

## SECTION B

Read Figures 1 and 2 below and Extracts A and B before answering Question 6.

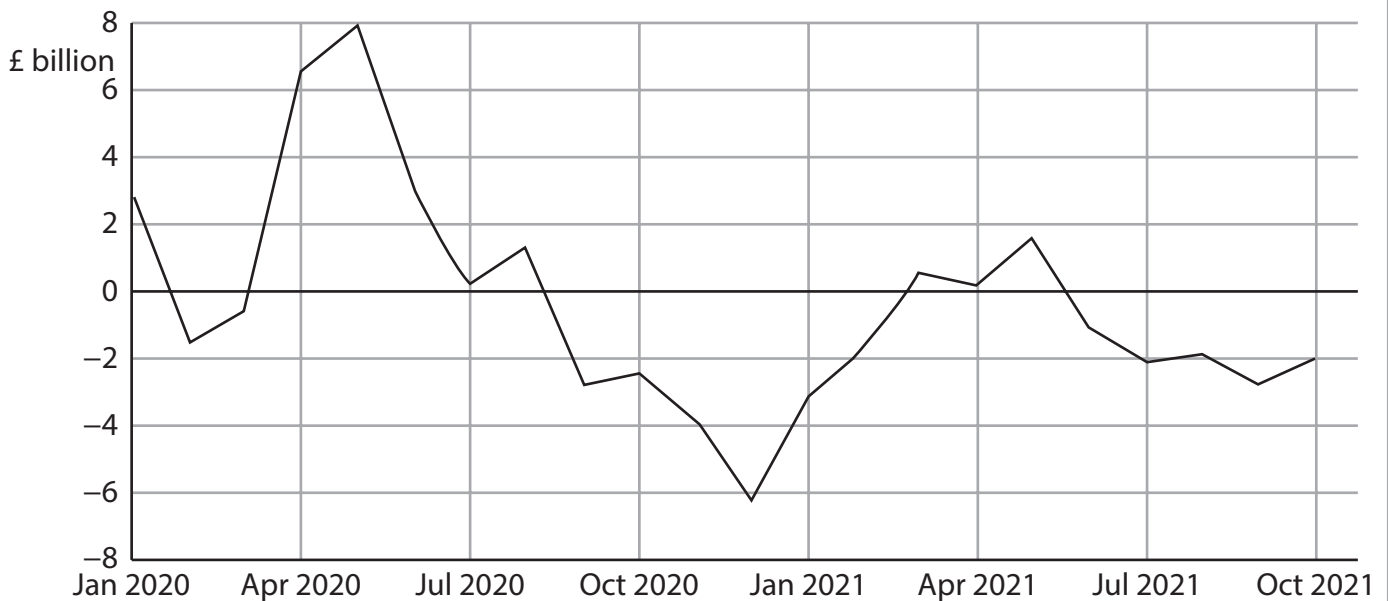
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

### Question 6

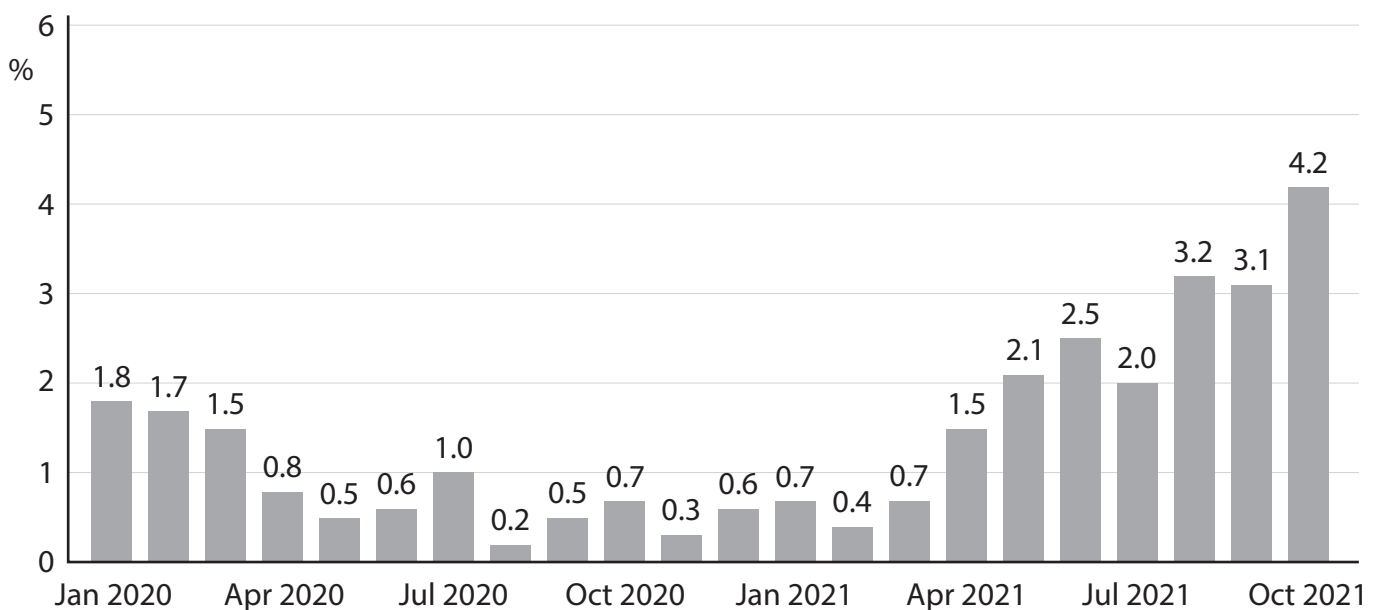
#### UK balance of trade and inflation

**Figure 1: UK balance of trade in goods and services, January 2020 to October 2021**



(Source adapted from: <https://tradingeconomics.com/united-kingdom/balance-of-trade>)

**Figure 2: UK inflation rate as measured by annual percentage changes in the Consumer Prices Index (CPI), January 2020 to October 2021**



(Source adapted from: <https://tradingeconomics.com/united-kingdom/inflation-cpi>)

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**Extract A****Balance of trade in goods and services**

Rising imports from non-EU countries have increased the UK's trade deficit in the third quarter of 2021. This was as a result of the UK strengthening its trading relationships with countries outside the EU. An 11.2% increase in imports from non-EU countries has increased the UK's trade deficit to nearly £7 billion. Moreover, exports to non-EU countries were £0.8 billion lower than exports to EU countries.

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Despite the overall trade balance being in deficit, the UK services trade balance is in surplus, reflecting the economy's heavy reliance on services. The trade in services surplus increased by £2.2 billion to £35.6 billion. This was mostly as a result of an increase in the export of financial services.

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(Source: adapted from <https://www.cityam.com/swelling-non-eu-imports-widens-uk-trade-deficit>)

**Extract B****Inflation**

In December 2021 the rate of inflation in the UK rose to 5.4%, its highest rate in 30 years. The speed of increase has taken economists by surprise. The Bank of England expected inflation to peak at this rate, but not until April 2022. The rate was more than two-and-a-half times its 2% inflation target.

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Transport costs were the biggest contributor to rising inflation, with petrol prices increasing by over 5%. Moreover, supply chain bottlenecks constrained access to raw materials and limited the number of new products being sold in the market. At the same time, economists warned that the demand for goods and services in the UK economy was quickly increasing. This was a result of the easing of the restrictions associated with the global health crisis.

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The high rate of inflation would normally be enough to prompt a significant increase in the base rate of interest by the Bank of England's Monetary Policy Committee (MPC). Despite the lower rates of economic growth, the MPC increased the base interest rate from 0.1% to 0.5% in February 2022.

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(Source: adapted from 'UK inflation hits highest level in a decade', FT, <https://www.ft.com/content/dd5edcd1-2e70-4910-b642-269574b4bcdd>; 'What does the UK's soaring inflation rate mean for you?', The Guardian, <https://www.theguardian.com/business/2021/dec/15/what-does-uk-soaring-inflation-rate-mean>)

