GradeMax

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Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Economics

International Advanced Level
Unit 4: Developments in the Global Economy

Tuesday 13 June 2017 – 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 from 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 Between January 2012 and September 2015, global commodity prices fell by an average of 45%, with oil prices falling by 55%.

(a) Assess the possible causes of the fall in global commodity prices.

(15)

(b) Evaluate the effects of a substantial fall in the price of oil on developing countries.

(25)

(Total for Question 1 = 40 marks)

2 China's surplus on the current account of the Balance of Payments fell from 10.1% of GDP in 2007 to 2.1% of GDP in 2014.

(a) Examine possible causes of the change in China's current account surplus.

(15)

(b) Discuss the possible effects of a reduction in China's rate of economic growth on the global economy.

(25)

(Total for Question 2 = 40 marks)

3 In 2014, 280 000 migrants moved into the European Union (EU) from non-EU countries. Between January and November 2015, this number rose to 715 000.

(a) Assess the economic impact of significant migration into the EU.

(15)

Between 2010 and 2014, the economic growth rate in the eurozone was less than 1% per year.

(b) Apart from encouraging inward migration, evaluate government-led strategies that eurozone countries could use to increase economic growth.

(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.

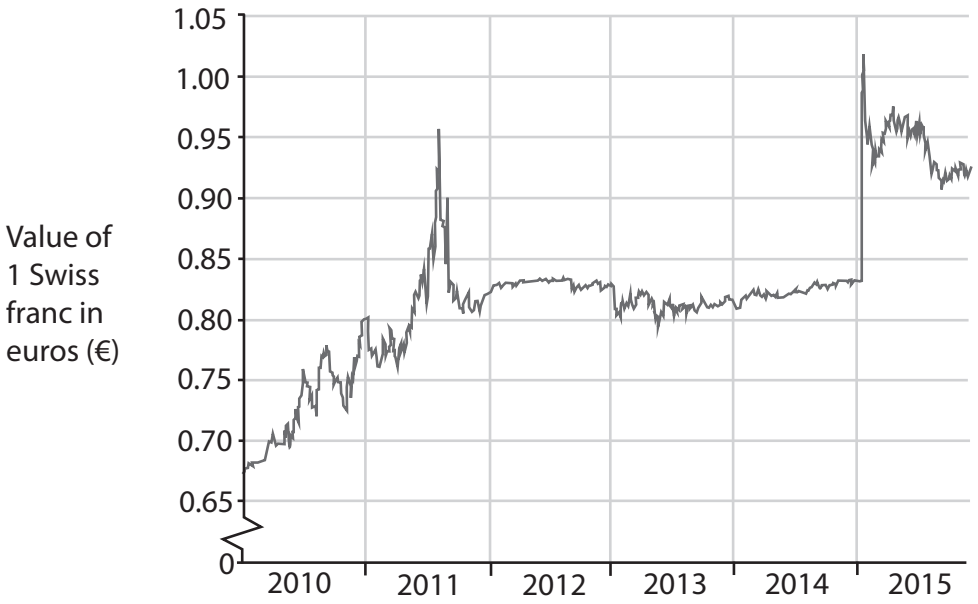
4 Switzerland and the European Union (EU)

Figure 1 Eurozone CPI rate of inflation, 2010 to 2015



(Source: http://www.telegraph.co.uk/finance/economics/11950324/Eurozone-recovery-picks-up-speed-as-ECB-readies-stronger-stimulus.html)

Figure 2 Euro-Swiss franc exchange rate, 2010 to 2015



(Source: https://www.ecb.europa.eu/stats/exchange/eurofxref/html/eurofxref-graph-chf.en.html)

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Extract 1 Appreciation of the Swiss franc

During the middle of the eurozone crisis in 2009 to 2010, investors bought assets they considered safe. The price of gold rose as the precious metal was thought likely to maintain its value. Swiss assets were considered to be safe so investors bought more of them. This increased the demand for the Swiss franc. In 2011, the Swiss Central Bank (SNB) adopted a currency ceiling against the euro to stop the rise in the value of the Swiss franc against the euro. It decided to manage the franc's exchange rate against the euro so that 1 Swiss franc would not rise above €0.83. The SNB bought billions of euros to keep the exchange rate stable.

In January 2015, the SNB abandoned its efforts to link the Swiss franc to the euro, allowing it to float freely. The Swiss franc rose by almost 30%.

The Swiss stock exchange index fell by more than 10% after the announcement, with the shares of banks and exporters among the hardest hit. The appreciation of the franc led to downward pressure on Swiss inflation. It will also have an impact on Swiss exporters' competitiveness in the eurozone market, which accounts for 55% of all Swiss exports.

More than ever before, Swiss citizens travel over the border to neighbouring EU countries to buy food and other products at prices lower than in Switzerland. Many people are prepared to pay a fine for buying more than the allowed quantities. According to the journal Intereconomics, "seldom has the well-being of the Swiss economy and the success of Swiss monetary policy been this dependent on the euro."

At the same time, the outlook for the eurozone has deteriorated. Analysts now expect that this can only be addressed if the European Central Bank (ECB) engages in asset purchases (quantitative easing). This could further depress the value of the euro.

(Source: adapted from 'Swiss franc surges after scrapping euro ceiling, *The Daily Telegraph*, 15 January 2015, http://www.telegraph.co.uk/finance/currency/11347218/Swiss-franc-surges-after-scrapping-euro-peg.html;

'Q&A: Why has Switzerland abandoned its currency ceiling?, *The Daily Telegraph*, 15 January 2015, http://www.telegraph.co.uk/finance/currency/11347885/QandA-Why-has-Switzerland-abandoned-its-currency-peg.html;

'The Switzerland Fantasy', Caroline De Gruyter, *Judy Dempsey's Strategic* Europe, http://carnegieeurope.eu/strategiceurope/?fa=60433)

Extract 2 Switzerland and the European Union (EU)

Switzerland is one of the four members of the European Free Trade Area (EFTA). In 1992, Switzerland decided not to pursue EU membership, opting out of an agreement with the other EFTA countries to participate in the EU's Single Market.

Instead, in order to continue economic integration with the EU, Switzerland negotiated more than 120 bilateral trade treaties with the EU. These agreements were almost the same as those adopted by the other EFTA countries in the areas of the free movement of goods, services, labour and capital. However, from 2017, the free movement of labour into Switzerland is likely to be limited as a result of a referendum on immigration. Many transnational companies and business groups have expressed concerns that this could restrict their choice from the global workforce.

The World Economic Forum said that the uncertainty around immigration policies meant that Switzerland's enviable record as being the most competitive economy in the world could come under pressure.

Switzerland more or less copies EU law into its national legislation without having any influence over its content.

(Source: adapted from 'European Parliament at Your Service', http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_6.5.3.html; swissinfo.ch, 'Switzerland named world's most competitive economy', http://www.swissinfo.ch/eng/wef-study_switzerland-named-world-s-most-competitive-economy/41687422; 'The Switzerland Fantasy', Caroline De Gruyter, *Judy Dempsey's Strategic Europe*, http://carnegieeurope.eu/strategiceurope/?fa=60433)

(a) With reference to Figure 1, distinguish between disinflation and deflation.

(4)

(b) With reference to Figure 2 and Extract 1, analyse **two** possible reasons for the change in the value of the Swiss franc against the euro during 2010.

(8)

(c) Evaluate the likely effects on the Swiss economy of the decision by the SNB to allow the Swiss franc 'to float freely' (Extract 1, line 10) against the euro.

(12)

(d) Examine the likely economic effects on the Swiss economy if Switzerland joined the European Union.

(16)

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QUESTION 5 BEGINS ON THE NEXT PAGE.

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

5 World poverty

Extract 1 Poverty in the European Union (EU)

More than a third of the population in Bulgaria, Romania, Greece, Latvia and Hungary are at risk of poverty and social exclusion. In half of the EU's 28 member states, at least one in three children live in relative poverty.

In Spain and Greece there are concerns about the difficulty faced by their citizens in finding work as well as problems in accessing welfare benefits. At the same time Greece is experiencing increased emigration, often of young people with skills. Further, the health of the Greek population is deteriorating.

Austerity policies put in place to tackle budget deficits and reduce Europe's growing national debts are having a devastating impact. A report from Euractiv claims that "the prioritisation of austerity measures has not solved the crisis but is causing social problems and unrest that risk having lasting impacts worldwide".

(Source: adapted from Euractiv.com, 'Alarming Report reveals rampant poverty across Europe', http://www.euractiv.com/sections/social-europe-jobs/alarming-report-reveals-rampant-poverty-across-europe-312264)

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Extract 2 World Bank forecasts global poverty to fall below 10% for first time

In April 2013, the World Bank endorsed two goals: to end absolute poverty by 2030 and to boost prosperity by raising the incomes of the bottom 40% of the world's population. The World Bank provides finance and expertise to developing countries to help achieve these goals.

A 2015 paper by the World Bank reported that the number of people living in absolute poverty around the world is projected to fall from 12.8% of the global population in 2012 to 9.6% in 2015.

The World Bank uses an updated international poverty line of US $1.90 a day. The new poverty line preserves the real purchasing power of the previous level (of $1.25 a day in 2005 prices) in the world's poorest countries. Using this new poverty line, the World Bank projects that global poverty will fall from 902 million people to 702 million people.

Jim Yong Kim, the President of the World Bank, said that the reductions in poverty were the result of recent strong growth rates in developing countries; investment in education; healthcare improvements and social safety nets that helped keep people from falling back into poverty. However, slower global economic growth, high levels of youth unemployment and conflict in many developing countries make the goal of ending absolute poverty by 2030 highly unlikely.

Since 1990, three regions, East Asia, South Asia and Sub-Saharan Africa, have accounted for 95% of global poverty. However, the composition of poverty across these regions has shifted dramatically. In 1990, East Asia accounted for half of the global poor, whereas 15% lived in Sub-Saharan Africa. By 2015, this is forecast to be reversed: Sub-Saharan Africa will account for half of the global poor, with 12% living in East Asia. Poverty is declining in all regions but it is becoming more difficult to eliminate in countries that are conflict-ridden or overly dependent on commodity exports.

The growing concentration of global poverty in Sub-Saharan Africa is of greatest concern. While some African countries have been successful in reducing absolute poverty, the region as a whole lags behind the rest of the world. Sub-Saharan Africa's absolute poverty only fell from an estimated 56% in 1990 to a projected 35% of the region's population in 2015. Rapid population growth remains a key factor for slow progress in many countries.

In its regional forecasts for 2015, the World Bank said that absolute poverty in East Asia would fall to 4.1% of its population, down from 7.2% in 2012.

(Source: adapted from http://www.worldbank.org/en/news/press-release/2015/10/04/world-bank-forecasts-global-poverty-to-fall-below-10-for-first-time-major-hurdles-remain-in-goal-to-end-poverty-by-2030)

(a) With reference to Extract 2, briefly outline the role of the World Bank.

(4)

(b) With reference to Extract 1, analyse **two** likely causes of relative poverty in the EU.

(8)

(c) With reference to Extract 2, discuss possible reasons why absolute poverty has decreased more rapidly in East Asia than in Sub-Saharan Africa.

(12)

(d) To what extent might foreign aid increase the level of economic development in developing countries?

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(Total for Question 5 = 40 marks)

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

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