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 21 January 2021

Morning (Time: 2 hours) | Paper Reference **WEC14/01**

Economics

International Advanced Level
Unit 4: Developments in the global economy

You must have:
Source Booklet (enclosed)

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 **ALL** questions in Section A and Section B.
- Answer **TWO** questions in Section C.
- 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.*
- 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.

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SECTION A

Answer ALL questions in this section.

Questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

1 In September 2019 the European Central Bank (ECB) decided to restart its quantitative easing programme in the eurozone area.

Ceteris paribus, which **one** of the following is the most likely effect of this decision by the ECB for an economy in the eurozone?

☒ **A** A decrease in the money supply

☒ **B** A decrease in economic growth

☒ **C** An increase in unemployment

☒ **D** An increase in the rate of inflation

(Total for Question 1 = 1 mark)

2 Which **one** of the following theories suggests that a *savings gap* is a constraint on growth and development?

☒ **A** The Harrod–Domar model

☒ **B** The Lewis structural dual-sector model

☒ **C** The Marshall–Lerner condition

☒ **D** The Prebisch–Singer hypothesis

(Total for Question 2 = 1 mark)

3 Between June 2018 and October 2019 the Australian dollar fell by 7.4% against the US dollar.

Ceteris paribus, which **one** of the following is the most likely impact of this depreciation on Australia's economy?

☒ **A** A fall in the price of imports and a rise in the price of exports

☒ **B** An increase in public sector borrowing and an increase in national debt

☒ **C** An improvement in the capital and financial account of the balance of payments

☒ **D** A decrease in the cost of borrowing and a decrease in the reward for saving

(Total for Question 3 = 1 mark)

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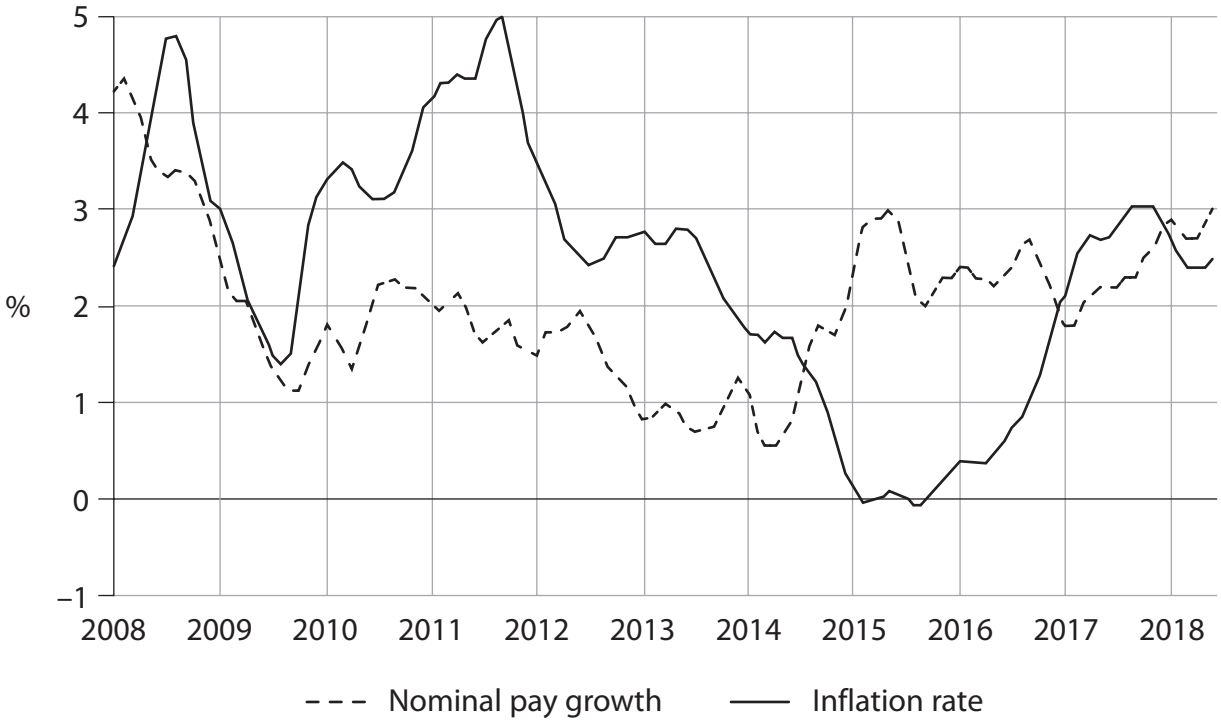
4 The chart shows the UK inflation rate (as measured by the Consumer Price Index) and UK nominal pay growth, annual percentage change, 2008 to 2018.



Which **one** of the following can be deduced from this chart?

- ☒ **A** Pay growth not adjusted for inflation was lowest in 2009
- ☒ **B** Pay growth adjusted for inflation was highest in 2015
- ☒ **C** Disinflation occurred between 2016 and 2017
- ☒ **D** Deflation occurred between 2012 and 2014

(Total for Question 4 = 1 mark)

5 In 2019 India's international competitiveness rank was 10 places lower than it was in 2018.

Which **one** of the following is the most likely reason for this fall in India's international competitiveness?

- ☒ **A** A decrease in its inflation rate relative to other countries
- ☒ **B** A decrease in its unit labour costs relative to other countries
- ☒ **C** A decrease in its labour productivity relative to other countries
- ☒ **D** A decrease in its transportation costs relative to other countries

(Total for Question 5 = 1 mark)

6 The table shows the maximum possible production of cars and lorries by Country A and Country B in a given year.

Country	Cars		Lorries
A	40 000	**OR**	20 000
B	16 000	**OR**	16 000

Which **one** of the following can be deduced from this table?

- ☒ **A** Both countries will not benefit from specialisation and trade
- ☒ **B** Country A has a comparative advantage over Country B in the production of cars and lorries
- ☒ **C** Country B has an absolute advantage over Country A in the production of cars and lorries
- ☒ **D** Country B has a lower opportunity cost of producing lorries whereas Country A has a lower opportunity cost of producing cars

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

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SECTION B BEGINS ON THE NEXT PAGE.

SECTION B

Study Figure 1 and Extract A in the Source Booklet before answering Question 7. Write your answers in the spaces provided on the following pages.

7 (a) With reference to the second paragraph of Extract A, calculate the share of global wealth of high-income advanced countries and middle-income developing countries in 2000. You are advised to show your working.

(2)

(b) With reference to Figure 1, analyse the likely effect on inequality of the change in the global Gini coefficient from 2000 to 2014. Illustrate your answer with a Lorenz curve diagram.

(6)

(c) Explain what is meant by 'relative poverty' (Extract A, line 12).

(4)

(d) With reference to Extract A, examine **two** causes of income inequality *within* advanced economies.

(8)

(e) With reference to Extract A, discuss policies that a government could implement to reduce income inequality within its economy.

(14)

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(a) With reference to the second paragraph of Extract A, calculate the share of global wealth of high-income advanced countries and middle-income developing countries in 2000. You are advised to show your working.

(2)

(b) With reference to Figure 1, analyse the likely effect on inequality of the change in the global Gini coefficient from 2000 to 2014. Illustrate your answer with a Lorenz curve diagram.

(6)

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(c) Explain what is meant by 'relative poverty' (Extract A, line 12).

(4)

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(d) With reference to Extract A, examine **two** causes of income inequality *within* advanced economies.

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(e) With reference to Extract A, discuss policies that a government could implement to reduce income inequality within its economy.

(14)

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(Total for Question 7 = 34 marks)

(TOTAL FOR SECTION B = 34 MARKS)

SECTION C

Answer TWO questions from this section.

8 Between 2000 and 2018 Cambodia's terms of trade fell by 31.3%.

Evaluate the macroeconomic effects of a fall in a country's terms of trade on a government's macroeconomic objectives. Refer to a country of your choice in your answer.

(Total for Question 8 = 20 marks)

9 In 2017 Yemen received over $3 billion of development aid, an increase of almost 200% since 2013.

Evaluate the case for promoting *economic development* through aid. Refer to a developing country in your answer.

(Total for Question 9 = 20 marks)

10 Between 2012 and 2018 Spain's public expenditure as a proportion of GDP fell from 48.1% to 41.3%.

Evaluate the likely economic effects of a reduction in public expenditure as a proportion of GDP. Refer to a developed country of your choice in your answer.

(Total for Question 10 = 20 marks)

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Write the answer to your FIRST chosen question here

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 ☒.

Write the answer to your SECOND chosen question on page 22.

Chosen question number: **Question 8** ☐ **Question 9** ☐ **Question 10** ☐

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Write the answer to your SECOND chosen question here

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Chosen question number: **Question 8** ☒ **Question 9** ☒ **Question 10** ☒

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TOTAL FOR SECTION C = 40 MARKS

TOTAL FOR PAPER = 80 MARKS

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Unit 4: Developments in the global economy

Source Booklet

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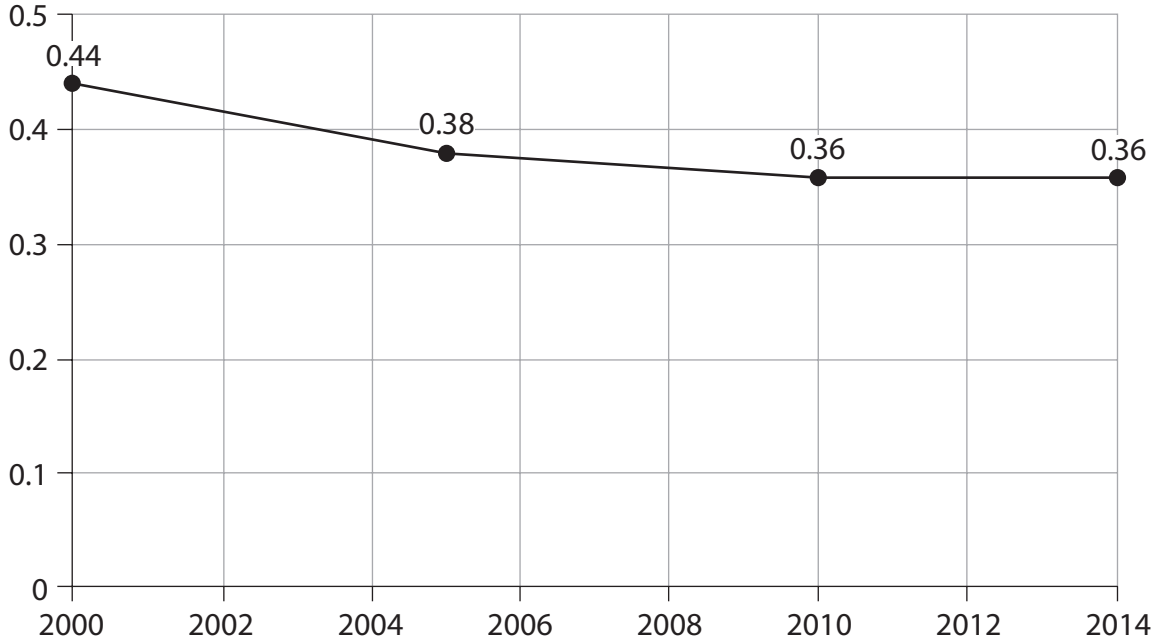
Sources for use with Section B.

Inequality

Figure 1 Global Gini coefficient (for income) 2000–2014



Extract A Inequality – causes and policies

Inequality is a social and political issue in many advanced economies. This has led to a debate about its causes and solutions. It has also resulted in public discontent with governments and other institutions.

Wealth inequality has decreased between high-income advanced countries and middle-income developing countries. Between 2000 and 2014 the share of global wealth of high-income countries fell by nine percentage points to 71%. Over the same period the share of wealth of middle-income developing countries rose by eight percentage points to 22%.

However, income inequality within the advanced economies has increased. The top 1% of income earners almost doubled their share of total pre-tax income from 6% in 1980 to 11% in 2014. Relative poverty rates have also increased, from 23% of the population in 1985 to 30% in 2016. On average, almost one in seven people living in advanced economies remains in relative poverty after taxes and transfer payments.

Personal factors such as gender, age, and place of residence continue to affect inequality in advanced economies. Even though women are now more likely to have a degree, their earnings and wealth are still lower than those of men. Women have narrowed the wage gap but earn only $0.84 for every $1 men earn. Similarly, a higher proportion of young people have a degree but their earnings and wealth are lower than those of older people. Residents living in urban areas are more likely to have a higher level of education than rural residents. However, unemployment in urban areas is higher and rising.

Since 2005 real disposable incomes have fallen in advanced economies. The effects of this have been most significant for middle-income earners and those in medium-skilled jobs. Over the same time period, the costs of housing, healthcare and education have risen faster than the average price level. Household debt has also increased from 87% of disposable income in 1995 to 123% in 2017.

Long-term global trends are affecting incomes and may increase income inequality in the future. For example, there has been a decrease in wages as a share of global GDP. This reflects the underlying trends of the slow growth of real wages and the increased use of automation in the global economy.

Government intervention is needed to reduce inequality. These policies could include:

- providing wider access to high quality education and training
- providing better quality healthcare
- measures to reduce discrimination
- increasing minimum wages.

Challenges related to inequality require a reconsideration of how economic gains are shared. In addition, welfare support needs to be reformed for current and future generations.

A significant challenge is how to reach agreement among policymakers, business leaders and citizens on measures to reduce income inequality.

Acknowledgements

Figure 1 and Extract A based on data taken from https://www.mckinsey.com/industries/public-sector/our-insights/inequality-a-persisting-challenge-and-its-implications?cid=eml-web