

Uses of national income data

Key concepts from Year 1

This chapter builds on some important economic topics that were developed in Chapters 31–33 of the Year 1 companion textbook.

- Chapter 31 looked at what governments in the UK (and elsewhere) aim to achieve by implementing their macroeconomic policies. These so-called macroeconomic objectives include achieving high (but not unsustainable) rates of economic growth, minimising unemployment, price stability (which in the UK means a rate of inflation of around 2% annually) and a stable balance of payments on current account. We also considered the extent to which conflict might arise when governments attempt to achieve these objectives simultaneously.
- Chapter 32 discussed the methods used by governments to measure the performance of the economy and thus judge the extent of their success in achieving macroeconomic objectives. Relevant methods of measurement include rates of growth of real GDP and real GDP per capita, the Consumer Prices Index (CPI), the rate of unemployment and the balance of the UK current account.
- Economists make extensive use of index numbers to measure macroeconomic and microeconomic performance because the data they handle are frequently large and complex. Chapter 33 covered how index numbers are calculated (including base years and the use of weights), how they are interpreted and their use in measuring economic variables.

This chapter builds on the material covered in Year 1 to consider how national income data can be used to assess changes in living standards over time as well as their limitations when used for this purpose. It also considers the value and limitations of national income data in making comparisons between living standards in different countries and the importance of purchasing power parity (PPP) exchange rates in making such comparisons.

Key terms

National income is the monetary value of the total output of an economy over a specific time period.

Economic growth

occurs when, over time, an economy expands its capacity to produce goods and services.

Measuring national income

National income measures the monetary value of the total production of goods and services produced within an economy over a time period. It is a fundamental measure of the level of activity in an economy. The calculation of national income in the UK provides much important economic data including gross domestic product (GDP) and gross national product (GNP) as well as information on, for example, household saving and disposable income.

There are many millions of transactions taking place within the UK and other economies each day that add to the country's national income. The size and complexity of an economy, such as that of the UK, means that measuring national income accurately is a challenge. We shall consider the difficulties later in this chapter.

How is national income measured?

1 Different methods of measurement

The ONS can use three methods to measure the national income of the UK.

- **The output measure:** This approach measures the total of the value added through the production of goods and services within the economy. The cost of resources used in production and the value of goods and services produced are compared. It also provides the first estimate of GDP as well as data on the contribution of different industries to national income.
- **The income approach:** This measures the total income generated by the production of goods and services within the UK economy. It gives information on different categories of income: for example, income earned by companies and the self-employed.
- **The expenditure approach:** This measures the total expenditure on all finished goods and services produced within the economy by the government, households and firms as well as those based overseas who buy UK goods and services.

Each of these three measures should, with suitable adjustments, give the same figure for the UK's national income.

2 Different measures of the size of an economy

There are a number of measures of the size of an economy. In the Year 1 companion textbook we used the concept of gross domestic product or GDP. This is probably the most commonly used measure of size and, when indicating changes in an economy's size, of economic growth. However, GDP is not the same as national income, even though it is frequently used as a proxy for it. The three different measures of an economy's size are shown in Figure 37.1.

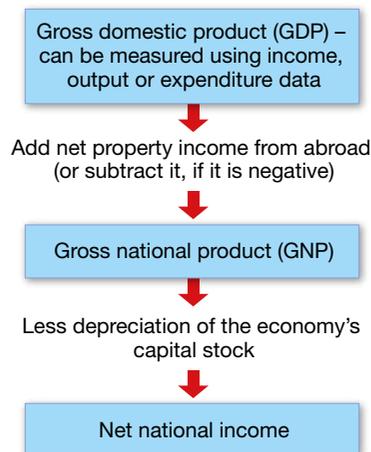


Figure 37.1 *Different measures of an economy's size*

- **Gross domestic product (GDP):** This measures the value of output produced by the resources available within the UK.
- **Gross national product (GNP):** Some of the productive resources in the UK are owned by foreigners (Toyota's factory in Derby, for example) and these result in a flow of income to the owners overseas. Equally, UK businesses and individuals own productive assets based abroad which generate flows of income into the UK. When these two flows are added together, the outcome (which could be a negative

or positive figure) is called ‘net property income from abroad’. When this is added to gross domestic product it gives a figure that is termed gross national product or GNP.

- **National income or net national income:** Over a period of time, an economy’s capital stock (i.e. assets such as its factories, offices, bridges, roads and airports) will decline in value. This decline, which is difficult to measure accurately, is called depreciation. If depreciation is subtracted from gross national product (GNP), the result is net national income or, as it is more commonly called, national income.

Why do governments measure national income?

The level of national income in an economy is measured for a number of reasons.

1 It helps governments to make decisions

Most governments in the world pursue fairly similar macroeconomic objectives, such as price stability and sustainable rates of economic growth. National income data provide governments with important information relating to the output of the economy, such as the rate of growth of GDP. This allows some assessment of the effectiveness of the government’s existing monetary, fiscal and supply-side policies.

National income data are also instrumental in helping the government and monetary authorities (for example, the Bank of England in the UK) to forecast future levels of national income and to design and implement suitable macroeconomic policies for the future. The UK authorities were anxious to see whether their macroeconomic policies (such as reducing the bank rate of interest to 0.5%) were effective and the data for national income would have provided important evidence of this.

2 It helps governments to make judgements about living standards

Governments and other interested parties can make judgements about the living standards of an economy’s citizens using national income data. An increase in a country’s national income per capita in real terms shows average incomes adjusted for the effects of inflation. Increases in this figure have the potential to increase the standard of living of everyone. Data relating to real GDP per capita (or per head) can also be used to illustrate the trend in living standards in an economy over time. Figure 37.2 illustrates the change in the UK’s real GDP per head (based on quarterly data) from Quarter 1 in 1997 to Quarter 2 in 2015. The effect of the 2008–09 recession and its aftermath on average living standards is evident.

Key terms

Gross domestic product (GDP) is a measure of the value of all goods and services produced within an economy over a given time period.

Gross national product (GNP) is the value of all goods and services produced within an economy plus net property income from abroad.

Net property income from abroad is the income earned from overseas assets owned by UK businesses and individuals minus the income from UK assets owned by foreigners. This figure can be negative or positive.

The **standard of living** is the degree of comfort through the consumption of goods and services enjoyed by individuals, households or other groups in society.

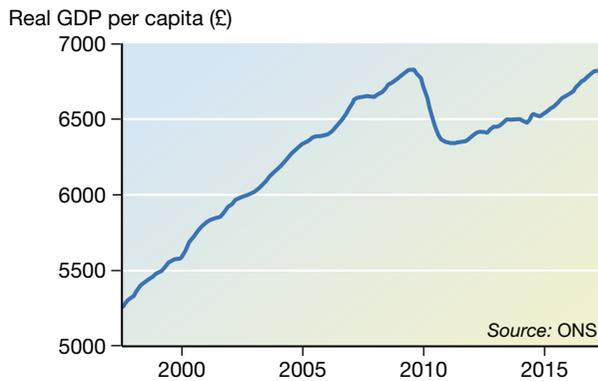


Figure 37.2 *Real GDP per capita for the UK, 1997–2015*

As we shall see later in this chapter, national income data can also be used to make comparisons between living standards in different countries.

The limitations of using national income data to measure living standards

National income data are used by most governments to measure living standards in their countries over periods of time – a process known as trend analysis. However, there are a number of limitations in using national income data in this way.

1 The data ignore the distribution of income

Figure 37.2 illustrates that the average GDP per head in the UK in real terms has risen from about £6400 in 2010 to approximately £6900 in 2015. At first glance this appears to suggest that the living standards of all the UK's inhabitants have risen as the country's income has increased. However, this is an average figure. In reality some groups in society might have enjoyed rapid rises in their incomes, while the real incomes of others may have fallen over this period.

If the distribution of income becomes less equal over a period of time, this means that the country's income is shared less equally between its inhabitants. In such circumstances, a rise in income results in some groups benefiting much more than others.

Figure 37.3 shows the changes in the distribution of income in the UK between 1961 and 2013–14. Since 1977, income distribution in the UK has generally become less equal, although there have been periods when the opposite has been true, such as 2001–04. Therefore it cannot simply be assumed that a rise in average national income per head results in higher living standards for all in an economy.

Key terms

The **distribution of income** measures how a nation's total income is spread between that country's inhabitants.

The **shadow (or underground) economy** comprises activities that are not regulated or recorded by the government and can be illegal.

Negative externalities describe the problems experienced by third parties due to an economic activity. These problems can be passed on as a result of the consumption or production of a product.

Figure 37.3 The UK's distribution of income as measured by the Gini coefficient, 1961–2013/14



It should be noted that the Gini coefficient was developed by the Italian statistician Corrado Gini and is a widely used measure of income inequality. In this example, a figure of 0 would indicate a society in which income was perfectly equally distributed (i.e. everyone received the same income). A figure of 100 would represent total inequality (i.e. a single person would receive all of the income in an economy). Thus a rise in the trend of the graph here indicates rising income inequality.

2 The effects of leisure are ignored

A person's standard of living is likely to be strongly influenced by his or her leisure activities – for example, participating in sport, listening to live music or taking holidays. One way of measuring the amount of leisure enjoyed by a country's inhabitants is the length of the average working week. In the UK the average length of the working week for full-time employees has risen, according to the Trades Union Congress (TUC) – an organisation that represents trade unions in the UK. The TUC's research has shown that working hours in the UK are long in comparison to other European countries. This difference would affect the validity of any comparisons between European living standards.

3 Some economic activity is excluded

National income data only measure some of the economic activity that takes place in an economy. For example, national income accounts exclude the value of unpaid work within the economy, such as carers who are not paid for looking after family members or friends, parents who choose to stay at home and care for children, and even the value of DIY that is carried out. Other omissions include some elements of the so-called 'shadow economy'. The shadow (or underground) economy comprises activities that are not regulated by the government and are often illegal, such as prostitution and the production and sale of drugs. Another activity that is not recorded for the purposes of taxation is work done for 'cash in hand', where the recipient avoids paying tax on these earnings.

The Statistical Office of the European Union (Eurostat) required all EU member states to incorporate estimates of voluntary illegal activities into National Accounts estimates by September 2014. The Office for National Statistics (ONS) included estimates for illegal drugs and prostitution in its National Accounts publications from

30 September 2014. However, the ONS recognises that such estimates are unlikely to be accurate and the amounts included in the UK accounts for these purposes are small: less than 1% of the UK's total GDP. It is likely that a country's GDP is still understated in relation to its shadow economy.

4 Negative externalities

National income data record the private costs of production but tend to ignore any external costs (or negative externalities) that are associated with them. For example, the building of Crossrail in London to provide an East–West railway across the city will add significantly to the UK's GDP as a result of both its construction and its use. Its construction has certainly caused noise, congestion and pollution and thus has imposed costs that will not be reflected in the UK's national income accounts. The existence of negative externalities means that GDP can often overstate living standards.

5 Inaccurate data

Collecting national income data for the UK, or any other country, is an immense task and it is inevitable that errors will creep in. This is one reason why GDP figures in the UK are revised, often for several years, as more accurate information comes to hand.

REALWORLD ECONOMICS 37.1

Britons 'working more than 48 hours a week'

The number of people working more than 48 hours a week has increased, highlighting the 'national disgrace' of Britain's long-hours culture, according to a new report.



Long working hours take their toll on this junior doctor

Almost four million employees are working at least 48 hours a week, 350,000 more than a decade ago, despite a European directive aimed at reducing working time.

Managers and professional staff work the longest hours, while one in 25 men are toiling for at least 60 hours a week, according to the TUC report. 'Britain's long-hours culture is a national disgrace,' said TUC General Secretary John Monks. He further commented: 'It leads to stress, ill health and family strains'.

The TUC said its survey showed how badly work was managed in the UK compared with other countries. The average working week in the UK is now 43.6 hours compared with a European average of 40.3 and limits of just 35 in France.

Firms were urged to organise their work more efficiently so that staff 'work smart' and become more productive while working fewer hours. Mr Monks added: 'Half the country is caught in a vicious circle of low pay, low productivity and long hours, with the other half trapped in their offices and battling ever growing in-trays. Other countries produce more, earn more and work far shorter hours. We should, and can, do the same if employers, unions and government work together.'

Source: Daily Mail

Exercise

- 1 Explain the possible reasons why employees working long hours in the UK might not add to the country's GDP. (8 marks)

Using national income data to compare international standards of living

Comparisons between living standards in different countries are made for a variety of reasons. Some international agencies such as the International Monetary Fund (IMF) may use this as the basis for offering financial support to economies. The European Union (EU) will compare living standards as part of its decision making on which countries to support with investment programmes designed, for example, to improve a country's infrastructure. Governments use this data to measure their relative performance and to draw judgements about comparative living standards. Table 37.1 shows the top ten countries in the world as measured by GDP per capita in 2014. This suggests that the people of Qatar have the highest standard of living in the world. However, as we shall see, this might not be the case.

Table 37.1 *Top ten countries rated by GDP per capita 2014 and positions 2013 (converted into American dollars)*

Rank, 2014	Country	Per capita income (\$), 2014	Per capita income (\$), 2013 (rank)
1	Qatar	97,519	96,719 (2)
2	Norway	97,363	102,832 (1)
3	Macao, SAR, China	96,038	90,332 (3)
4	Australia	61,887	67,473 (7)
5	Denmark	60,634	59,819 (9)
6	Sweden	58,887	60,365 (8)
7	Singapore	56,287	55,980 (7)
8	United States of America	54,630	52,980 (12)
9	Ireland	53,314	50,470 (16)
10	Iceland	52,111	47,549 (19)

Source: World Bank

The limitations of using national income data for comparing living standards

There are many problems in making judgements about the comparative living standards of the inhabitants of different countries on the basis of national income data. Such comparisons are normally made using GDP data. One initial problem is that countries have populations of different size. This can be overcome by calculating GDP per head of population, or GDP per capita, as in Table 37.1 above. However, other difficulties exist that are not so easily resolved.

1 Inaccuracies in calculating national income

We saw earlier that calculating national income is a complex task and difficult to complete accurately. The degree of inaccuracy will vary between countries as slightly different methods of collecting data are used. Furthermore, the size of the shadow economy will differ: from around 10% of GDP in the UK to up to 30% in some economies in Southern Europe. These factors mean that the data used for comparisons of living standards are not the same, reducing the value of any judgements that result.

2 Differences in the length of the working week

Employees in different countries work for different numbers of hours each week. For

example, employees in the UK generally work a larger number of hours than those in many other northern European countries. Working longer hours to generate a given income is likely to reduce a person's standard of living. This difference can invalidate comparisons of living standards using GDP data to some degree.

3 Changes in exchange rates

In order to compare countries' living standards using national income data, it is necessary to convert GDP data into a common currency. The American dollar is frequently used for this purpose, as in Table 37.1. One fundamental weakness of this method is that a change in exchange rates can occur for a variety of reasons (such as a change in another country's interest rates) that have no significant impact on living standards, yet the consequence is that the apparent relative standard of living of a country's inhabitants may alter. However, in reality it may have remained quite stable. Changes in the value of currencies against the dollar would have been a major cause of some of the quite dramatic changes in per capita incomes (and country ranks) shown in Table 37.1.

4 Exchange rates do not reflect relative prices in different countries

Prices of products that are purchased in many countries can vary and this affects the purchasing power of money. Exchange rates are determined by the demand and supply of currencies and are thus unlikely to reflect these differences. So, differences in incomes may not indicate differences in standards of living. One approach to this problem is to base exchange rates on purchasing power parities. We explore this fully in the section below.

The use of purchasing power parity (PPP) exchange rates

The exchange rates that you commonly see quoted in the media or your local bank are determined by the demand for, and supply of, the currency on the international currency markets. For instance, at the time of writing, £1 = €1.35. It is highly unlikely that products that sell for £1 in the UK would be priced at €1.35 in any single country using the euro, and certainly not in all nineteen. Exchange rates tend to be changed by short-term factors, such as changes in macroeconomic performance, and only in the long term might they reflect differences in the cost of a common basket of goods and services. This means that market exchange rates do not indicate differences in the cost of living in countries and thus do not effectively measure differences in living standards.

The weaknesses of market exchange rates for comparing living standards prompted the development of purchasing power parity (PPP) exchange rates. PPP exchange rates are determined using the relative cost of purchasing a common basket of goods and services in two (or more) countries to determine the exchange rate.

For example, the market exchange rate between the American dollar and the pound sterling might be £1 = \$1.50 at a given point in time. It is possible to calculate a PPP exchange rate for the USA and UK by deciding upon a basket of goods and services that are purchased as widely as possible by consumers in both countries. The cost of this basket of goods might be \$84 in the USA and £42 in the UK. This would give a PPP exchange rate of £1 = \$2 and would suggest that the American dollar is overvalued using market exchange rates. If the market exchange rate were used to

Key terms

Market exchange rate is the price of one currency expressed in terms of another as determined by the demand for, and supply of, currencies.

Purchasing power parity (PPP) exchange rates value currencies against one another based upon the relative costs of a common basket of goods and services.

compare living standards in the USA and UK using these figures, it would overstate the living standards of Americans.

PPP does offer many benefits to economists and to others when comparing living standards in different countries. PPP exchange rates tend to be stable over time while market rates are more volatile. As a result, market exchange rates can suggest that substantial changes in comparative living standards are taking place when this is not the case. Market exchange rates are relevant only for internationally traded goods such as cars, oil or rice. Goods and services that are not traded on international markets tend to be cheaper in low-income than in high-income countries. For example, a taxi journey in London is more expensive than one in Hanoi in Vietnam. Any analysis that fails to take into account these differences in the prices of products such as haircuts across countries will underestimate the purchasing power of consumers in emerging market and developing economies. As a result, it will understate their living standards. Thus PPP generally gives a better measure of comparative living standards.

On the other hand, any worthwhile comparison of prices across countries must consider a wide range of goods and services. This is not an easy task, mainly because of the amount of data that must be collected and the complexities of the comparison process. Consumption patterns can differ enormously between countries, especially between developed and developing countries, making it difficult to construct a common basket of goods and services.

PPP rates tend to be of greatest value when comparing developing (or emerging) economies with developed economies. This is because there is the greatest divergence between PPP exchange rates and market exchange rates for these economies, whereas PPP and market rates tend to be more similar for developed nations. It is noticeable in Table 37.2 that many of the countries at the top of the PPP ranking of income per capita were also high on the ranking based on market exchange rates. This is because there is a smaller difference when comparing developed economies and many of these economies are developed.

Table 37.2 Top ten countries rated by GDP per capita 2014 and positions 2013 (converted into American dollars using PPP)

Rank, 2014	Country	Per capita income (\$), 2014	Per capita income (\$), 2013 (rank)
1	Qatar	139,760	132,480 (1)
2	Singapore	80,270	77,840 (4)
3	United Arab Emirates	66,270	63,150 (7)
4	Norway	65,970	66,520 (6)
5	Hong Kong SAR, China	56,570	54,380 (10)
6	United States of America	55,860	54,360 (11)
7	Netherlands	47,660	42,260 (13)
8	Germany	46,840	45,020 (17)
9	Sweden	46,710	46,260 (14)
10	Denmark	46,160	45,350 (15)

Source: World Bank

It is, however, noticeable that the income gap (and therefore difference in living standards) between these countries and developing or emerging economies is much smaller using PPP exchange rates. For example, using market exchange rates the GDP per capita in 2014 for Chile was \$14,528; using PPP exchange rates, this increased dramatically to \$21,310.

REALWORLD
ECONOMICS 37.2

The Big Mac Index

The Big Mac Index was invented by *The Economist* in 1986 and measures the extent to which market exchange rates are correct when judged against the cost of a Big Mac burger converted into dollars. It was intended as a light-hearted guide to whether currencies are at their 'correct' level (i.e. that they reflect the relative costs of products in different countries). It is based on the theory of purchasing power parity (PPP) – the notion that in the long run, exchange rates should move towards the rate that would equalise the prices of

an identical basket of goods and services (in this case, a burger) in any two countries. For example, the average price of a Big Mac in America in July 2015 was \$4.79; in China it was only \$2.74 at market exchange rates. So, the Big Mac Index says that the Chinese yuan was undervalued by 43% at that time.

'Burgernomics' was never intended as a precise gauge of currency misalignment, but merely as a tool to make exchange rate theory more digestible. Yet the Big Mac Index has become a global

standard, included in several economic textbooks and the subject of at least 20 academic studies. The index is calculated twice each year to reveal changes in the global prices of Big Macs.

Source: Adapted from *The Economist*

Exercises Total: 15 marks

- 1 Why has the Big Mac Index proved to be a popular and enduring measure of relative costs of living in different countries? (6 marks)
- 2 What are the weaknesses of this index? (9 marks)

Other ways of measuring comparative living standards

Since there are so many difficulties in using national income data to judge living standards or to compare living standards in different countries, other measures have emerged. The United Nations, for example, has developed its Human Development Index (HDI) that is based on the average of three indicators:

- life expectancy at birth in years;
- living standards as measured by real GNP per capita using PPP exchange rates;
- a measure of educational attainment.

The HDI only accords a 33% influence to national income in determining the economic wellbeing of the inhabitants of a country, indicating that it does not believe that it plays the major role in determining living standards. We consider the HDI in more detail in Chapter 54.

The Organisation for Economic Cooperation and Development (OECD) has developed a 'better life index'. The OECD describes this as follows: 'There is more to life than the cold numbers of GDP and economic statistics. This index allows comparisons of wellbeing across countries, based on 11 topics the OECD has identified as essential, in the areas of material living conditions and quality of life'. The index incorporates measures relating to housing, the environment, education, health and work–life balance as well as incomes.

Review questions

Total: 36 marks

- 1 Explain the difference between national income and economic growth. (5 marks)
- 2 Explain the difference between the output and income methods of collecting national income data. (7 marks)

- 3** Which of the following measures the value of all goods and services produced within an economy over a given time period?
A Gross national product
B Gross domestic product
C Net national income
D Net property income from abroad (1 mark)
- 4** What is meant by the term 'standard of living'? (2 marks)
- 5** Which of the following is *not* a reason for a government to measure the national income generated by its economy?
A It helps government assess the rate at which prices are increasing
B It helps government to make important decisions
C It helps businesses and other organisations to make important decisions
D It helps government to make judgements about living standards (1 mark)
- 6** Explain why the existence of negative externalities might cause national income data to be an inaccurate indicator of living standards in a country. (7 marks)
- 7** Explain why the existence of a shadow economy can result in inaccurate national income data. (6 marks)
- 8** What is the difference between a market exchange rate and a purchasing power parity (PPP) exchange rate? (5 marks)
- 9** The market exchange rate between Japan and the UK is £1 = ¥180. At the same time a common basket of goods priced at £25 in the UK sells for ¥5000 in Japan. In these circumstances, which of the following is most likely to be true?
A The use of PPP would give an exchange rate of £1 = ¥250.
B Using market exchange rates would overstate relative living standards in the UK.
C The use of PPP exchange rates would show that living standards in the two countries are exactly the same.
D Using market exchange rates would overstate relative living standards in Japan. (1 mark)
- 10** Which of the following is a true statement?
A The use of purchasing power parity (PPP) exchange rates tends to understate living standards in developed economies.
B The use of purchasing power parity (PPP) exchange rates tends to understate living standards in developing and emerging nations.
C The use of market exchange rates always provides more accurate international comparisons of living standards in all economies.
D The use of market exchange rates always provides more accurate international comparisons of living standards between developed and developing nations. (1 mark)

Topic 9 Exam-style questions

A-LEVEL PAPER 2

SECTION A Context: The UK's economic performance

Extract A Macroeconomic data

Macroeconomic indicator	UK	Euro area
GDP growth rate (annual), June 2015	2.4%	1.5%
Unemployment rate, August 2015	5.5%	11.0%
Labour costs, June 2015 (UK base year = 2010, euro area = 2011)	101.1	105.6
Annual inflation rate (CPI), September 2015	0.00%	0.05%
Current account balance, 2014	–£97.90 billion	€113.28 billion
Current account balance as a percentage of GDP, 2014	–5.5%	2.1%
GDP per capita (PPP), December 2014	£37,614	€36,925

Note: In December 2014, £1 = €1.26 Source: Trading Economics

Table A Selected macroeconomic indicators for the UK and the euro area

Extract B Relative performance in terms of economic growth

The UK's growth will exceed the growth of its largest eurozone rivals in the years to come, remaining robust despite difficulties in the global economy. Some economists believe that this provides fundamental evidence that the UK economy is outperforming the euro area. The European Commission (EC) predicted that the UK economy would grow 3.1% in 2014, more than ten times faster than France. Growth in the UK is forecast to slow in successive years, but will continue to be higher than the eurozone's four largest economies – Germany, France, Italy and Spain.

Continued economic difficulties in the euro area have hit the UK economy, as the currency bloc includes a large number of its trading partners. The USA, which trades far less with the eurozone, is now expected to grow more strongly than the UK in 2015 and 2016.

Source: Adapted from the *Daily Telegraph*, 4.11.14

Extract C Trading problems

Concerns are being expressed about the strength of Britain's economic recovery, after declines in both exports and manufacturing output were revealed by recent releases of economic data. These provide evidence that the global economic slowdown may be having an effect on the UK economy's macroeconomic performance. The UK authorities may also be concerned about the possibility of rising GDP and incomes in the UK affecting the volume of goods and services imported.

The UK's deficit on trade in goods and services was estimated to have been £3.4 billion in July 2015, compared to £0.8 billion June 2015. The widening deficit was, in part, the result of exports of goods falling to £22.8 billion, the lowest amount since September 2010. This caused the deficit on goods to widen by 30.6% to £11.1 billion in July.

Figure A Balance of UK trade, 2013–15



Source: Various media sources

The strength of sterling, which makes the UK’s exports less competitive in global markets, has been one reason the Bank of England has so far delayed lifting interest rates from their record low of 0.5% to avoid the prospect of rising rates of inflation.

The first estimate for euro area exports of goods to the rest of the world in July 2015 was €185.2 billion. This is an increase of 7% compared with July 2014 (€173.7 billion). Imports from the rest of the world stood at €153.8 billion, a rise of 1% compared with July 2014 (€152.4 billion). As a result, the 19 economies that comprise the euro area recorded a €31.4 billion surplus in trade in goods with the rest of the world in July 2015.

Questions

Total: 40 marks

- Use the information in Extract A to calculate the UK’s GDP for 2014. (2 marks)
- Explain how the data in Extract A show that living standards of the inhabitants of the UK are higher than those of the euro area. (4 marks)
- Use the information in Extract C to explain why the UK government’s macroeconomic objectives could conflict with one another. (9 marks)
- Some economists believe that the UK’s comparatively high rate of economic growth ‘provides fundamental evidence that the UK economy is outperforming the euro area’. Using the data in the extracts and your economic knowledge, evaluate the view that high rates of economic growth are always the best measure of macroeconomic performance. (25 marks)

SECTION B Essays

Total: 40 marks

Global trade has increased over recent years – the World Trade Organisation (WTO) is predicting a 5.3% increase in 2015. The importance of trade to many economies, especially the UK, means that price stability remains a very important macroeconomic objective.

- Explain why price stability is the most important macroeconomic objective for the UK authorities. (15 marks)
- Discuss the view that increased international trade and low rates of inflation in many countries mean that it is not necessary to use PPP exchange rates to compare living standards in different countries accurately. (25 marks)