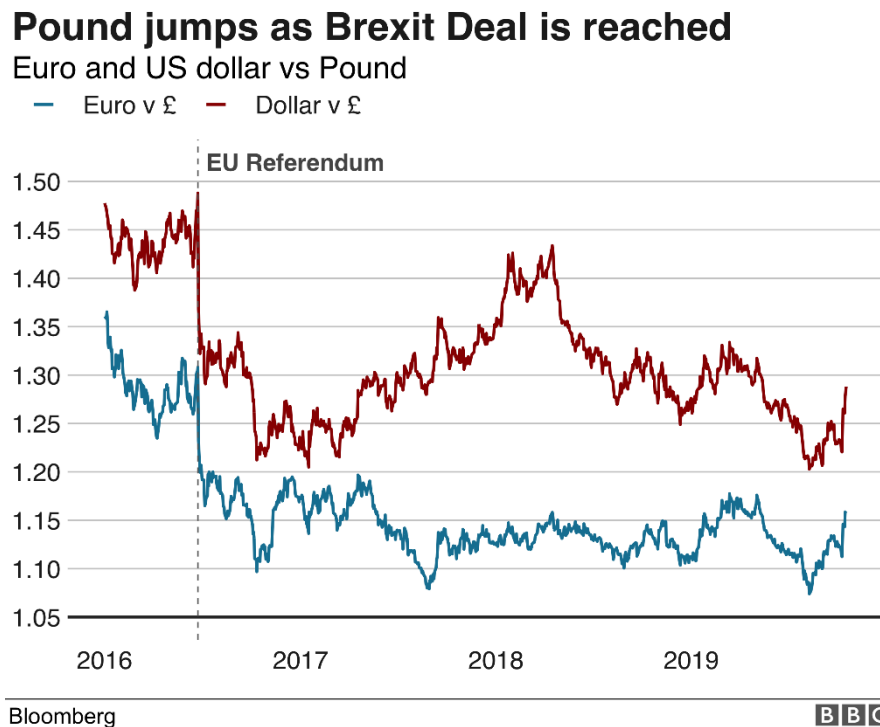


Extract A: The sterling exchange rate

Figure 1



In June 2016 just before Britain voted to leave the EU, the pound sterling was trading at \$1.48 and at €1.32. The immediate aftermath of the referendum saw sterling decline sharply in value by 15% against both currencies, and continued uncertainty around Brexit has kept the pound weak, providing a much-needed injection into the UK's circular flow of income. The full impact of the multiplier effect is complex to calculate. Many of Britain's exporters are importers themselves, for example cars made in Britain may be exported all over the world, however raw materials used in the manufacture such as oil and copper are imported. In addition, uncertainty has reduced the propensity to import and increase the desire to save. Furthermore, currency traders and speculators are increasingly being influenced by politics rather than economic influences, making the foreign exchange markets react quickly, forcing a faster pace of change in the price of sterling. After the general election in December 2019, sterling rallied briefly as a Brexit deal seemed more likely, however the forecast for 2020 seem to be further depreciations against the dollar and the euro.

Source: <https://www.bbc.co.uk/news/business-46862790>

Extract B: UK monetary policy

In 2008, just ahead of the full recognition of the significance of the global financial crisis, the Bank of England's monetary policy committee (MPC) had set the base rate of 5%. In the six months that followed, six rate reductions occurred and by March 2009 the official rate was 0.5%. However, the MPC realised they needed more action, and undertook a programme of quantitative easing, spending a total of £435bn on QE over the past decade. Despite these actions being initially an emergency measure, the interest rate was still only 0.75% in December 2019 and the proceeds from any maturing bonds are still used to fund more QE purchases. The measures meant the recession of 2009 did not turn into a depression and unemployment peaked at 8.5%, well below that of the



US or the eurozone. However, wealth inequality soared in the aftermath: the wealthiest 10% saw their real wealth rise by £350,000 whereas the least wealthy 10% saw their real wealth rise by just £3,000.

Inflation generated by the weak pound since the Brexit vote and record employment levels and rising pay growth have led the MPC to lift interest rates to 0.75%, however the forecast for 2020 is that it is likely to be lowered by 0.25% in the light of very sluggish growth in the economy and worryingly low investment levels. Whilst some economists believe monetary policy has become ineffective, the MPC still have a major role to play in the health of the economy in 2020.

Sources: <https://www.theguardian.com/business/2019/mar/08/the-verdict-on-10-years-of-quantitative-easing>
<https://www.which.co.uk/news/2019/12/what-will-brexit-mean-for-interest-rates/>

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- 1 Using the data in **Extract A**, calculate, to two decimal places, the new sterling to euro exchange rate in the "immediate aftermath" of the Brexit referendum.

(2 marks)

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- 2 Explain how the data in **Extract A, Figure 1**, show an increase in competitiveness abroad for the UK.

(4 marks)



3 **Extract A** states 'the full impact of the multiplier effect is complex to calculate'.

With the help of a diagram, explain the factors that influence the size of the multiplier.

(9 marks)

You may draw your diagram here:

You may write your answer here:



- Using the data in the extracts and your knowledge of economics, evaluate the effectiveness of policies that the MPC could undertake to create growth and encourage investment in the UK.

[illegible]

End of Questions