GCE AS

B520U20-1

S25-B520U20-1 R1

eduqas
Part of WJEC

MONDAY, 19 MAY 2025 – MORNING

ECONOMICS – AS component 2
Exploring Economic Issues

2 hours

B520U201
01

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator and a WJEC pink 16-page answer booklet.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.
You may use a pencil for graphs and diagrams only.
Answer **all** questions.
Write your answers in the separate answer booklet provided.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.
You are reminded of the necessity for good English and orderly presentation in your answers.

Answer **all** questions.

1. Housing problems?

Extract A: Rents forecast to rise four times faster than house purchase prices between 2023 and 2026

Rents are set to rise by four times more than house prices between 2023 and 2026, according to leading estate agent group, Hamptons. It is forecasting that rents will rise 25% between 2023 and 2026, exceeding the 5.5% average growth in house prices during that same period.

A typical monthly rent of a newly rented property was £1304 in October 2023. Owners of properties to be rented face increased costs due to increased regulation and higher mortgage rates. At the same time, demand from renters is ever growing as young people struggle to buy their own homes.

Extract B: Government considering extending mortgage scheme for 5% deposits in the UK

Many UK house buyers purchase a house with a mortgage, a special loan from banks for house purchases. Mortgages require borrowers to pay a cash deposit equal to a specified percentage of the value of the home, between 5% and 40%.

A government guarantee scheme to help current renters to become first time buyers was launched in March 2021. Under the scheme high street lenders can offer mortgages to borrowers with a deposit of just 5% of the house value. The UK Government offers a guarantee to compensate lenders if the borrower defaults on repayments. Lenders will still carry out affordability checks as required by Bank of England regulations. The UK Government has also considered a tax cut on buying a house (stamp duty).

Extract C: Mortgage borrowing rates

A series of interest rate rises since 2022 has pushed up mortgage rates for both homeowners and landlords.

% of house value paid as a cash deposit	**5%**	**10%**	**25%**	**40%**
Typical interest rate on mortgage per year in 2023*	5.65%	5.15%	4.75%	4.5%

*Exact interest rate depends on lender and product chosen

Extract D: New-build housing market

More than three million new homes have been built in the UK since 2001 and the UK Government target is 300 000 new homes each year by the mid-2020s. The new-build business is now a £60 billion industry that leads to further private sector investment. Yet, while housing developers have made record profits, owners have been left to deal with many problems. Home buyers expect a high-quality new home, but 94% of new-build homeowners report at least one fault once their property is complete. The average property is now completed with as many as 157 defects. Currently, house builders opt into the New Homes Quality Code and the New Homes Ombudsman Scheme (NHOS) voluntarily. The NHOS is a service that impartially investigates and resolves complaints about new homes. However, the Government could make it compulsory. The Home Builders Federation says new builds are boosting local economies and that customer satisfaction is ‘extremely high’.

(a) Using **Extract A** and a demand and supply diagram(s), outline why rents were forecasted to rise so greatly between 2023 and 2026. [6]

(b) (i) Using **Extract C**, calculate the difference between the annual interest payments on a house priced at £300 000 for a buyer with a 5% deposit and a buyer with a 40% deposit. Assume that the total sum borrowed remains the same over the year. [5]

(ii) Evaluate whether interest rates are the most significant factor that determines the purchase price of houses. [8]

(c) (i) Explain **two** factors that could increase private sector investment in the UK. [4]

(ii) Using **Extract D**, discuss whether the new-build house market suffers from market failure. [7]

(d) Using the data, discuss whether making homes easier to buy is beneficial to the UK economy. [10]

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2. History to be repeated?

Extract A: The Great Depression

The Great Depression from late 1929 until about 1939 caused large declines in industrial production leading to mass unemployment.

It involved:

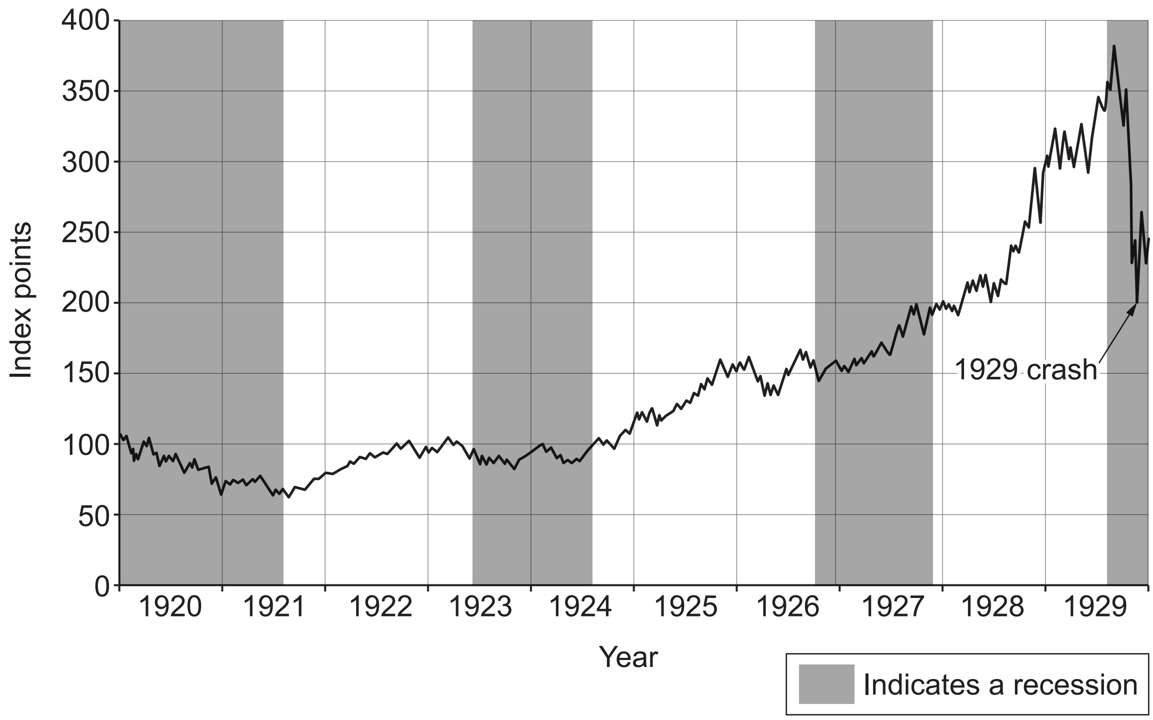
Asset price bubble bursting with the stock market crash of 1929: During the 1920s, the United States (US) stock market underwent a historic expansion and investing in the stock market came to be seen as an easy way to increase personal wealth. Even people of average income used much of their disposable income or took out loans to buy shares.

Banking panics: Between 1930 and 1932, the US experienced four banking panics where large numbers of bank customers simultaneously attempted to withdraw their savings in cash. By 1933, one fifth of the banks in existence in 1930 had failed.

Trade surplus: Declining consumption and deflation (falling domestic prices) in the US caused a trade surplus. This threatened to depreciate other currencies.

Due to share prices rising to very high levels in 1928 and 1929, the Federal Reserve (US central bank) decided to increase interest rates. As shown in **Figure 1**, this led to a sharp decrease in share prices in 1929 – the stock market crash.

Figure 1: Dow Jones Industrial Index 1920s*



*The Dow Jones Industrial Average is an index that measures the daily share price movements of 30 large American companies.

Extract B: US Government response to the 1929 Great Depression

The US Government response included a mix of protectionist policies and expansionary fiscal policy.

The US Government passed the Smoot-Hawley Tariff Act (1930), imposing tariffs averaging 20% on a wide range of agricultural and industrial imports.

In 1932, President Roosevelt implemented the "New Deal", increasing government spending from 3.2% to 9.3% of real GDP by 1936. New Deal initiatives provided work to the unemployed from unskilled labourers through the construction of roads, buildings, parks, tunnels and bridges, to directly employing highly skilled artists in cultural projects.

Extract C: The Great Recession of 2007–2009

Almost 80 years later, another asset bubble burst, causing the Great Recession of 2007–2009.

From 2001 to 2004, the Federal Reserve had decreased interest rates to low levels. Simultaneously, due to deregulation in the financial markets, house loans were made available to "sub-prime" borrowers (borrowers who previously would not qualify for a house loan). Thus, house prices increased.

However, in 2005 the Federal Reserve started to increase interest rates, causing the US housing market bubble to burst. The banks and financial institutions that had lent large amounts to sub-prime borrowers could not recover the funds they had lent. Some of these banks and financial institutions failed. The Federal Reserve had to react to ensure monetary and financial stability through lower interest rates and increased money supply.

Fast forward to 2023, and US interest rates increased from 0.25% to 5.5% between March 2022 and July 2023 as the Federal Reserve attempted to fight high inflationary pressure. Could history be repeated?

(a) (i) Using a PPF diagram, outline how large declines in industrial production led to mass unemployment during the Great Depression (line 2). [4]

(ii) Assess the possible impact of mass unemployment on the demand for goods with an income elasticity of demand of +2. [6]

(b) Explain how an increase in the US trade surplus could depreciate the currencies of other countries. [5]

(c) Using a diagram or diagrams, explain how a tariff on agricultural goods could affect consumer and producer surplus within the US agriculture market. [6]

(d) Evaluate whether expansionary fiscal policy is an effective method to achieve all government macro-economic policy objectives. [9]

(e) Using the data, assess the importance of the central bank's role in creating monetary and financial stability within an economy. [10]

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