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

Tuesday 12 June 2018 – 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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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 Between 1986 and 2014, income inequality, as measured by the Gini coefficient, increased from 0.25 to 0.29 in Germany and from 0.21 to 0.28 in Sweden.

(a) Assess possible causes of an increase in income inequality within a country of your choice.

(15)

(b) Evaluate government policies that could be used to reduce income inequality **and** wealth inequality in a developed country of your choice.

(25)

(Total for Question 1 = 40 marks)

2 (a) In Greece public expenditure fell from €132.21bn in 2009 to €90.03bn in 2015.

Evaluate the case for cutting public expenditure in a developed country of your choice.

(15)

(b) In Greece the VAT (sales tax) rate was increased by four percentage points between 2009 and 2015.

Assess the likely macroeconomic effects of an increase in indirect taxes.

(25)

(Total for Question 2 = 40 marks)

3 (a) Assess the view that economic growth is the most important factor influencing economic development. Refer to examples of developing countries in your answer.

(15)

(b) To what extent is monetary policy the most effective way of stimulating economic growth? Refer to at least one example of a developed economy in your answer.

(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.

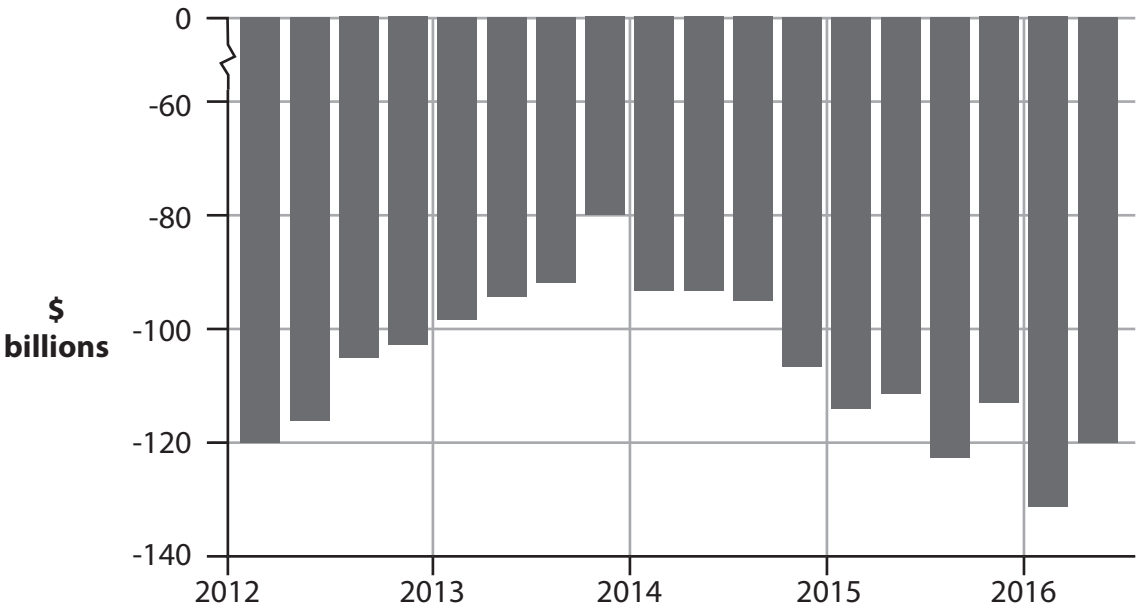
You should spend 60 minutes on this section.

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

Question 5 starts on page 28.

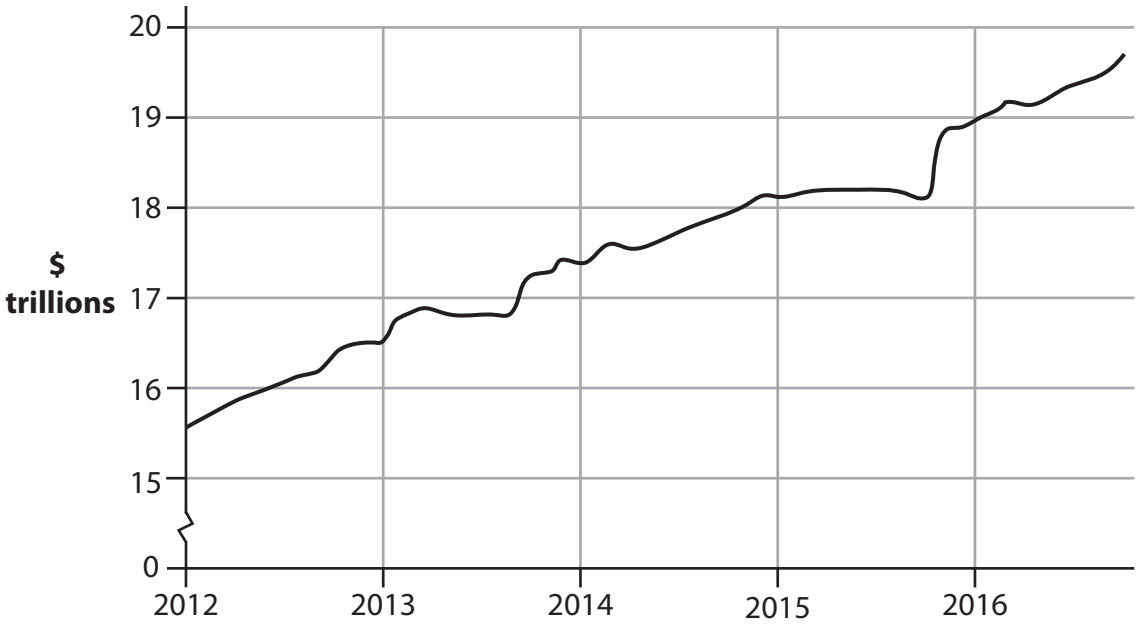
4 The US economy

Figure 1 Balance of payments on current account ($ billions) by quarter, 2012-2016



(Source: http://www.tradingeconomics.com/united-states/current-account)

Figure 2 National debt ($ trillions) by quarter, 2012-2016



(Source: http://www.tradingeconomics.com/united-states/government-debt)

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Extract 1 Trade policy

In 2016 Donald Trump won the US presidency. For his supporters, this was an opportunity to review a system of globalisation that many Americans believed had increased inequality and reduced living standards. For others, there was a fear that anti-globalisation reform would increase protectionism and reduce global economic growth.

The President argued that decades of free-trade policies were responsible for the collapse of much of the USA's manufacturing industry. He claimed that the disadvantages of globalisation have outweighed the benefits, for example, by bringing cheap consumer goods into the country, causing unemployment and lower wages.

There was also a suggestion that the President may renegotiate, or possibly even end, the North American Free Trade Agreement (NAFTA). NAFTA lowers trade barriers between the USA, Canada and Mexico. The supporters of NAFTA claim that it has helped the US economy by opening up export markets.

The President has also argued that since China joined the World Trade Organization (WTO), more than 50 000 factories and coal mines have closed and millions of jobs have been lost in the USA. The Chinese Government has been accused of using the protectionist measures of currency manipulation, dumping and paying unfair subsidies to its manufacturers. However, a trade war with China could mean a higher US rate of inflation. It could also harm US firms that are heavily dependent on Chinese imports, and businesses for whom China has become a significant export market. The President claimed that protectionist policies will keep jobs and wealth inside the USA, leading to a higher rate of economic growth.

During the election campaign, the poor state of much of the country's infrastructure was discussed. The President said: "We are going to fix our inner cities, and rebuild our highways, bridges, tunnels, airports, schools, and hospitals. We're going to rebuild our infrastructure … and we will put millions of our people to work as we rebuild it." In February 2017 he announced plans to increase the national debt in order to spend $1 trillion on infrastructure over the next decade. The problem is that planning infrastructure projects takes time, so it is not clear how quickly growth from this investment would become evident.

(Sources: adapted from 'Trump's economic policies: protectionism, low taxes and coal mines', The Guardian, https://www.theguardian.com/us-news/2016/nov/09/trumps-economic-policies-protectionism-low-taxes-and-coal-mines; 'Trump's economic policy explained: the era of fiscal restraint is over', The FT, https://www.ft.com/content/ b5b78c76-a769-11e6-8898-79a99e2a4de6)

(a) With reference to Extract 1, explain what is meant by a free trade area.

(4)

(b) With reference to the information provided and your own knowledge, discuss the economic case for protectionism.

(16)

(c) With reference to Extract 1, analyse the effects of any **two** protectionist measures that the Chinese Government has been accused of adopting.

(8)

(d) With reference to the last paragraph of Extract 1, assess the potential benefits of investment in infrastructure to the US economy.

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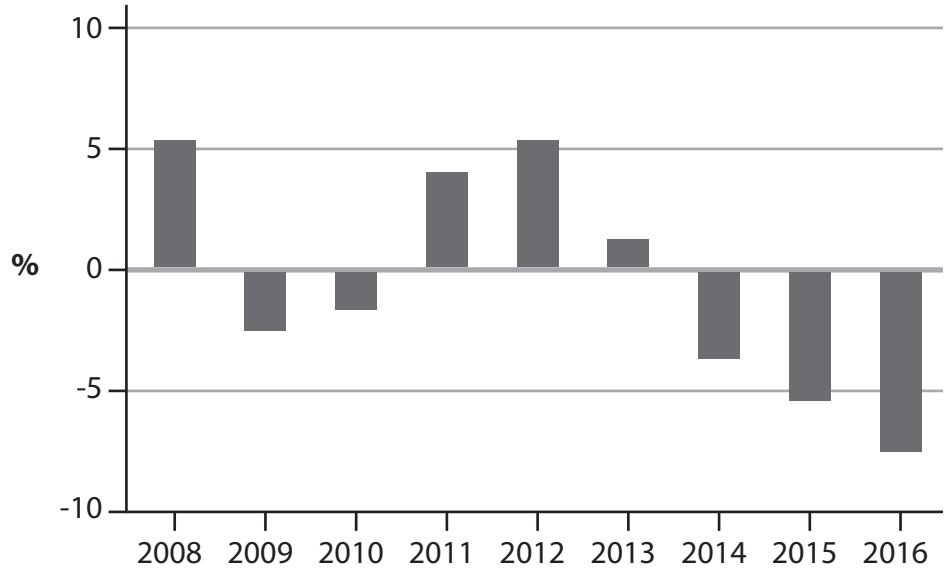
QUESTION 5 BEGINS ON THE NEXT PAGE.

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

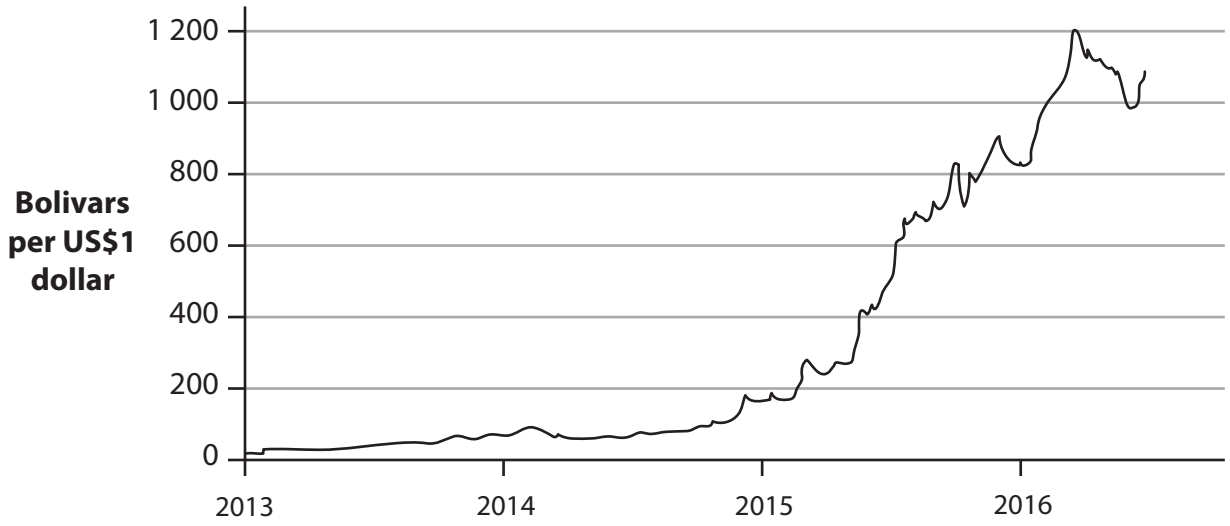
5 The economy of Venezuela

Figure 1 Annual real GDP growth rate (%), 2008–2016



(Source: IMF – http://www.telegraph.co.uk/business/2016/05/21/venezuela-how-the-socialist-paradise-turned-into-debt-and-hyperi/)

Figure 2 Bolivar-US dollar exchange rate, January 2013 to June 2016



(Source: https://www.ft.com/content/93889fec-f726-364a-af47-1347edb7bab9)

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Extract 1 Falling oil prices

Until late 2014, Venezuela benefited from high oil prices leading to higher tax revenues allowing increased public expenditure. The Government relied on oil exports as a major source of foreign currency.

Economic growth and redistribution policies led to a decline in relative poverty, from 50% of the population in 1998 to 30% in 2013. Furthermore, the number of people in absolute poverty fell to a record low, from 21% in 1998 to 5.4% in 2015.

However, the collapse in international oil prices damaged the performance of Venezuela's economy. As oil accounts for 96% of exports, when the price of oil fell by 50% after 2014, Venezuela's current account worsened significantly. It recorded a deficit of over $4 billion in 2016.

Oil provides 59% of fiscal revenues. Venezuela now faces an increasing fiscal deficit, forecast to be 20% of GDP in 2020. The country's gold reserves have been used to service debt and to pay for some basic imports. The Government just managed to avoid defaulting on its massive foreign debt by selling foreign assets at a huge discount.

The Government has responded to the fiscal deficit by printing money, which contributed to a higher rate of inflation. In 2016 Venezuela had the world's highest inflation rate of 482% and this is expected to increase to more than 1500% in 2017. The country has also witnessed a rapid decline in the value of its currency, the bolivar.

(Sources: adapted from 'Venezuela Overview', The World Bank, http://www.worldbank.org/en/country/venezuela/overview; 'Venezuela's worsening economic crisis – the Guardian briefing', The Guardian, https://www.theguardian.com/world/2016/jun/22/venezuela-economic-crisis-guardian-briefing; 'Extreme Poverty in Venezuela drops to record low', http://www.telesurtv.net/english/news/Extreme-Poverty-in-Venezuela-Drops-to-Record-Low-20150302-0034.html)

Extract 2 Foreign Direct Investment (FDI)

Between 2007 and 2016, many transnational companies that were based in Venezuela left the country because of high levels of crime, the inability to repatriate profits and threats to private property rights. According to Transparency International, Venezuela is now the ninth most corrupt country in the world. Venezuela is also one of the most difficult places to start up and operate a business. It ranks 186 out of 189 countries in the World Bank's Doing Business Index. A recent study ranked Caracas, capital of Venezuela, as the world's most violent city.

FDI is perhaps the best solution to access external resources and develop new sectors in the economy. The Government could create special conditions for transnational companies willing to relocate to Venezuela.

Venezuela faces major challenges. It needs to diversify its exports to reduce its exposure to oil price fluctuations. It should aim to establish private sector confidence by improving the investment climate to strengthen its long-term growth prospects.

(Sources: adapted from 'The road ahead in Venezuela: Navigating through a rough sea of economic crisis', Brookings, https://www.brookings.edu/blog/up-front/2016/01/04/the-road-ahead-in-venezuela-navigating-through-a-rough-sea-of-economic-crisis/; 'Venezuela: how the socialist paradise turned into debt and hyperinflation hell', The Telegraph, http://www.telegraph.co.uk/business/2016/05/21/venezuela-how-the-socialist-paradise-turned-into-debt-and-hyperi/)

(a) With reference to Extract 1, explain the difference between absolute poverty and relative poverty.

(4)

(b) With reference to Figure 2 and Extract 1, analyse **two** possible reasons for the change in the value of the Venezuelan bolivar against the US dollar since 2015.

(8)

(c) Assess the likely effects, apart from the impact on the exchange rate, of 'the collapse in international oil prices' (Extract 1, line 8) on Venezuela's economy.

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(d) With reference to the information provided and your own knowledge, evaluate the possible economic benefits of an increase in FDI in the Venezuelan economy.

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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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