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 30 October 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 In 2015, the annual current account deficit of the Balance of Payments in the USA was $484 billion and in the UK was £147 billion.

(a) Assess possible causes of the deficit on the current account in the USA and the UK.

(15)

(b) Discuss the significance of current account deficits to a country of your choice.

(25)

(Total for Question 1 = 40 marks)

2 In the three months following the UK's vote, in 2016, to leave the European Union (EU), the exchange rate of the pound sterling fell by around 15% against the US dollar and the euro.

(a) Assess factors that influence the exchange rate of a currency.

(15)

(b) To what extent might a depreciation in the value of a country's currency improve its economic performance?

(25)

(Total for Question 2 = 40 marks)

3 In 2013 developed economies that were member countries of the Organisation for Economic Cooperation and Development (OECD) spent a total of $258 billion on agricultural subsidies.

(a) Evaluate the economic effects of agricultural subsidies paid to farmers in developed economies on the global economy.

(15)

According to the WTO, the share of developing economies' exports in world trade increased from 26% in 1995 to 44% in 2014. During the same period, the share of developed economies' exports decreased from 70% to 52%.

(b) Assess the factors that may have influenced the changing patterns of trade between countries over time.

(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 Botswana's economy

Figure 1 Terms of trade index, 2000–2014 (2000 = 100)



(Source: The World Bank, World Data Bank, World Development Indicators, http://databank.worldbank.org/data/reports.aspx?source=2&series=TT.PRI.MRCH.XD.WD&country=BWA#)

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Extract 1 Economic outlook worsens

Botswana is a landlocked country of two million people. It was one of the poorest countries in Africa with a GDP per capita of only $70 when it gained independence from Britain in 1966. In the years that followed, supported by the large discovery of diamonds, Botswana has been one of the fastest growing economies in the world. Real GDP grew by an average of 5% per year between 2005 and 2015.

Continued uncertainty in global markets and a slower pace of economic recovery in many advanced countries continue to act as a key constraint on Botswana's economic outlook. This is mainly because of the country's heavy reliance on diamond exports. Botswana is the world's second-largest diamond producer. Diamonds make up 30% of its GDP and more than 75% of its foreign exchange earnings. In 2016, the fall in global demand for diamonds reduced Botswana's real GDP growth to less than 3%. Sales of diamonds have dropped by half and diamond prices have fallen by 30%.

Botswana's rate of inflation fell from 12.5% in 2008 to 3.1% in 2015. It is expected to remain within the target range of 3% to 6% in the near future. In 2015 Botswana's currency, the *pula*, depreciated significantly against the US dollar, the British pound sterling and the euro. However, the *pula* appreciated against the South African *rand*. South Africa is the main trading partner of Botswana and supplies over 60% of Botswana's imports.

Botswana faces low human development indicators. Unemployment is high at almost 18% and, as a result, income inequality is one of the highest in the world. The Gini coefficient in 2014 was 0.61. Although education enrolment has grown, quality of academic experience has been very weak. Botswana still has a high HIV incidence rate but the infection rate has fallen in recent years. Unit labour costs are relatively low despite low levels of productivity. This is because wages are lower than in most middle-income countries enabling firms to remain competitive.

Botswana has made some progress in diversifying its economy. Growth has been driven by the non-mining sectors, including trade and tourism, as well as financial services. However, severe water and electricity shortages have meant that its manufacturing sector remains weak and it has slipped 18 positions (from 56 to 74) in the Global Competitiveness Index.

Several countries and international organisations have recommended Botswana to expand its promising tourist sector. Tourism only contributes 3.7% of Botswana's GDP. However, Botswana's Ministry of Tourism believes an expansion to 10% is possible. By preserving its heritage sites and implementing hunting bans, Botswana has a significant opportunity to grow further. There was a 64% rise in international air traffic to Botswana between 2004 and 2015.

(Sources: adapted from 'Botswana Overview', The World Bank, http://www.worldbank.org/en/country/botswana/overview; Botswana 2016, George J. Honde, http://www.africaneconomicoutlook.org/en/country-notes/botswana; 'Ecotourism guideline to be implemented this year', MMegionline, http://www.mmegi.bw/index.php?sid=1&aid=139&dir=2013/May/Wednesday22/, 'Botswana's capacity grows by 3.3% in 12 years; South Africa is top country market', Anna Aero, http://www.anna.aero/2015/02/09/botswanas-capacity-grows-by-3-3-in-12-years/, Botswana Investment climate assessment, The World Bank Group, http://siteresources.worldbank.org/EXTAFRSUMAFTPS/Resources/bw_ica.pdf)

(a) With reference to Figure 1, explain what is meant by the terms of trade.

(4)

(b) With reference to the information provided, analyse **two** possible reasons for the trend in Botswana's terms of trade over the period shown.

(8)

(c) With reference to Extract 1, discuss factors that may constrain Botswana's economic growth.

(12)

(d) Assess the potential economic benefits of expanding tourism in Botswana.

(16)

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(4)

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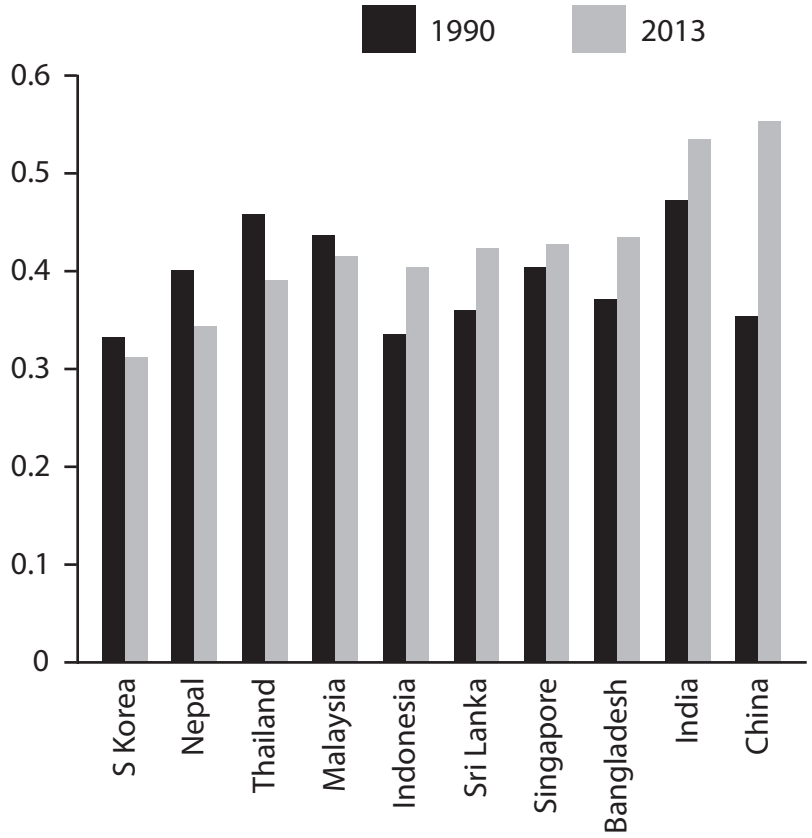
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QUESTION 5 BEGINS ON THE NEXT PAGE.

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

5 Inequality in Asia

Figure 1 Gini coefficients for selected countries



(Source: http://www.imf.org/external/pubs/ft/reo/2016/apd/eng/pdf/areo0516c4.pdf)

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Extract 1 Rising inequality in Asia

Asia has achieved remarkably high growth for sustained periods and lifted millions out of absolute poverty. Between 1990 and 2015, the region grew at around 6% a year, despite sharp slowdowns during financial crises. However, this impressive economic performance has been accompanied by increasing inequality in a number of Asian economies. The average Gini coefficient for the region increased from 0.36 in 1990 to 0.40 in 2013 and is now higher than the average for the rest of the world.

Since 1995 Asia has succeeded in reducing the proportion of people living in absolute poverty. Although 19 out of 33 economies more than halved their absolute poverty rate, the region remains home to two-thirds of the world's 'extreme' poor.

While economic growth has been successful in reducing absolute poverty, it has been less effective in reducing relative poverty. In many Asian countries government spending on education and social benefits have largely benefited higher income groups and not low income groups. Income inequality has also increased because of substantial differences in wage rates, which are greater than in other regions of the world. Pensions and unemployment benefits are also relatively low in Asia and are paid to a smaller proportion of the population than in other regions.

Extract 2 Policies to tackle inequality in Asia

There is increasing evidence that high levels of inequality can hinder the pace and sustainability of growth. This suggests that it is important for Asia to address distributional issues through fiscal, financial market and labour market policies.

To enhance the effectiveness of fiscal policy in reducing inequality, taxes need to be more progressive and coverage of government spending expanded. This includes improving low-income families' access to higher education and adequate health services as well as better targeting of social benefits.

In a number of Asian economies, government policies have been encouraged to broaden the coverage of financial services. This would give low-income households and small and medium-size businesses access to credit, allowing them to invest in education and business activity.

Countries also need to address gaps in the legal protection for workers. They should encourage the use of employment contracts that balance job security and flexibility. They need to take measures to improve the overall business environment, simplify business registration and reduce bureaucracy. This will boost job creation and would help in reducing income inequality in Asia.

(Sources: adapted from 'Regional Economic Outlook, Asia and Pacific April 2016', World Economic and Financial Surveys, IMF, http://www.imf.org/external/pubs/ft/reo/2016/apd/eng/pdf/areo0516c4.pdf; 'East Asia Forum, Inequality in Asia: the case for inclusive growth', http://www.eastasiaforum.org/2016/07/22/inequality-in-asia-the-case-for-inclusive-growth/)

(a) With reference to Extract 1, explain what is meant by absolute poverty.

(4)

(b) With reference to Figure 1, analyse the change in income inequality in Nepal. Illustrate your answer with a Lorenz curve diagram.

(8)

(c) With reference to the information provided, assess the likely causes of rising income inequality for many countries in Asia.

(12)

(d) With reference to Extract 2 and your own knowledge, evaluate policies that Asian countries could implement to reduce income inequality.

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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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