GradeMax

Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Thursday 23 May 2019

Morning (Time: 2 hours) | Paper Reference **WEC04/01**

Economics

International Advanced Level
Unit 4: Developments in the Global Economy

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 The UK's labour productivity is, on average, nearly 30% lower than that of the USA, France and Germany.

(a) Evaluate the impact of a fall in productivity on an economy of your choice.

(15)

(b) Discuss policies that a government in a *developed* economy might pursue to increase the productivity of its working population.

(25)

(Total for Question 1 = 40 marks)

2 Some economists expect that the Government of Saudi Arabia will intervene in the currency market to stabilise the value of its currency, the *riyal*.

(a) Assess policies a government could use to stabilise the external value of its currency.

(15)

In 2017, Saudi Arabia's surplus on its current account of the balance of payments was $19.1 billion.

(b) Evaluate possible causes of a current account surplus. Refer to a country or countries in your answer.

(25)

(Total for Question 2 = 40 marks)

3 In 2018, the Government of the USA considered withdrawing from the North American Free Trade Agreement (NAFTA).

(a) Assess the likely economic effects of a decision by the USA to withdraw from NAFTA.

(15)

(b) Evaluate factors, other than the growth of trading blocs, that have contributed to increased globalisation in the last 40 years.

(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.

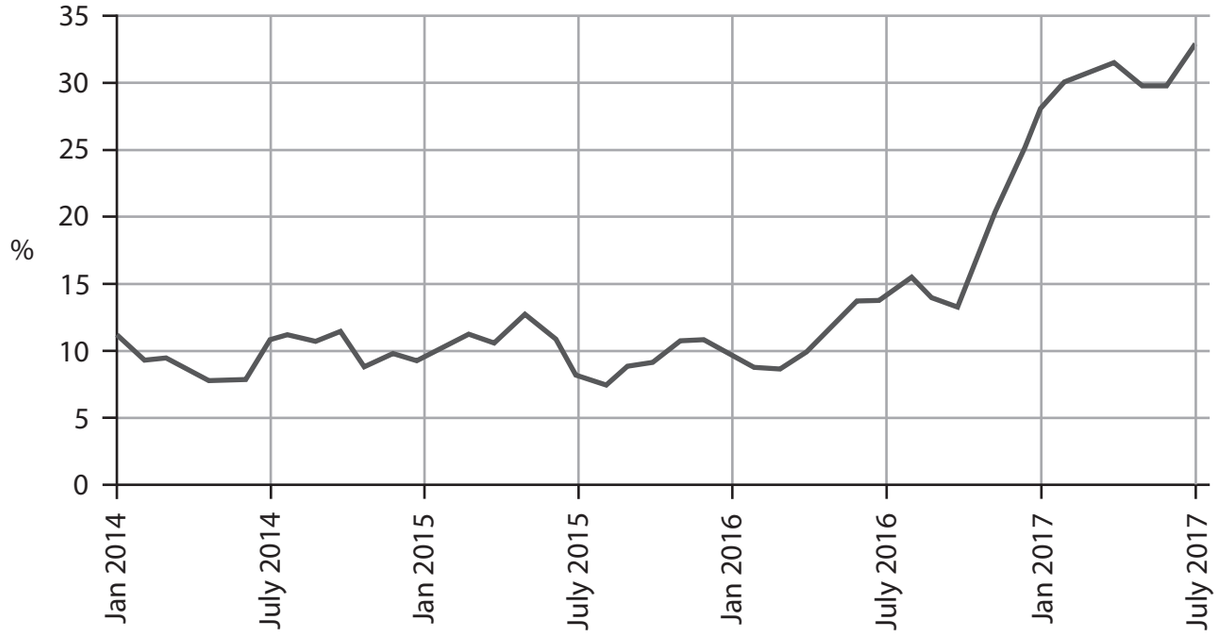
You should spend 60 minutes on this section.

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

Question 5 starts on page 28.

4 The economy of Egypt

Figure 1 The annual rate of inflation as measured by the Consumer Price Index (CPI), January 2014 to July 2017



(Source: adapted from https://tradingeconomics.com/egypt/inflation-cpi)

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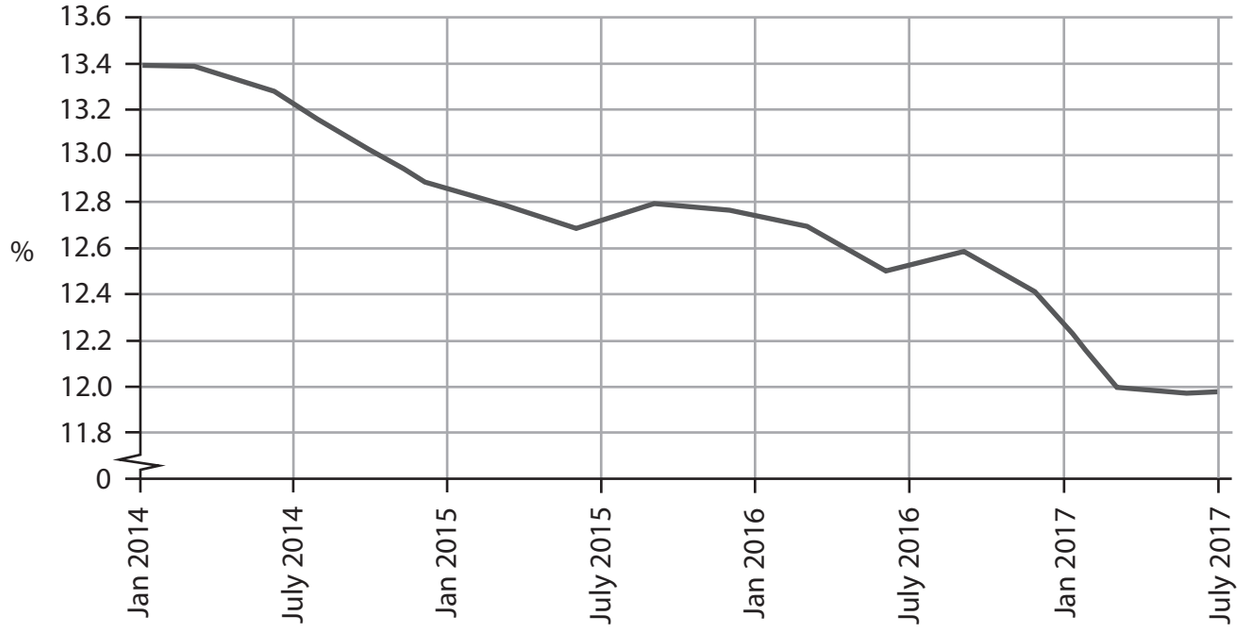
Figure 2 Annual unemployment rate (%), January 2014 to July 2017



(Source: adapted from https://tradingeconomics.com/egypt/unemployment-rate)

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Extract 1 Economic outlook

The economic performance of Egypt has been disappointing since mid-2011. In 2014, the President outlined 'an ambitious plan to develop agriculture, housing, education and impoverished areas'. He also promised that the population would experience an improvement in living standards.

However, in 2016, Egypt's economic problems continued and the economy experienced low growth rates. Egypt's budget deficit has been over 10% since 2013. To address this problem, the President ended fuel subsidies and introduced an indirect tax of 13%. This adversely affected the construction sector. The increasing cost of building materials has delayed the completion of many projects.

In late 2016, Egypt devalued its currency, the *Egyptian pound*, by 48%. The Central Bank of Egypt increased the base interest rate from 11.75% in 2016 to 18.75% in 2017 in an attempt to limit inflation following the devaluation. The President also announced that the exchange rate will now be allowed to float and will no longer be pegged to the US dollar.

The devaluation of the currency has been a significant factor in attracting new investors to the country. Foreign direct investment (FDI) gradually increased between 2016 and 2017. According to analysts, the successful floating of the *Egyptian pound* and its devaluation will reduce Egypt's trade deficit. The country has traditionally been import-dependent, which has led to a shortage of foreign currency.

The devaluation of the currency was one of the demands of the International Monetary Fund (IMF) in order for Egypt to receive a loan of $12 billion between 2017 and 2020.

Egypt was one of the world's most popular travel destinations but in 2011 security concerns caused a decline in Egypt's tourism industry. The Government is trying to rescue this sector that once accounted for 11.4% of GDP. Egypt's historical places have also been unable to attract visitors due to political instability in the area. Tourism from Russia, which had accounted for the highest number of visitors, fell by nearly 55% between 2015 and 2016.

There was a small increase in Egypt's revenue from tourism in mid-2016. This was a result of government measures to promote Egypt as a country for cultural tourism. Subsequently, the airline companies were able to increase the number of flights to and from Egypt.

The Government is implementing strategies, such as improving heritage sites and organising international sporting events, to increase the number of visitors coming to Egypt. It also plans to develop shopping centres, hotels and restaurants to attract tourists. According to Egypt's Ministry of Tourism, four million tourists travelled to the country in 2017. However, this is significantly less than the 15 million visitors that Egypt attracted in 2010.

(Sources: adapted from 'Egypt 2017', World Business Times, http://world-businesstimes.com/telegraph-wbt-egypt-report-2017; 'Egypt just massively devalued its currency — here's what happens next', Business Insider UK, http://uk.businessinsider.com/egypt-unpegs-the-egyptian-pound-from-us-dollar-2016-11)

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(a) With reference to Extract 1, outline **two** roles of the IMF.

(4)

(b) Analyse **two** likely macroeconomic effects of the introduction of the 'indirect tax' (Extract 1, line 9).

(8)

(c) Evaluate the effects, apart from the impact on tourism, of the devaluation of the *Egyptian pound* on Egypt's economy.

(16)

(d) Assess the potential economic benefits of increasing 'the number of visitors coming to Egypt' (Extract 1, lines 35-36).

(12)

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

5 The economy of Nigeria

Figure 1 Annual real GDP growth rate (%), 2013 to 2017



(Source: adapted from https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2016&locations=NG&start=2013&view=chart; https://www.vanguardngr.com/2018/02/nigerias-economy-records-0-83-growth-2017-nbs/)

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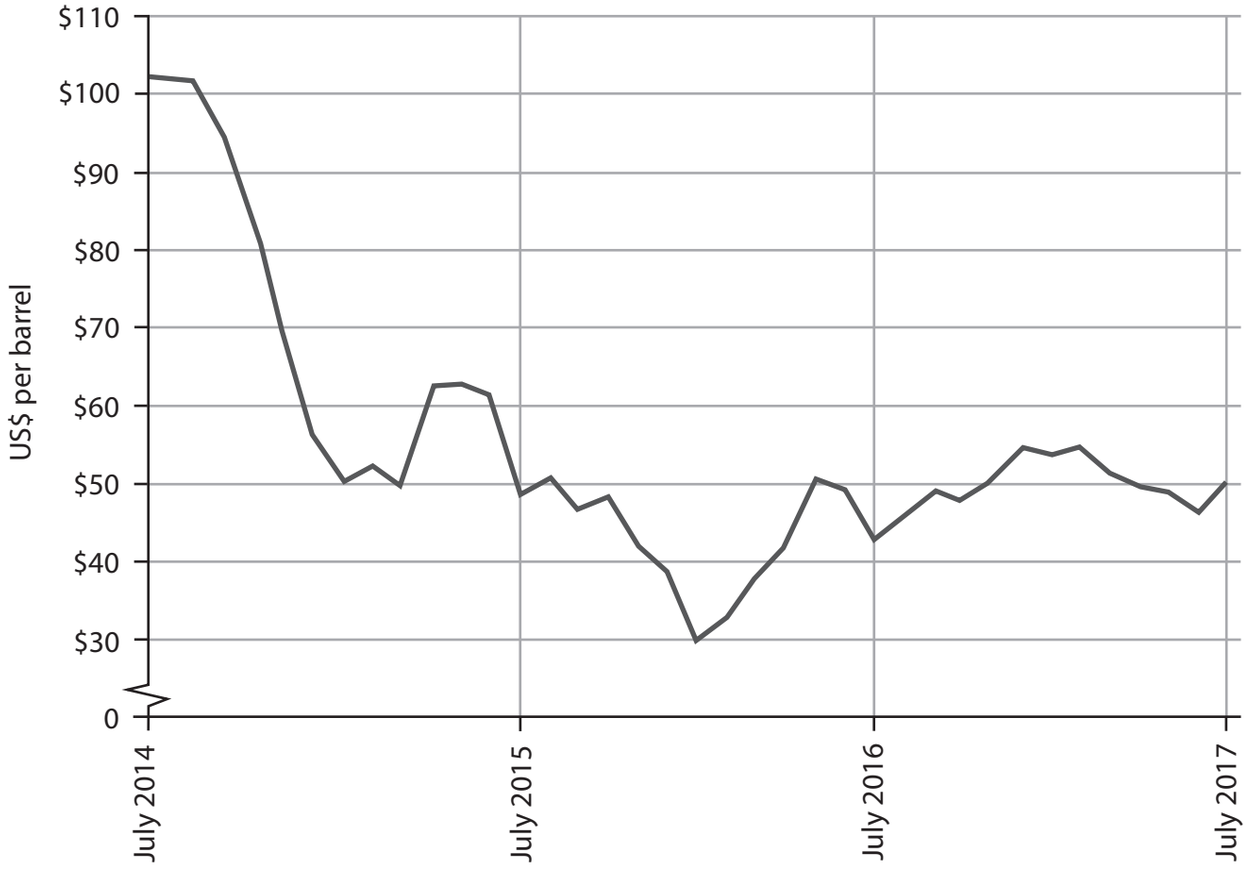
Figure 2 Global price of crude oil, July 2014 to July 2017



(Source: adapted from http://www.macrotrends.net/1369/crude-oil-price-history-chart)

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Extract 1 Constraints on growth and development

Nigeria has a population of almost 184 million, which accounts for nearly 47% of West Africa's population. It also has one of the most youthful populations in the world. Nigeria is Africa's biggest oil exporter. Oil exports are estimated to account for approximately 95% of Nigeria's total exports and 70% of its total tax revenue.

Between 2014 and 2016, Nigeria's economy weakened. This was primarily as a result of the significant reduction in the global price of crude oil. This led to a fall in tax revenues from oil and created a budget deficit of over 3% of GDP.

Although Nigeria's economy showed some signs of growth in 2017, it faced disruptions in oil production. The country experiences conflicts and frequent attacks on its oil facilities and infrastructure. Consequently, Nigeria has severe power shortages. Rising electricity prices and the depreciation of its currency, the *naira*, against the US dollar, have caused the inflation rate to increase to nearly 16% in 2017.

Nigeria's foreign currency reserves fell by nearly US$2 billion in 2017. This was caused by a current account deficit as a result of lower oil revenues, an increase in capital flight and an increased use of foreign currency reserves to support the *naira*.

The regulatory environment for business in Nigeria also faces challenges of weak institutions and poor enforcement of laws. Nigeria suffers from corruption and it ranks 136 out of 176 countries on the Corruption Perception Index. The high level of bureaucracy makes it difficult for firms to operate in Nigeria. This was reflected in the World Bank's report, *Doing Business 2017,* which ranked Nigeria at 169 out of 190 countries.

Nigeria is classified as having low human development, with a Human Development Index of 0.51. This is because of low public investment in healthcare and education. Unemployment has remained over 10% since 2016 and income inequality is high. It is estimated that almost 62% of the population live on less than $1.90 per day in purchasing power parity terms.

(Sources: adapted from 'World Bank in Nigeria', World Bank, www.worldbank.org/en/country/nigeria/overview; 'Nigeria 2017', African Economic Outlook, Barbara Barungi and Robert Asogwa, http://www.africaneconomicoutlook.org/en/country-notes/Nigeria; 'Nigeria's oil sector contribution to GDP lowest in OPEC', BusinessNews, http://businessnews.com.ng/2014/12/25/nigerias-oil-sector-contribution-gdp-lowest-opec/)

Extract 2 Industrialisation

The Nigerian Government has planned to diversify the economy through industrialisation. Although the industrial sector is growing, it has prioritised further development of this sector. For example, the Government is encouraging the growth of mining and the manufacture of clothing and footwear. In 2015 the industrial sector accounted for approximately 15.5% of Nigeria's GDP.

(Source: adapted from 'Nigeria 2017', African Economic Outlook, Barbara Barungi and Robert Asogwa, http://www.africaneconomicoutlook.org/en/country-notes/nigeria)

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(a) With reference to Figure 1, explain what is meant by the *real GDP growth rate*.

(4)

(b) Analyse **two** reasons why Nigeria's 'foreign currency reserves fell by nearly US$2 billion in 2017' (Extract 1, line 14).

(8)

(c) With reference to the information provided, evaluate factors that may constrain economic growth and development in Nigeria.

(16)

(d) Assess the case for stimulating Nigeria's economic growth through industrialisation.

(12)

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

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