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 22 January 2018 – 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 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 2000 and 2013, Bangladesh's terms of trade worsened by around 43% while Norway's terms of trade improved by around 60%.

(a) Assess the factors that can cause a change in a country's terms of trade.

(15)

(b) Evaluate the effects of a worsening of a country's terms of trade on a government's macroeconomic objectives.

(25)

(Total for Question 1 = 40 marks)

2 (a) Common external tariffs imposed by the European Union (EU) on agricultural products average 18%.

Discuss the possible reasons for such restrictions on free trade.

(15)

(b) Evaluate the likely economic effects of the decision by the UK to leave the EU on the UK economy.

(25)

(Total for Question 2 = 40 marks)

3 (a) According to the OECD, development aid totalled $131.6 billion in 2015, an increase of 6.9% from 2014.

Assess the case for promoting economic development through aid. Refer to examples of developing countries in your answer.

(15)

(b) In 2015, population growth in South Sudan was 3.5% and in China was 0.5%.

Discuss the view that rapid population growth in developing countries is the most significant constraint on 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.

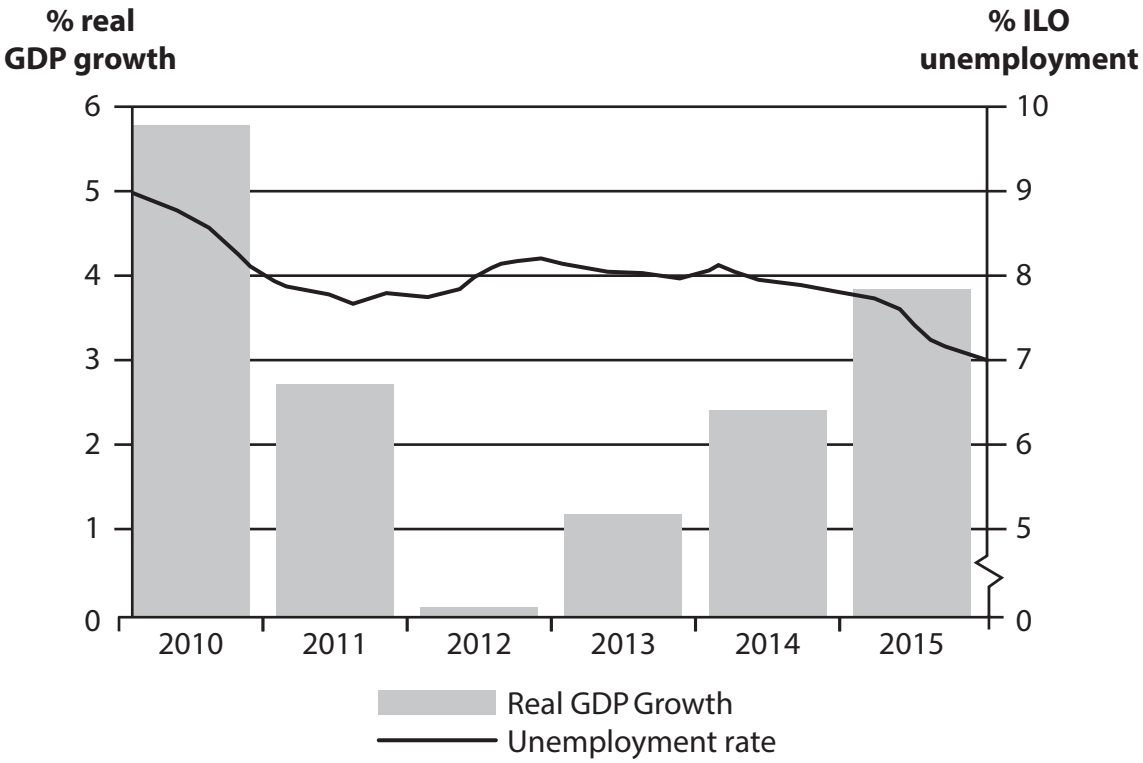
You should spend 60 minutes on this section.

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

Question 5 starts on page 28.

4 Swedish economy

Figure 1 Real GDP growth and unemployment rate, 2010–2015



(Source: http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-outlook-volume-2016-issue-1/sweden_eco_outlook-v2016-1-44-en#page1)

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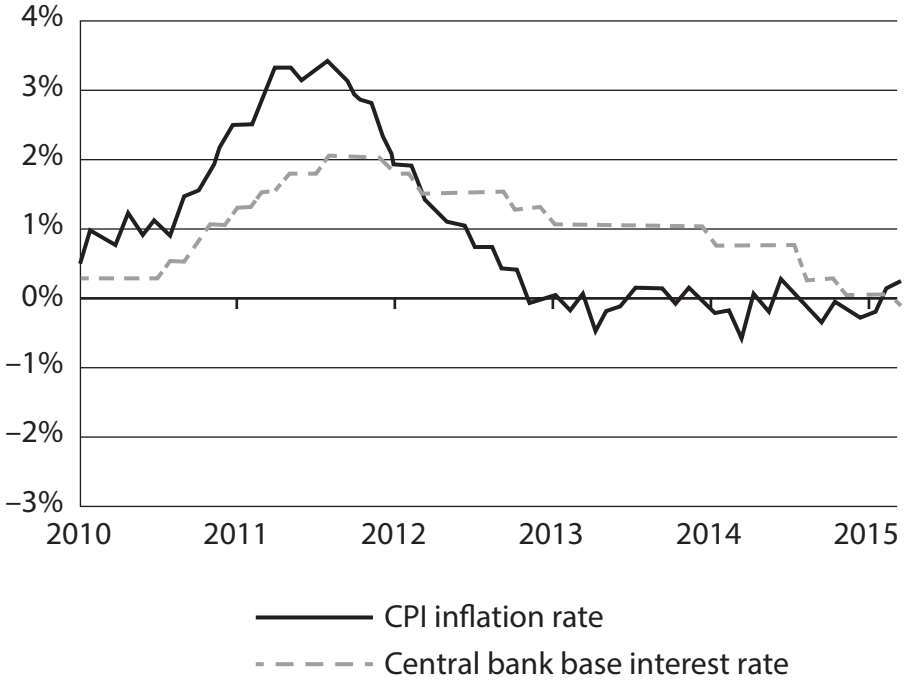
Figure 2 CPI inflation rate and central bank base interest rate, 2010–2015



(Source: http://ftalphaville.ft.com/2015/05/01/2128278/swedens-inflation-record-is-less-interesting-than-you-think/)

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Extract 1 Monetary Policy

The central bank in Sweden is called the Riksbank. The objective of Sweden's monetary policy is to maintain an inflation target of 2%. At the same time, it must support the objectives of achieving sustainable economic growth and a high level of employment.

Sweden has one of the lowest interest rates in the developed world as the Riksbank attempts to increase the rate of inflation. It reduced its interest rate from –0.35% in March 2015 to –0.5% in March 2016. The Riksbank's expansionary monetary policy has helped to strengthen the economy and to reduce unemployment. The decision, according to Riksbank, reflected a "stronger economy, but longer period of low inflation".

Sweden's economy grew at a faster-than-expected rate at the end of 2015, increasing the concerns of some economists that its negative interest rate policy could be greatly misguided. It has now overtaken the USA and is well ahead of Germany and the UK in terms of the strength of its economic recovery since the global financial crisis of 2008. Sweden reported a rise in GDP of 1.3% in the fourth quarter of 2015, almost double economists' original forecast. This highlights one of the problems facing governments and central banks when applying macroeconomic policies.

Economists credited the refugee crisis for helping to boost Sweden's economic growth. A record number of asylum seekers in 2015 led to an increase in consumption and government spending. Sweden has slowly started to address its key structural challenges which include incorporating asylum seekers into the jobs market.

"I'm not concerned about the economy overheating, yet," said A. Breman, Chief Economist at one of Sweden's leading banks. "What I am concerned about is the usefulness of negative interest rates."

Other central banks such as the European Central Bank (ECB) and the Bank of Japan have used negative interest rates to boost slow economic growth. But Sweden's central bank is faced with a different problem: it has reduced its base interest rate in order to weaken its currency and reduce the threat of deflation. With other central banks, most notably the ECB, likely to loosen monetary policy further, there is doubt that any depreciation in the Swedish currency (krona) will be sustained.

The Riksbank continued to carry out asset purchases (quantitative easing) in an effort to influence the krona and increase the rate of inflation. In June 2016, the central bank's asset purchase programme amounted to around 200 billion krona and the rate of inflation increased to approximately 1%, from –0.4% in June 2015.

Some economists have been advising the central bank to pursue a new path for months. For its part, the Riksbank has clearly signalled that it is now time to take a fresh look at its inflation target.

(Source: adapted from 'Surging Swedish economy raises questions over negative rates', FT, http://www.ft.com/cms/s/0/c9e63df6-decd-11e5-b7fd-0dfe89910bd6.html#axzz4Fp2PWD6T; Sweden takes negative interest rates even lower as Riksbank fights to keep up with global stimulus, *The Telegraph*, http://www.telegraph.co.uk/finance/economics/12151611/Sweden-takes-negative-interest-rates-even-lower-as-Riksbank-fights-to-keep-up-with-global-stimulus.html; 'Sweden's Convergence Programme 2016', Government Office of Sweden, http://ec.europa.eu/europe2020/pdf/csr2016/cp2016_sweden_en.pdf)

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(a) With reference to Extract 1, explain what is meant by asset purchases by the central bank (quantitative easing).

(4)

(b) With reference to Extract 1, assess the likely economic effects of a change in the external value of the Krona as a result of the asset purchase (quantitative easing) programme by the Riksbank.

(16)

(c) With reference to the third paragraph of Extract 1, analyse **two** problems facing policy makers when applying macroeconomic policies.

(8)

(d) To what extent has Sweden's monetary policy been successful in meeting its objectives?

(12)

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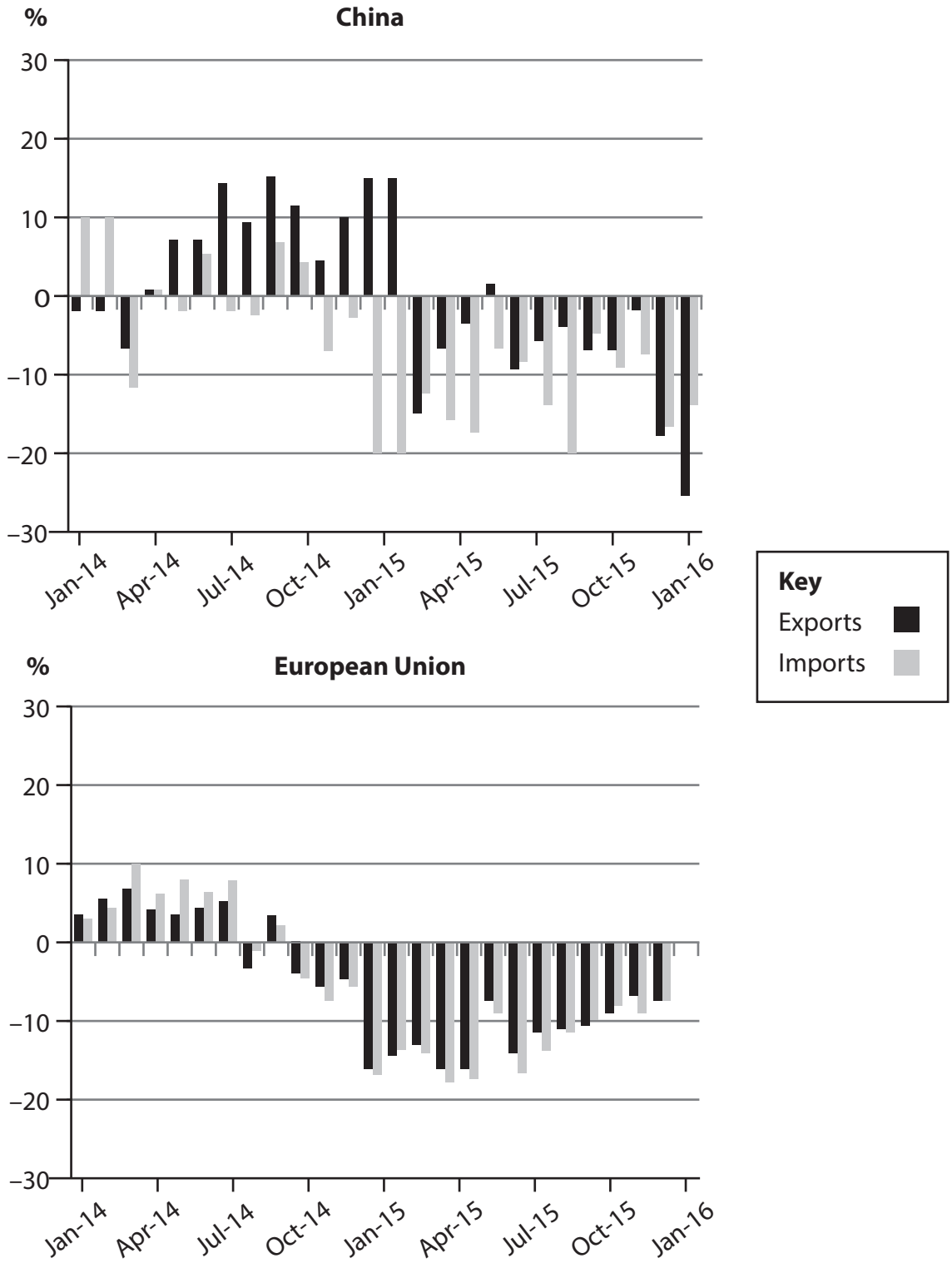
(Total for Question 4 = 40 marks)

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

5 World trade

Figure 1 Value of exports and imports of China and the European Union, year-on-year % change, January 2014 – January 2016



(Source: adapted from 'Trade Statistics and Outlook: Trade growth to remain subdued in 2016 as uncertainties weigh on global demand', WTO, https://www.wto.org/english/news_e/pres16_e/pr768_e.htm)

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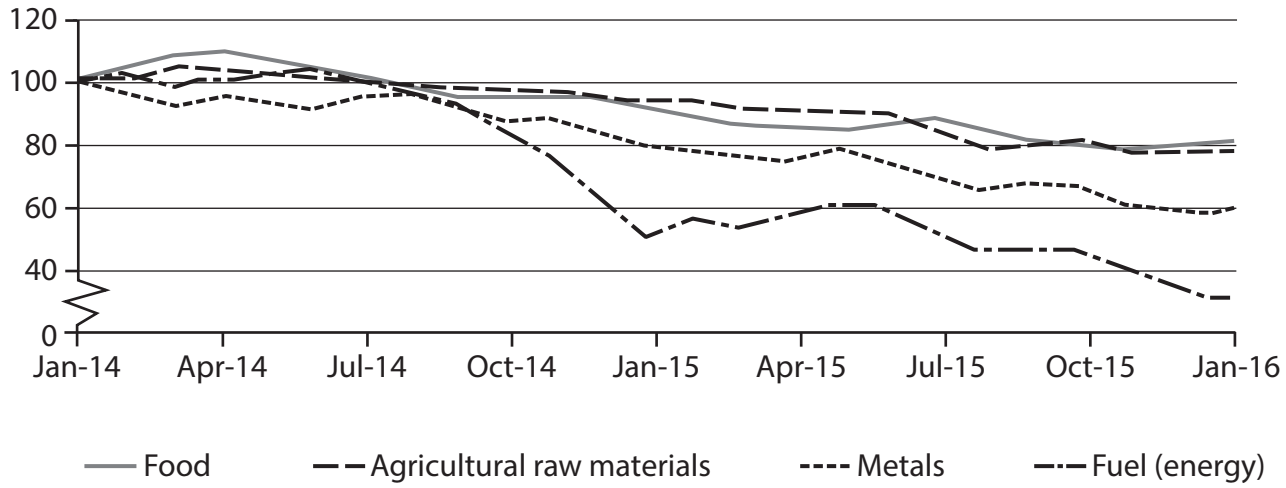
Figure 2 Price indices of primary products, January 2014 – January 2016 (January 2014 = 100)



(Source: adapted from 'World Trade Statistical Review 2016', WTO, https://www.wto.org/english/res_e/statis_e/wts2016_e/wts2016_e.pdf)

Extract 1 Slow trade growth

According to the WTO, growth in the volume of world trade was slow at around 2.8% in 2016. "Trade is still registering positive growth, although at a disappointing rate," WTO Director-General R. Azevêdo said. "This will be the fifth consecutive year of trade growth below 3%". However, global trade growth is expected to rise to 3.6% in 2017.

The slow trade growth is a result of strong fluctuations in exchange rates, low commodity prices, and slowing economic growth in China. Lower prices of commodities and China's lower growth rate appear to be the most important factors that generated a weak demand for imports in the emerging economies. Instability in financial markets driven by different monetary policies across the leading developed economies may also have contributed to reduced global demand for goods. On the other hand, a more expansionary monetary policy from the European Central Bank (ECB) could stimulate growth in the eurozone area and boost demand for goods and services, including imports.

There also remains the threat of an increase in protectionism as many governments continue to apply trade restrictions and the number of barriers continues to grow.

(Source: adapted from 'Trade Statistics and Outlook: Trade growth to remain subdued in 2016 as uncertainties weigh on global demand', WTO, https://www.wto.org/english/news_e/pres16_e/pr768_e.htm; 'Global trade watch: trade developments in 2015, The World Bank Group, 9 March 2016, http://documents.worldbank.org/curated/en/ 913061468196142457/Global-trade-watch-trade-developments-in-2015;jsessionid=MywI5zNR9FLsnbvyPf4QzhQj;)

Extract 2 Measures to raise global trade growth

Members of the WTO can take steps to increase global trade growth. First, a new WTO agreement will help to reduce bureaucracy and simplify customs and border controls. The resulting improvement in trade flows could generate more than $1 trillion in world export gains.

Second, WTO members must expand coverage of the Information Technology Agreement (ITA). This committed countries who were responsible for more than 90% of the world's IT trade to eliminate barriers for 180 products in this sector. Many new IT products have come onto the market, some of which have resulted in trade disputes, out of uncertainty as to whether these products are covered by the ITA. There should be no tariffs imposed on IT products and a commitment from all WTO members is needed.

Third, there is a need to reduce barriers in the international trade in services. Expansion of trade in services benefits countries through faster innovation, increased FDI and technology transfer. Few developing countries are taking advantage of new opportunities to specialise in the export of services as a result of limited availability and quality of data.

Fourth, help must be given to the least-developed countries by enabling them to export to developed markets on a tariff-free and quota-free basis. More needs to be done to remove the barriers on exports of agricultural and manufactured goods. Although some developed countries are already meeting this objective, others should make it a priority. Such a move will help to accelerate the integration of the least-developed countries into the global economy.

(Source: adapted from 'Four Ways To Stimulate Global Trade And Job Creation', Gerard Worms, Harold McGraw and Victor Fung, http://www.forbes.com/sites/realspin/2013/04/19/four-ways-to-stimulate-global-trade-and-job-creation /#4deabe5b1485)

(a) With reference to Extracts 1 and 2, explain **two** roles of the World Trade Organization (WTO).

(4)

(b) With reference to Extract 1, analyse the impact of **two** types of trade barrier.

(8)

(c) Apart from protectionism, assess reasons why global trade grew relatively slowly between 2011 and 2016.

(12)

(d) Evaluate policies that could be implemented by WTO members to increase the growth rate of global trade.

(16)

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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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