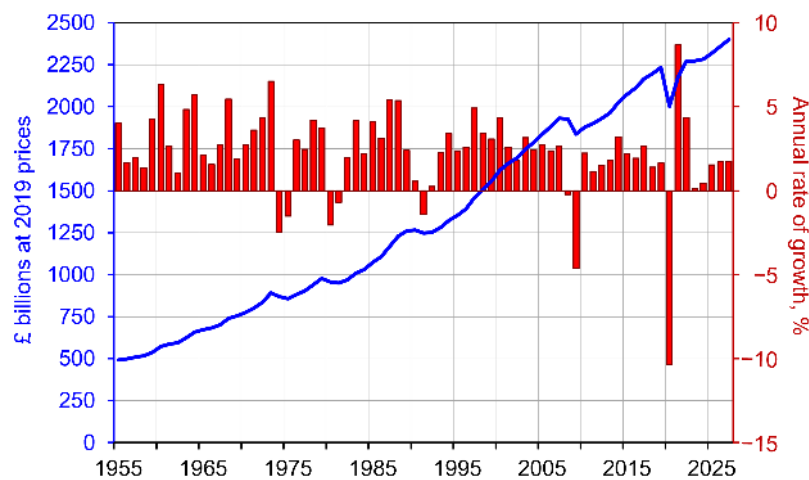
- e) During the 2008 financial crisis, Lehman investment bank was allowed to fail and \$700 billion was spent by the government on buying toxic assets from banks. With use of the information and your own knowledge, discuss whether risk-taking by banks or regulator bail outs were more to blame for the crisis.

(10 marks)

Question 2 (20 marks): The UK Economy

There are three questions to read and answer that follow this extract.

The twin characteristics of economic growth can be seen simultaneously by combining the output path (shown by the levels of real GDP) with the annual rates of percentage growth. This is shown in the chart below. The longer-term growth seen in the economy's output path is generally driven by the quantity and quality of the economy's resources, and their effectiveness when combined in production (i.e. their efficiency or productivity). In other words, it is the economy's max possible output that determines the trajectory of the output path over the longer term.



Note: Data from 2024 based on IMF growth forecasts.

Sources: Based on Time Series Data, series ABMI and IHYP (ONS) and World Economic Outlook Database (IMF, April 2024)

3. Output path and annual growth rates

However, the fluctuations we observe in short-term growth rates tend to reflect shocks that originate either from the ability and or willingness of purchasers to spend (demand-side shocks) or producers to supply (supply-side shocks). Unusually in the case of the pandemic, the lockdown measures employed by governments around the world resulted in simultaneous negative total demand and total supply shocks.

Explanations of the business cycle and of long-term growth are not mutually exclusive. The shocks and the amplification mechanisms that help to create and shape the business cycle can themselves have scarring effects, where output remains persistently low after the shock ends. The global financial crisis, fuelled by unsustainable lending and the rise of household and financial sector debt, which then spilt over to the public sector as governments attempted to stabilise the financial system and support total demand, is argued by some to have created the conditions for low-growth persistence seen in the 2010s. Lost investment opportunities, precautionary saving, skills erosion, or discouraged workers leaving the labour force are all examples of why output falls can persist.

There were similar concerns that the pandemic would also generate persistence in the form of scarring effects that might again affect the economy's output path. Such concerns help to explain why many governments introduced furlough schemes to protect jobs and employment income, and affordable childcare to support adaptation to hybrid and remote ways of working. Grants and loans to business allowed new investment, while subsidising training costs allowed displaced workers to move into fast-growing digital-intensive jobs.

(a) With reference to the information given, explain the difference between short-term growth and longer-term growth. **(2 marks)**

(b) With use of examples, explain what you understand by the term persistence and how low long-term growth can be generated. **(4 marks)**
