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

Monday 23 January 2017 – Morning
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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Pearson

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 According to the World Trade Organization (WTO), the reduction in trade barriers has contributed to a substantial decrease in transportation costs over the last few decades.

(a) Assess the view that the decrease in the cost of transport is the main reason for globalisation.

(15)

(b) To what extent do the costs of globalisation outweigh the benefits?

(25)

(Total for Question 1 = 40 marks)

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2 (a) Between 2008 and 2015, Japan's national debt increased from 174% of Gross Domestic Product (GDP) to 245% of GDP and Greece's national debt increased from 113% of GDP to 178% of GDP.

To what extent might such increases in the national debt be a cause for concern?

(15)

(b) Many countries, including the USA, Portugal and Finland, increased their marginal rates of income tax in 2013.

Evaluate the impact of such increases in rates of income tax on a country of your choice.

(25)

(Total for Question 2 = 40 marks)

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3 (a) Assess the case for stimulating economic growth and development through industrialisation. Refer to examples of developing countries in your answer.

(15)

(b) In 2014, China received $129 billion of Foreign Direct Investment (FDI) and Brazil received $62 billion.

With reference to examples of specific countries, evaluate the potential benefits of inward FDI.

(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.

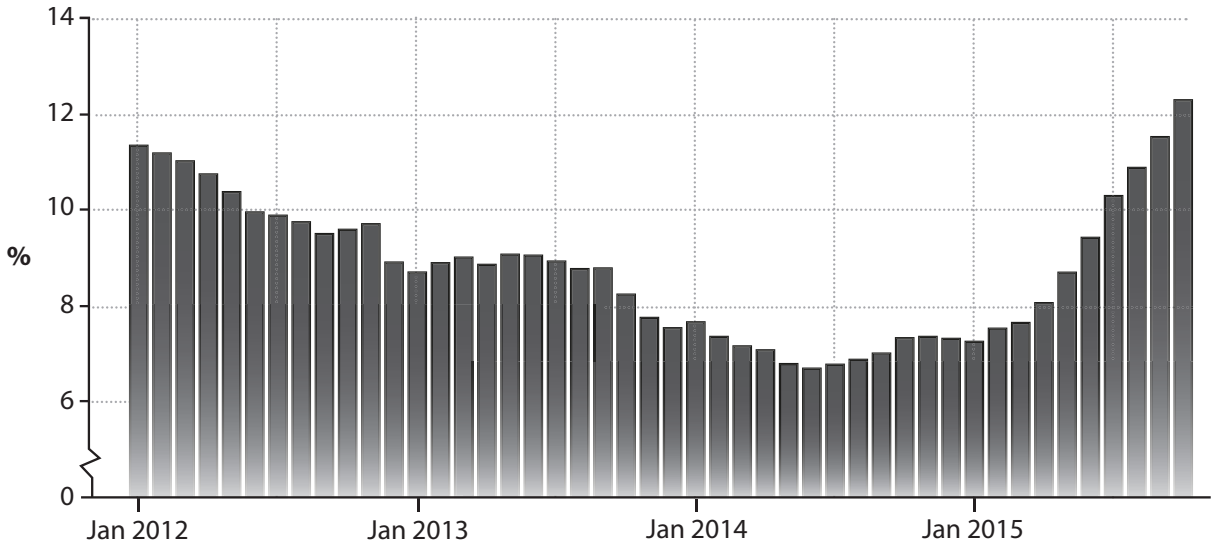
You should spend 60 minutes on this section.

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

Question 5 starts on page 28.

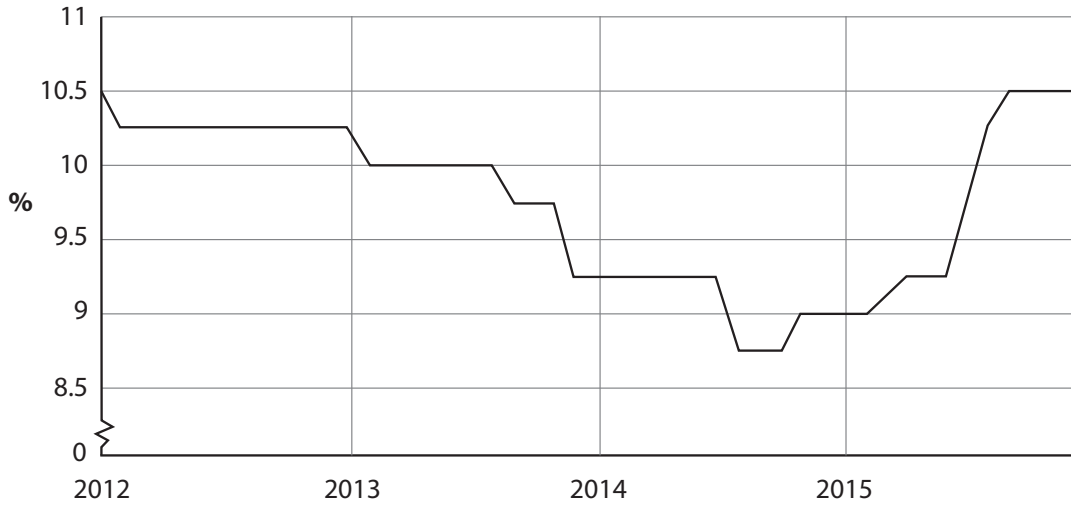
4 Angola's economy

Figure 1 Angola's inflation rate, year on year, as measured by the Consumer Price Index (CPI), January 2012 – October 2015



(Source: adapted from 'Angola Inflation Rate', Trading Economics, 20 November 2015, http://www.tradingeconomics.com/angola/inflation-cpi)

Figure 2 Angola's interest rate set by the National Bank of Angola, January 2012 – October 2015



(Source: adapted from 'Angola Interest Rate', Trading Economics, 20 November 2015, http://www.tradingeconomics.com/angola/interest-rate)

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Extract 1 Economic outlook

In 2015, the Angolan economy was affected by a sharp decline in oil prices, a fall in oil output and a prolonged drought. The economy has high dependency on oil, which is estimated to account for 95% of total exports and 70% of total tax revenue. These challenges led to a fall in the rate of economic growth from 6.8% in 2013 to 4.5% in 2014. The decrease in tax revenue from lower oil prices is expected to lead to sizeable cuts in public spending and a further slowing of Gross Domestic Product (GDP) growth to 3.8% in 2015.

In 2015, tax revenues from oil declined by 3.9% compared with 2014 levels, which created a fiscal deficit of $14 billion. Lower oil production and falling oil prices reduced exports by 5% while imports increased by 19%. This led to a fall in the trade in goods surplus from 26.8% of GDP in 2014 to 18.6% of GDP in 2015. Aid from overseas governments averaged about $242.4 million during 2010–14, and is expected to increase to compensate for Angola's falling oil revenues.

Non-oil sectors were the major causes of growth. Mining, which is dominated by diamond production, accounts for 2.5% of GDP. Angola is the world's fourth largest supplier of diamonds in terms of value but it is exploiting just 10% of its reserves. Similarly, although the country has large agricultural resources, they remain underutilised and productivity is low relative to other African countries. Agriculture accounts for 5.4% of GDP and 70% of total employment.

Investment in manufacturing has risen and the sector has grown progressively in recent years. Angola is developing its services sector and this accounted for 23.2% of GDP in 2014.

Growth and development are restricted by Angola's growing external debt resulting from increased borrowing needed to cover fiscal deficits. The persistent depreciation of the currency against the US dollar is estimated to increase the cost of servicing and repaying external debt. The poor quality of physical infrastructure and human capital still remain key concerns. Foreign Direct Investment (FDI) inflows are set to fall to $12.3 billion in 2015, down from $14.5 billion in 2013.

The Gini coefficient has risen from 0.43 in 2008 to 0.55 in 2015. Angola ranks low, at 149th out of 187 countries surveyed, in the UN's 2014 Human Development Index (HDI). It continues to face problems of corruption and civil war. The Government is introducing reforms, including the removal of fuel subsidies (which amount to 4% of GDP). In this context, structural reforms are significant for Angola to reduce its dependency on natural resources, increase productivity levels and create conditions for a faster rate of economic growth and development.

(Source: adapted from Angola 2015, Joel Daniel MUZIMA and Fernanda Ramalho MENDY http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/CN_data/CN_Long_EN/Angola_GB_2015.pdf, 'China increases oil imports from Angola', Macauhub, 3 August 2015, http://www.macauhub.com.mo/en/2015/08/03/china-increases-oil-imports-from-angola)

(a) With reference to the last paragraph of Extract 1, explain how the Gini coefficient is measured.

(4)

(b) Explain **two** benefits to Angola of developing its services sector.

(8)

(c) Assess the likely effects on Angola's economy of its 'high dependency on oil' (Extract 1, line 2).

(12)

(d) Evaluate factors, other than high dependency on oil, that may constrain the growth and development of Angola's economy.

(16)

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QUESTION 5 BEGINS ON THE NEXT PAGE.

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

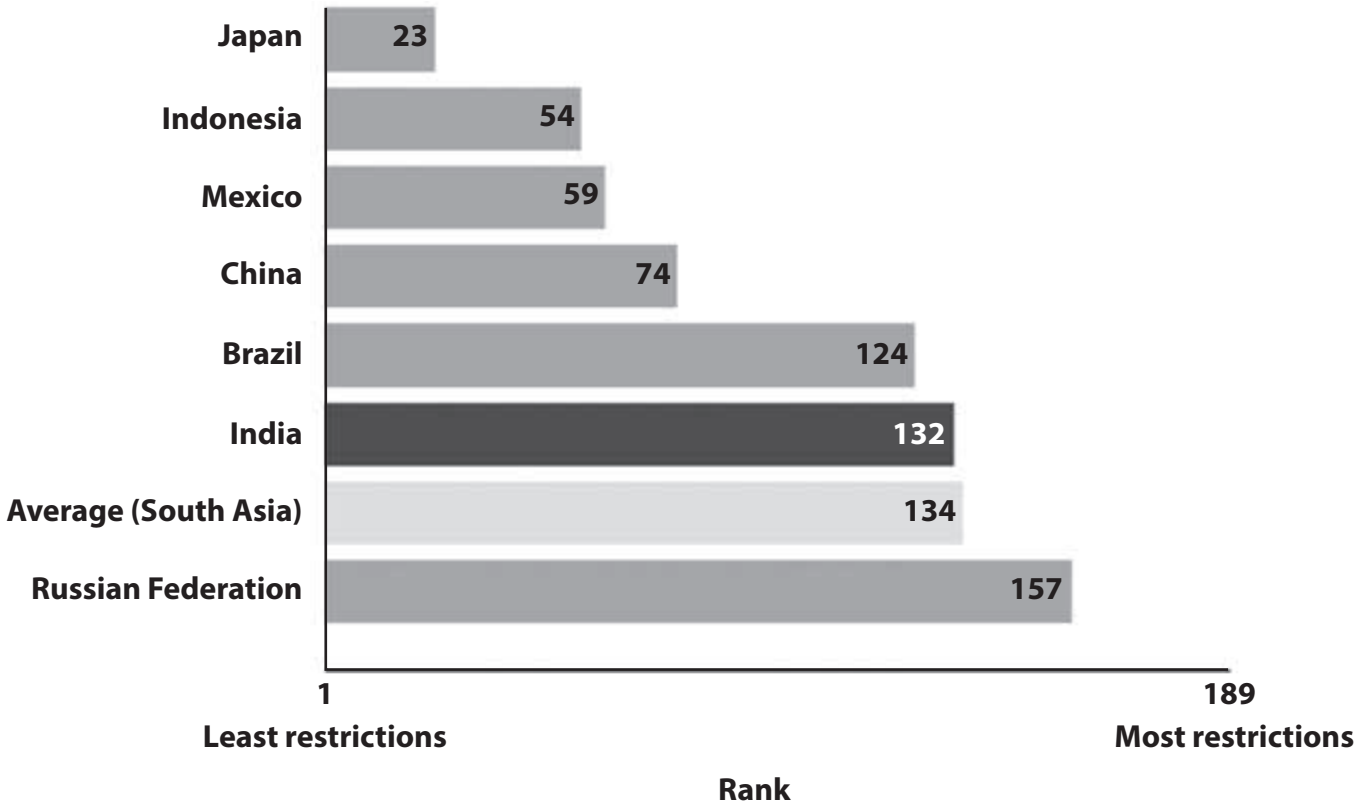
5 India's economy

Extract 1 Protectionism

Following the 2008 global economic downturn, the Group of 20 (G20) nations agreed not to introduce further protectionist measures. However, the World Trade Organization (WTO), has confirmed that there has been an increase in new trade restrictions and few efforts to liberalise trade.

The BRIC countries (Brazil, Russia, India and China) have introduced the highest number of new trade restrictions. For example, India has maintained its high tariff and non-tariff barriers as well as increasing the number of protectionist measures as shown in Figure 1. As a result India has experienced lower trade flows. Such protectionist measures have led to a worsening of India's economic growth rate, which has risen only 1% faster than the developed world since 2013.

Figure 1 Rank of selected countries for trade restrictions



(Source: adapted from 'Protectionism in the G20: 2015', Barbara Barone and Roberto Bendini, http://www.europarl.europa.eu/RegData/etudes/STUD/2015/549028/EXPO_STU(2015)549028_EN,'India's trade barriers: an analysis with reference to tariffs and customs procedures', Centre for Public Policy Research, Pinak Sarkar and Dr. Martin, http://www.cppr.in/wp-content/uploads/2015/01/ Trade-Report.pdf)

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Extract 2 Structural reforms

India's population is 1.2 billion. It is the world's fourth-largest economy. India's recent economic development has been a significant achievement. There has been an agricultural revolution which has transformed it from being an importer of grain into a net exporter of food. Also, India is now the base of internationally renowned companies in pharmaceuticals and steel. At the same time, India has seen a fall in its current account deficit from 4.7% of GDP in 2012 to 1.4% of GDP in 2014.

India will need to create jobs for its rapidly expanding population. 100 million young workers will enter the labour market by 2030. According to the International Monetary Fund (IMF), raising India's growth rate and ensuring it begins to create enough jobs requires structural reforms. While consumption is growing, economic activity continues to be held back by supply-side constraints.

India needs to implement reforms to address problems in its energy, mining and power sectors and increase investment to improve infrastructure. The Indian Government needs to take steps to simplify the process of acquiring land and obtaining planning permission. Labour markets need to be made more flexible and education improved to meet rising shortages of skilled labour.

The Government has recently removed price controls on diesel and natural gas. Although there has been some improvement in addressing corruption, India still ranks 85th in the Global Corruption Index among 175 countries.

The Indian Government's effort to improve the business climate has gained momentum, including a "Make in India" campaign to attract investment. "Moving the economy forward in these directions would help India continue along the path toward a brighter economic picture of rapid economic growth and macroeconomic stability for many years to come," said Paul Cashin, IMF Mission Chief for India.

(Source: adapted from 'India's Economic Picture Brighter, but Investment, Structural Reforms Key', IMF, 11 March 2015, http://www.imf.org/external/pubs/ft/survey/so/2015/car031115a.htm, 'India overview', The World Bank, http://www.worldbank.org/en/country/india/overview,'India's corruption rank, Trading Economics, www.tradingeconomics.com/india/corruption-rank)

(a) With reference to Extract 1, explain the role of the World Trade Organization (WTO).

(4)

(b) Explain **two** possible economic effects of India's 'rapidly expanding population' (Extract 2, line 7).

(8)

(c) 'The BRIC countries (Brazil, Russia, India and China) have introduced the highest number of new trade restrictions' (Extract 1, lines 5 and 6). Discuss the likely impact of these trade restrictions.

(12)

(d) Evaluate supply-side policies that could help India achieve 'rapid economic growth and macroeconomic stability for many years to come' (Extract 2, lines 23 and 24).

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

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