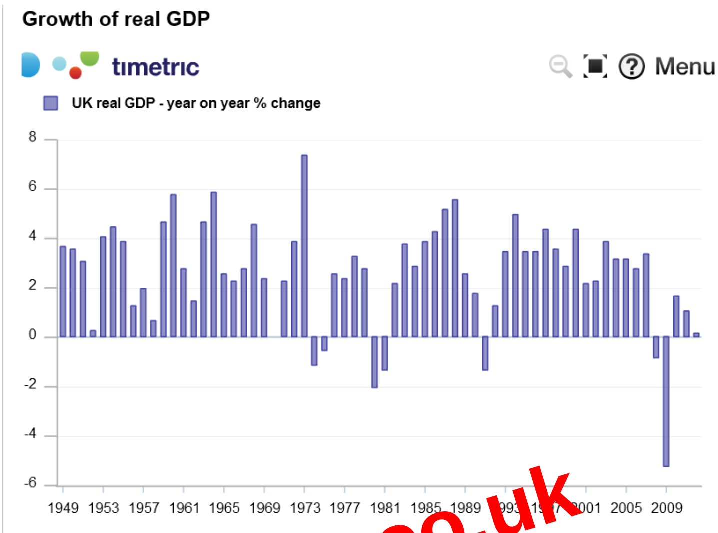
- **Using your knowledge of Economics so far plus additional research, explore the performance of the UK economy over the last 10 years**
- **Explain as far as possible the connections between the various macro indicators**
- **Give particular emphasis to the period of volatility commencing in 2008**



Over the last ten years, the UK economy in terms of real GDP has experienced fluctuation. In 2003, there was a 3.9% increase in GDP growth, and then in 2004 and 2005 the growth rate remained constant at around 3.2% for both years. Then in 2006 GDP growth reduced slightly, only growing by 2.8%, before growing at a higher rate of 3.7% in 2007. Over this five year period, GDP growth rate in the UK remained similar, showing that economic activity was generally steady and controlled. This also suggests that policies and management strategies for the GDP growth maintenance were successful, and that the UK economy was stable and growing consistently. However in 2008 there began to be negative growth, at -0.8%, before then decreasing further to -5.2% in 2009. This two year consecutive negative GDP growth rate in the UK, was a depression. It was commonly known in the UK as the 'Credit Crunch' and it pushed up money borrowing costs. The Credit Crunch was caused by a crash in the US housing market. This was due to the US banks having access to surplus funds (due to rapid growth in the world economy) and wanting to offer money to borrow, but there were not many people asking to borrow money at this point. Due to the lack of interest in loans or investment from the banks, they began targeting those who had never bought or owned a home before, and had no previous credit ratings, cheap introductory mortgages with low interest rates. These mortgages were then sold on to other banks around the world. Interest rates then rose and some borrowers began to suffer, and house prices also began falling. This made investors aware of an issue and banks stopped lending money to one another, and instead held their money and kept it to themselves, causing the start of the so called Credit Crunch. The UK bank Northern Rock was the first UK bank to suffer because it could not borrow money in order to fund its lending, so it had to take an emergency loan from the Bank Of England, which caused unrest amongst customers. Meanwhile, the house prices in America continued to fall and many home owners handed over their homes as payment. The banks were also continuing to struggle, finding it difficult to rebuild their finances afters billions were lost from potential profits, so they were ever more reluctant to give out loans. Mortgage rates then rose and deposits increased, which made the effects of the Credit Crunch worse. This provides the explanation for the negative GDP growth figure in the UK in 2008, but mainly in 2009 due to the large difference from the previous year. However in 2010 there was positive GDP growth