GradeMax

Write your name here

Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Economics

International Advanced Level
Unit 4: Developments in the Global Economy

Thursday 23 June 2016 – Afternoon
Time: 2 hours

Paper Reference
WEC04/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **one** question in Section A and **one** question from Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- You should take care in your responses with your spelling, punctuation and grammar, as well as the clarity of expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

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SECTION A

Answer ONE question from this section.

You should spend 60 minutes on this section.

You should include diagrams in your responses where appropriate.

1 (a) Discuss the likely impact of the rapid growth of emerging and developing economies on world trade patterns.

(15)

'China has specialised in manufacturing while India has specialised in services'.

(b) Evaluate the possible benefits of such specialisation to a country or countries of your choice.

(25)

(Total for Question 1 = 40 marks)

2 Coffee beans account for 28% of Ethiopia's exports and 19% of Uganda's exports.

(a) Evaluate the possible economic benefits to Ethiopia and Uganda of the expansion of fair trade schemes for their coffee industries.

(15)

In 2014 Ethiopia and Uganda decided to join the Common Market for Eastern and Southern Africa (COMESA) free trade area.

(b) Assess the likely economic effects on these countries of joining COMESA.

(25)

(Total for Question 2 = 40 marks)

3 From 1993 to 2014, public expenditure as a proportion of GDP rose from 35% to around 42% in Japan, but fell from over 55% to below 50% in Italy.

(a) Discuss possible reasons for an increase in the level of public expenditure as a proportion of GDP in an economy.

(15)

(b) Evaluate the likely economic effects of a reduction in the level of public expenditure as a proportion of GDP in Italy or another country of your choice.

(25)

(Total for Question 3 = 40 marks)

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Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 1** ☒ **Question 2** ☒ **Question 3** ☒

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TOTAL FOR SECTION A = 40 MARKS

SECTION B

Answer either Question 4 or Question 5.

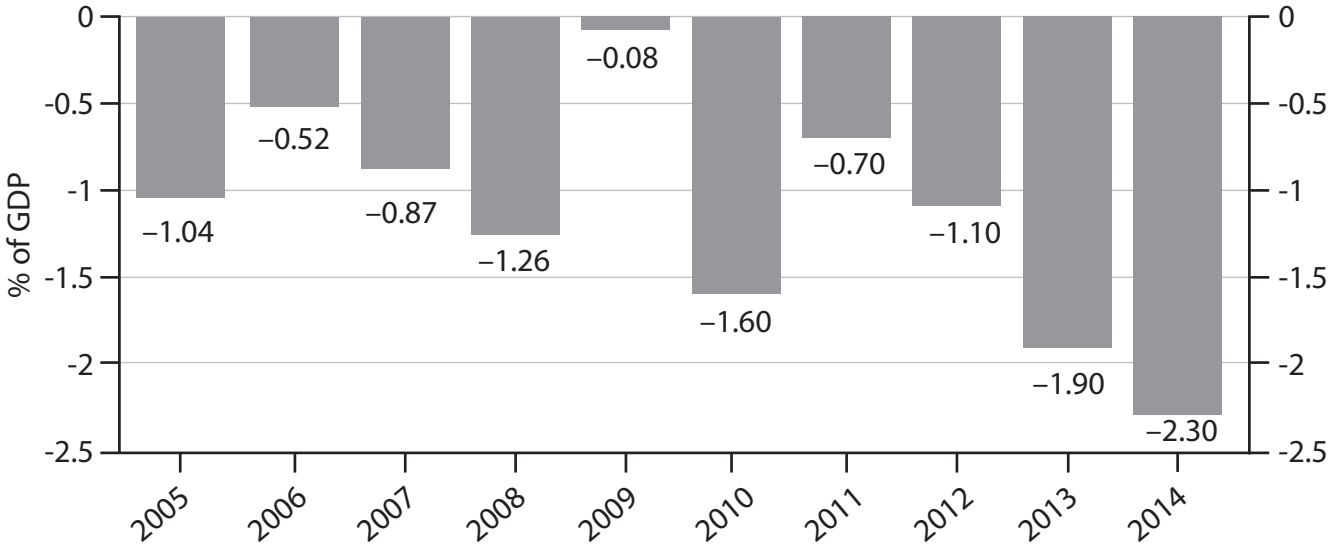
You should spend 60 minutes on this section.

If you answer Question 4 put a cross in the box ☒ .

Question 5 starts on page 28.

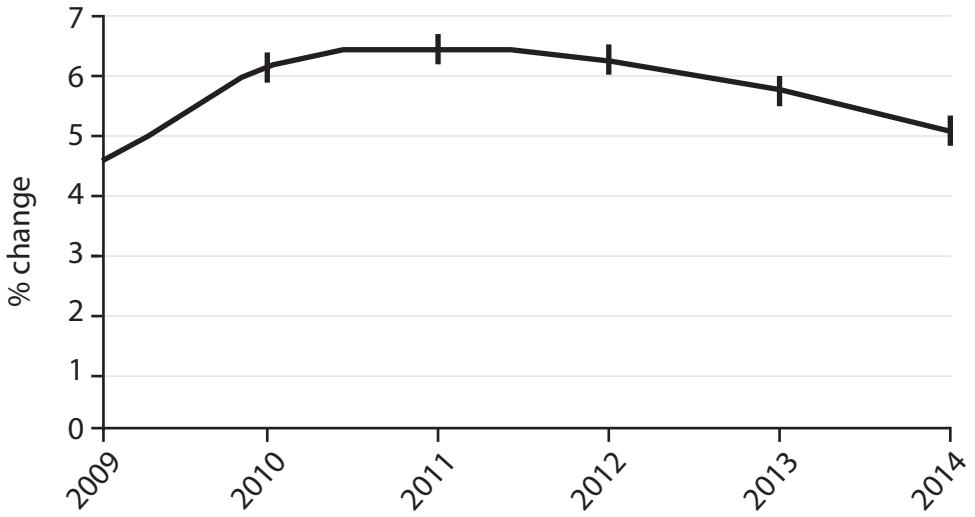
4 The Indonesian economy

Figure 1 Indonesian Government's fiscal (budget) balance, 2005 to 2014 (% of GDP)



(Source: http://www.tradingeconomics.com/indonesia/government-budget)

Figure 2 Indonesian annual real GDP growth rate, 2009–2014



(Source: http://www.worldbank.org/en/publication/global-economic-prospects data?variable=NYGDPMKTPKDZ&region=EAP)

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Extract 1 Economic growth in Indonesia

In 2014, economic growth in Indonesia fell to the lowest level for four years. South East Asia's biggest economy was hit by a ban on the export of unprocessed minerals and by interest rate rises designed to reduce the deficit in the current account on the balance of payments. Lower commodity prices have also caused the mining sector to contract.

Wijayanto Samirin, a Government economic adviser, forecast that the economy may only grow by 5% in 2014. He said the Government would have to take corrective action while facing significant budget constraints because of the US$21 billion fuel subsidy currently in place in the country.

The Government restricted the export of unprocessed minerals, such as nickel and bauxite in January 2014, as part of a plan to promote the development of processing industries. The policy has forced some mining companies to commit to building expensive processing facilities. However, others have argued that the infrastructure in many of Indonesia's mining regions is inadequate to support such facilities.

When the export ban on minerals came into force, tens of thousands of workers were made redundant. The World Bank has warned that the export ban will worsen Indonesia's trade balance by about US$6 billion in 2014 and the Government will lose US$6.5 billion in tax revenue over the period from 2014 to 2017.

The Indonesian Government has insisted that such pain is necessary. A spokesman at the Ministry of Energy and Mineral Resources says the Government wants to ensure mining companies "add value" rather than just "exporting our earth".

(Source: adapted from 'Indonesian economy growth lowest for almost five years', Ben Bland, *The Financial Times*, 5 August 2014, http://www.ft.com/cms/s/0/04c8ac58-1c5e-11e4-98d8-00144feabdc0.html?siteedition=uk#axzz39uLqCvym and 'Indonesia's gamble on ore export ban starts to hit home', Ben Bland, *The Financial Times*, 7 May 2014, http://www.ft.com/cms/s/0/a0e7256c-c455-11e3-b2c3-00144feabdc0.html#axzz39uLqCvym)

Extract 2 Indonesia's fuel subsidy

In spite of the volatility of the global oil price, Indonesians can still pay a fixed price of Rp 6 500 (55 US cents) per litre for gasoline and Rp 5 500 (47 US cents) per litre for diesel. These fuels as well as kerosene and electricity are subsidised by the Government.

Indonesia is a net importer of oil. The subsidy has led to greater usage of fuel, increasing imports. Further, higher oil prices globally and a weakening currency have also contributed to Indonesia's increasing current account deficit.

Indonesia's fuel subsidy has been criticised in recent years because the money currently spent on the subsidy could help to improve infrastructure and education in the country.

(Source: adapted from 'Cheap fuel becomes scarcer commodity', *The Jakarta Post*, 4 August 2014, http://www.thejakartapost.com/news/2014/08/04/cheap-fuel-becomes-scarcer-commodity.html)

(a) With reference to Figure 1, explain what is meant by a government fiscal (budget) deficit.

(4)

(b) Discuss the likely economic effects of the Indonesian Government's ban on the export of unprocessed minerals.

(12)

(c) **Apart from the ban on the export of unprocessed minerals**, analyse **two** reasons why 'In 2014, economic growth in Indonesia fell to the lowest level for four years'. (Extract 1, line 1).

(8)

(d) Assess the case for the Indonesian Government removing the subsidy on fuel.

(16)

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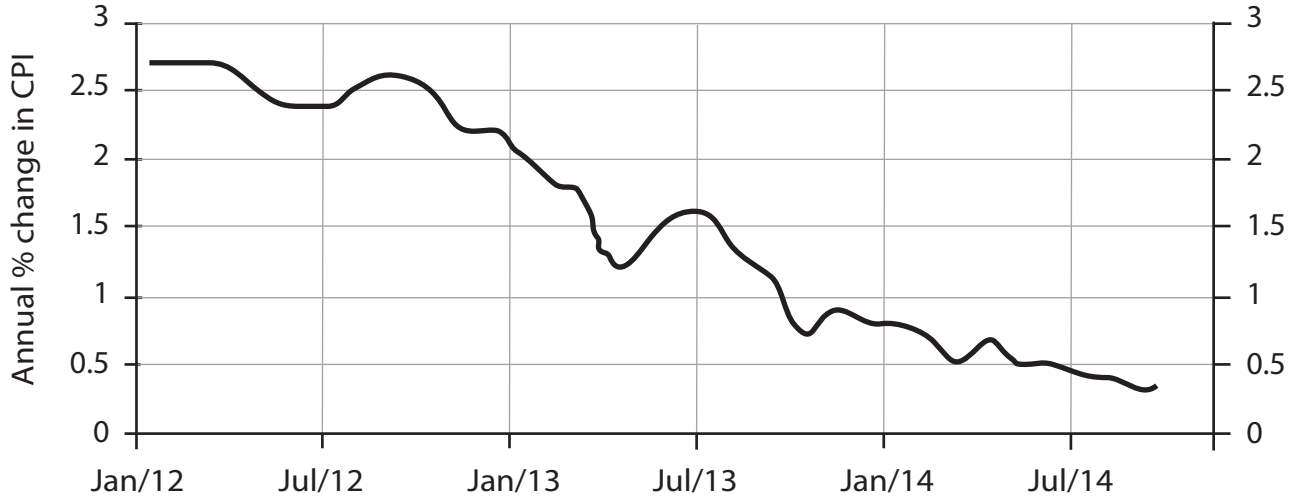
QUESTION 5 BEGINS ON THE NEXT PAGE.

If you answer Question 5 put a cross in the box ☒.

5 The eurozone economy

Figure 1 Eurozone inflation rate, January 2012 to November 2014 (annual % change in Consumer Price Index – CPI)



(Source: http://www.tradingeconomics.com/euro-area/inflation-cpi)

Figure 2 Euro-US dollar exchange rate, January 2012 to November 2014



(Source: http://www.tradingeconomics.com/euro-area/currency)

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Extract 1 The strong euro

Just how worried should the European Central Bank (ECB) be about the strong euro? In April 2014, the exchange rate against the US dollar was at just under $1.40. ECB President Mario Draghi promised that the ECB would act to prevent further appreciation of the euro and stop already low inflation in the eurozone from falling even further.

However, the concern over the strong euro may be exaggerated. While it is true that the euro strengthened more than 5% against the US dollar between 2013 and 2014, the USA is only one of many trading partners for the eurozone. The USA is the eurozone's largest non-European trading partner, accounting for 12% of exports between 2008 and 2012. But the United Kingdom is the eurozone's largest trading partner and the euro actually weakened 3% against the UK pound sterling between 2013 and 2014. The eurozone also has significant exports to China and Japan.

(Source: adapted from 'Euro strength may be overblown', Christopher Lawton, *Wall Street Journal*, 17 April 2014, http://blogs.wsj.com/economics/2014/04/17/euro-strength-may-be-overblown/?mod=WSJBlog&utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+wsj%2Feconomics%2Ffeed+%28WSJ.com%3A+Real+Time+Economics+Blog%29)

Extract 2 Monetary policy in the eurozone

In June 2014 the ECB's main interest rate was cut to a record low of 0.15% and the deposit rate was cut to -0.1%. This meant that high street banks had to pay to deposit cash with the ECB in the hope it would encourage them to lend more to businesses and consumers. The ECB also announced a €400 billion package of cheap funding with the condition that the money was used to lend to companies outside the financial sector, and not for mortgages.

Eurozone real GDP increased by only 0.2% in the first quarter of 2014. Eurozone inflation fell to a near five-year low of 0.4% in July 2014, caused by falls in food, alcohol, tobacco and energy prices.

Holger Schmieding, chief economist at Berenberg, said that recent data had disappointed. "Despite an easing of fiscal austerity, improving consumer confidence and some lessening of the credit crunch, the eurozone economy now seems to be expanding more slowly than in mid-2013."

In August 2014, Italy slipped back into recession and the French economy did not grow. The weakening outlook for Italy, France and Germany prompted Berenberg to downgrade its eurozone growth forecast to 0.8% for 2014 and to 1.4% for 2015.

The ECB announced it was looking into new growth-boosting measures as the eurozone's recovery slowed. Mario Draghi, President of the ECB, said that the Bank had prepared for quantitative easing (asset purchases by the ECB to increase money supply) as a potential new weapon in its battle against deflation and economic stagnation.

(Source: adapted from 'ECB gets ready to pump cash into eurozone as fears rise over recovery', Angela Monaghan, *The Guardian*, 7 August 2014, http://www.theguardian.com/business/2014/aug/07/european-central-bank-quantitative-easing-eurozone)

(a) With reference to the information provided, explain what is meant by an appreciation of a currency.

(4)

(b) Examine the likely effects of the "the strong euro" (Extract 1, line 1) on the eurozone economies.

(12)

(c) With reference to Extract 2 and your own knowledge, analyse **two** likely effects of the reduction in interest rates that the ECB introduced in **June 2014**.

(8)

(d) Assess the case for the introduction of 'quantitative easing' (Extract 2, line 19) by the ECB.

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TOTAL FOR SECTION B = 40 MARKS
TOTAL FOR PAPER = 80 MARKS

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