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

Monday 28 October 2019

Afternoon (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 ▶

P58492A

©2019 Pearson Education Ltd.

1/1/1/1/1/1/1/1/1

P 5 8 4 9 2 A 0 1 4 0

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 Research indicates that joint ventures play an important role in helping developing countries to increase their economic growth rates.

(a) Assess the case for governments in developing countries stimulating economic growth by promoting joint ventures between local businesses and transnational companies.

(15)

(b) Evaluate strategies, other than promoting joint ventures, that a government in a *developing* country might use to increase *economic development*.

(25)

(Total for Question 1 = 40 marks)

2 Inequality *between* countries has fallen over the last 30 years.

(a) Assess the likely causes of changes in income inequality *between* countries of your choice.

(15)

In 2018 the US President announced a tariff of 10% on aluminium and 25% on steel to protect the country's national security.

(b) To what extent are strategic reasons the main cause for imposing restrictions on free trade?

(25)

(Total for Question 2 = 40 marks)

3 In 2017 Venezuela's fiscal deficit was more than 16% of GDP. It is estimated that a large proportion of this deficit was structural.

(a) Assess the view that a structural fiscal deficit is a more serious issue for a country than a cyclical fiscal deficit.

(15)

Between 2014 and 2017, Venezuela's public expenditure as a proportion of GDP fell from 48% to 30%.

(b) Evaluate the likely economic effects of a reduction in public expenditure as a proportion of GDP in Venezuela or another country of your choice.

(25)

(Total for Question 3 = 40 marks)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

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** ☐

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

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 Fair trade

Figure 1 Selected global data on fair trade

	2008	2014
Number of farmers participating in fair trade schemes	1.00m	1.65m
Participation rate of women in fair trade schemes (proportion of all farmers)	24%	26%
Total income from fair trade schemes	€2 895m	€5 900m
Proportion of income from fair trade schemes spent on education and healthcare	22%	26%

(Source: adapted from https://www.fairtrade.org.uk/What-is-Fairtrade/Facts-and-Figures and https://www.statista.com/statistics/271354/revenue-of-fair-trade-products-worldwide-since-2004/)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

Extract 1 Fair trade

Many farmers work in remote areas and grow primary products that are subject to price volatility. An increasing number of consumers are concerned about the earnings and living conditions of farmers. Consequently, they are willing to pay higher prices if poor farmers benefit.

Fair trade schemes are designed to give farmers a guaranteed minimum price when the world market price falls below this level. These schemes attempt to address the inequality that exists between poor farmers and wealthier consumers. This helps farmers to escape from absolute poverty.

Fair trade has increased living standards of farmers and reduced the risks associated with external shocks. This has allowed poor farmers to generate more money giving them greater access to credit. Many farmers have used this extra income to improve the quality of their products and to develop new products. Higher incomes have enabled them to pay for healthcare and education for their children.

Fair trade schemes use labelling systems (certification). Independent organisations verify that there are good working conditions on farms and that higher prices are paid to farmers for their primary products. Fair trade also aims to prevent exploitation of farmers by retailers and distributors.

However, there are many problems with fair trade schemes. For example, certification adds to farmers' costs. Small farm owners can pay up to €2 000 to apply for certification. Every euro spent on certification is a euro that the farmers cannot spend on their families. Large farm owners from richer countries are more likely to find it valuable to pay for certification.

Another problem is that fair trade certification cannot guarantee fair trade sales. If the minimum prices for fair trade products are high, sales will be low. On the other hand, if the minimum price for fair trade products are low, sales may increase but the impact on reducing absolute poverty may not be significant.

A further problem is that if fair trade schemes result in higher incomes for farmers, more producers will enter the market. This will result in a substantial increase in the supply of fair trade primary products.

Some economists believe that fair trade schemes limit economic development if low income countries are encouraged to focus on producing primary products rather than expanding their manufacturing sectors.

(Sources: adapted from 'Fairtrade only really benefits supermarkets. A rethink is needed', The Guardian, https://www.theguardian.com/commentisfree/2017/aug/04/fairtrade-benefits-supermarkets-global-south-outdated-model Copyright Guardian News & Media Ltd 2018; Mind the fair trade gap, by Tim Harford © Financial Times - May 2015, https://www.ft.com/content/fc9a2e14-03e1-11e5-a70f-00144feabdc0; 'What is fair trade?', Fairtrade Foundation, https://www.fairtrade.org.uk/What-is-Fairtrade © Fair trade)

Extract 2 Non-governmental organisations (NGOs)

NGOs are involved in all areas of trade, from an international level to a domestic level. They help communities reduce absolute poverty through both community-based and sustainable development programmes. Many NGOs offer microfinance and support local businesses to provide training services to improve the skills of their workforce.

(Sources: adapted from 'NGOs in Trade Development: International Players', International Trade Centre, http://www.tradeforum.org/NGOs-in-Trade-Development-International-Players)

(a) With reference to the information provided, explain what is meant by *absolute poverty*.

(4)

(b) With reference to Figure 1 and Extract 1, evaluate the likely economic benefits of fair trade schemes to developing countries.

(16)

(c) Analyse **two** problems the governments of low-income countries might experience when attempting to develop 'their manufacturing sectors' (Extract 1, line 33).

(8)

(d) With reference to Extract 2, assess the role of NGOs in promoting economic development.

(12)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(a) With reference to the information provided, explain what is meant by *absolute poverty*.

(4)

(b) With reference to Figure 1 and Extract 1, evaluate the likely economic benefits of fair trade schemes to developing countries.

(16)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(c) Analyse **two** problems the governments of low-income countries might experience when attempting to develop 'their manufacturing sectors' (Extract 1, line 33).

(8)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(d) With reference to Extract 2, assess the role of NGOs in promoting economic development.

(12)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

(Total for Question 4 = 40 marks)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

BLANK PAGE

QUESTION 5 BEGINS ON THE NEXT PAGE.

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

5 South Korea's economy

Figure 1 Selected economic indicators, 2014-2017

	2014	2015	2016	2017
Annual inflation rate as measured by the CPI (%)	1.3	0.7	1.0	1.9
Annual real growth rate (%)	3.3	2.8	2.8	3.6
Household debt (% of GDP)	82.3	85.7	90.0	94.9
Population aged over 65 (% of total population)	12.6	12.9	13.6	14.1

(Source: adapted from Knomea, https://knoema.com/atlas/Republic-of-Korea/Inflation-rate; Knomea, https://knoema.com/atlas/Republic-of-Korea/Real-GDP-growth; Trading Economics, https://tradingeconomics.com/south-korea/households-debt-to-gdp; Trading Economics, https://tradingeconomics.com/south-korea/population-ages-65-and-above-percent-of-total-wb-data.html)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

Extract 1 Monetary policy

In November 2017 the Bank of Korea raised the economy's base interest rate for the first time in more than six years, from 1.25% to 1.5%. The Bank indicated that the South Korean economy was in a good position to absorb the higher interest rate. The economy grew at its fastest rate in seven years. This was as a result of an increase in the country's exports, which were boosted by global demand for its steel and petrochemical products.

South Korea was the first Asian country to raise interest rates since 2014, moving away from a period of low interest rates that followed the global financial crisis. As a result the Korean currency, the *won*, increased by 4% against the US dollar. Analysts claimed that the stronger *won* will keep inflation low, making it difficult for the Bank of Korea to raise interest rates too quickly. The country's inflation rate remained below its 2% target. The Bank of Korea does not use asset purchases (quantitative easing) as an instrument when implementing its monetary policy. It is planning to increase the base interest rates twice in 2018, possibly up to 2%.

The increase in the base interest rate was also aimed at reducing household debt, which has doubled over the last 10 years to a record high of approximately US$1.2 trillion. Households had been encouraged to borrow by the country's low interest rates.

Despite the increase in the interest rate, household debt continued to rise. This was as a result of the increasing availability of credit from internet-based lenders.

(Sources: adapted from 'Bank of Korea raises interest rates for first time in 6 years', by Song Jung-a © Financial Times - November 2017, https://www.ft.com/content/e42b6c06-d56e-11e7-8c9a-d9c0a5c8d5c9)

Extract 2 Capital gains tax

In 2017 the South Korean Government introduced measures to stabilise the country's property market. This included tighter mortgage rules and substantial increases in capital gains tax on owners of multiple homes.

There had been signs of rising house prices in wealthy areas after previous governments eased mortgage rules to stimulate the economy. There are worries that house prices have risen unsustainably. These could fall substantially if the economy slows and interest rates rise.

The proposed increase in the capital gains tax rate might be delayed. The Government is concerned that the tax increase might reduce the number of South Korean Government stocks and company shares held by foreign investors.

(Sources: adapted from 'South Korea looks to cool property market with tax rise', by Song Jung-a © Financial Times - August 2017, https://www.ft.com/content/5fb472d4-774e-11e7-90c0-90a9d1bc9691)

Extract 3 Ageing population

The Government is facing challenges because the country's ageing population has increased labour shortages and social welfare responsibilities. As the elderly population increases and the working population declines, the economy's real GDP may fall considerably. 5

(Sources: adapted from 'South Korea's elderly overtake young in the workforce', by Bryan Harris © Financial Times - March 2018, https://www.ft.com/content/edad1432-2591-11e8-b27e-cc62a39d57a0)

(a) With reference to the second paragraph of Extract 1, explain what is meant by an appreciation of the *won*.

(4)

(b) With reference to Figure 1 and Extract 1, evaluate the case *against* an increase in South Korea's base interest rate in 2017.

(16)

(c) With reference to the information provided and your own knowledge, assess the macroeconomic effects of an increase in direct taxes, such as capital gains tax, on the economy of South Korea.

(12)

(d) With reference to Figure 1 and Extract 3, analyse **two** likely economic problems of an ageing population.

(8)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(a) With reference to the second paragraph of Extract 1, explain what is meant by an appreciation of the *won*.

(4)

(b) With reference to Figure 1 and Extract 1, evaluate the case *against* an increase in South Korea's base interest rate in 2017.

(16)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(c) With reference to the information provided and your own knowledge, assess the macroeconomic effects of an increase in direct taxes, such as capital gains tax, on the economy of South Korea.

(12)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(d) With reference to Figure 1 and Extract 3, analyse **two** likely economic problems of an ageing population.

(8)

(Total for Question 5 = 40 marks)

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

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA