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 10 June 2014 – 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.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your 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.

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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 (a) To what extent is rapid population growth a constraint on a country's economic development?

(15)

(b) 'Providing debt relief for developing countries is the best way to promote their economic growth.'

Critically examine this statement in relation to a developing country or countries of your choice.

(25)

2 Between January 2013 and August 2013, the Indian rupee depreciated against other currencies by an average of 20%. In August 2013 India's annual current account deficit on the balance of payments was 4.9% of its GDP.

(a) Evaluate the likely effects of this depreciation on India's economy.

(15)

(b) **Apart from the depreciation of the rupee**, assess measures that India could take to reduce its current account deficit on the balance of payments.

(25)

3 (a) With reference to a country of your choice, discuss the factors that might cause its economy to have a fiscal deficit.

(15)

(b) To what extent is a large public sector debt harmful to an economy?

(25)

Do not use pencil. Use black ink or ball point pen.

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.

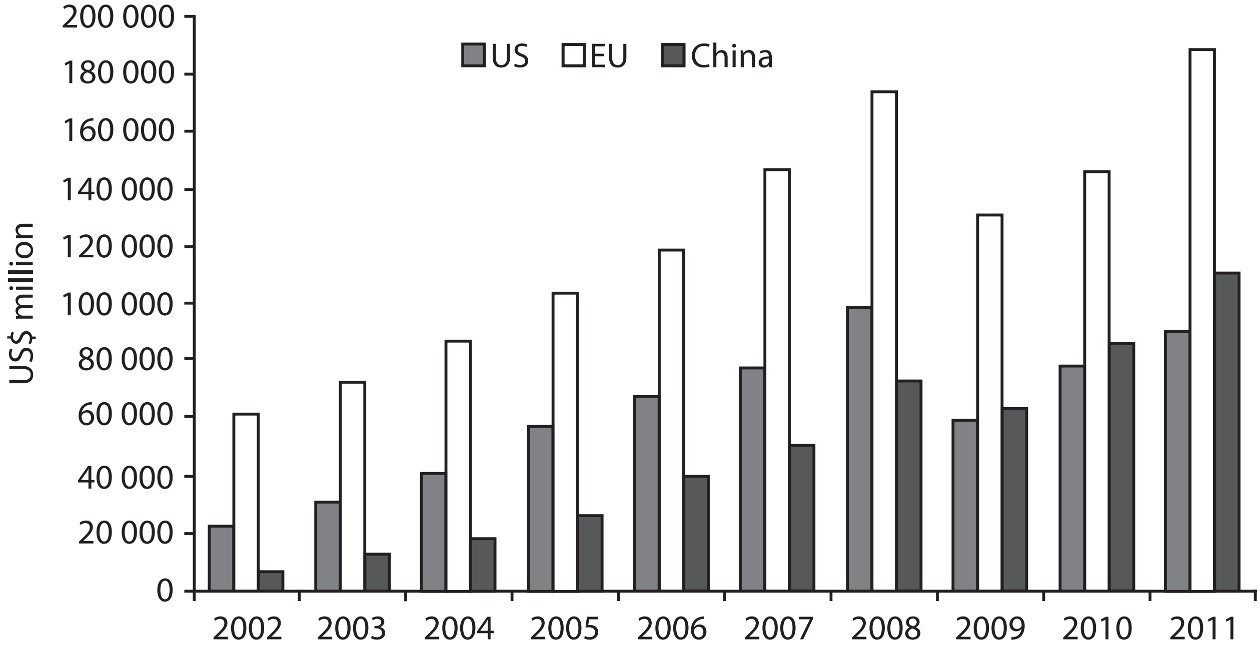
You should spend 60 minutes on this section.

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

Question 5 starts on page 26.

4 Trade and investment in Sub-Saharan Africa

Figure 1 Value of US, European Union (EU) and Chinese trade in goods and services (exports plus imports) with Sub-Saharan Africa



(Source: 'How Sub-Saharan Africa is evolving into a global economic powerhouse', *Business Insider*, 22 November 2012, www.businessinsider.com/sub-saharan-africa-economy-2012-11)

Extract 1 Demand for jobs alongside Chinese investment

China has brought cheap consumer goods, roads and schools to many parts of Africa over the past decade, but the continent's leaders are increasingly pushing for it to provide more of what many Africans want most: jobs.

A recent report by the United Nations Economic Commission for Africa (UNECA) highlighted the risk that the continent's relationship with the world's second-largest economy could strangle its attempts to industrialise. China's trade with Africa (exports plus imports) grew rapidly from US$10 billion in 2000 to an estimated US$200 billion in 2013 – four years after it overtook the USA as the continent's largest partner. But about 85% of China's imports from Africa are raw materials, such as oil and minerals. According to the African Development Bank, most minerals mined in Africa are exported in an unprocessed form, meaning the jobs and wealth from processing them is created elsewhere. For example, in Senegal, domestic peanut-processing factories face the threat of being driven out of business as Chinese companies buy up the crop to ship home.

China's demand for ore, timber and oil is forcing African states to specialise at the bottom of the value chain in areas where productivity gains are difficult to achieve, UNECA says. With Africa supplying one-third of China's oil, much of it from Angola, there is a risk of the demand for exports of raw materials causing a currency to appreciate, making other sectors of the domestic economy uncompetitive against foreign competition.

A large inflow of Chinese produce, meanwhile, has accelerated the decline in African industrialisation since the 1980s. Africa's textile industry, alone, has lost 750 000 jobs over the past decade, claims the Johannesburg-based Brenthurst Foundation. Even in the continent's manufacturing powerhouse, South Africa, about 40% of footwear and fabrics come from China. Expressing the concerns of many African governments, President Jacob Zuma warned in 2012 that such unbalanced trade was "unsustainable".

China's boom has brought many benefits to Africa. The Chinese government has won praise from many other governments for its willingness to finance large infrastructure projects without conditions relating to democracy, governance and human rights – the 'strings' Africa has often criticised as attached to aid from the West. Chinese economic growth rates averaging 10% a year for almost a decade fuelled a boom in commodity markets which has lifted Africa's own growth to unprecedented rates. Further, the cheap Chinese goods being imported help make everyday living more affordable and develop the consumer sector across the continent.

The Chinese government has provided much-needed capital to a continent starved of investment. The Export-Import Bank of China is the continent's largest creditor and has promised US$20 billion more in loans from 2013 to 2016. But China's money comes with its own strings attached: it must be spent on Chinese goods or Chinese-built infrastructure. Chinese firms often source their supplies and workers back home. The number of Chinese nationals in Africa has increased 10-fold over the past 20 years to an estimated 1 million.

Though it is Africa's largest trading partner, China only accounts for 6% of foreign investment in Sub-Saharan Africa – well behind France on 18% – says United Nations' trade body UNCTAD. Nigerian Finance Minister Ngozi Okonjo-Iweala has urged

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African countries to tempt Chinese manufacturing firms into moving their production to Africa as their domestic labour costs rise. "We need to prepare ourselves to provide a welcoming home for some of the industries in which the Chinese will no longer be competitive," she said.

(Source: adapted from 'Jobs clamour grows over Chinese investment', *Business Day Live*, 23 July 2013, www.bdlive.co.za/africa/africanbusiness/2013/07/23/jobs-clamour-grows-over-china-investment)

(a) With reference to Extract 1, explain the effect of China importing large quantities of raw materials from a developing country on the value of the developing country's currency.

(4)

(b) With reference to the information provided, analyse **two** possible reasons for the changes in Sub-Saharan African trade patterns between 2002 and 2011.

(8)

(c) With reference to Extract 1, evaluate the benefits to countries in Sub-Saharan Africa of receiving loans from China.

(12)

(d) Assess the case for Sub-Saharan African countries introducing trade barriers against Chinese imports.

(16)

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(4)

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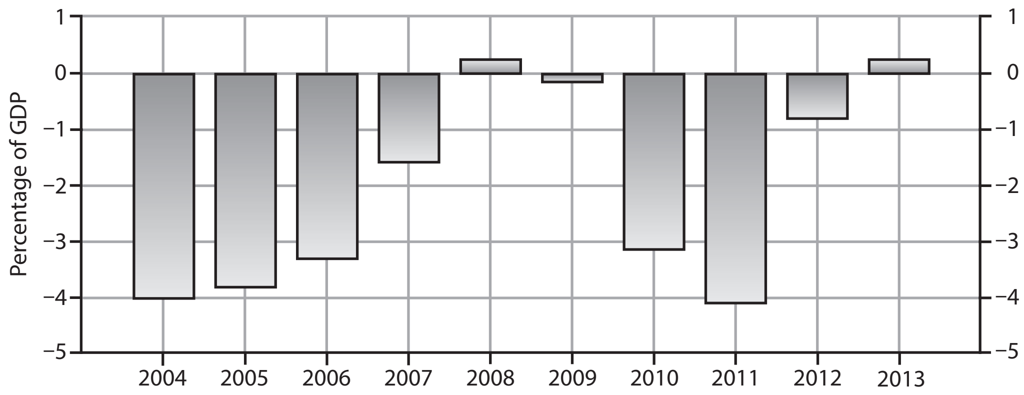
(Total for Question 4 = 40 marks)

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

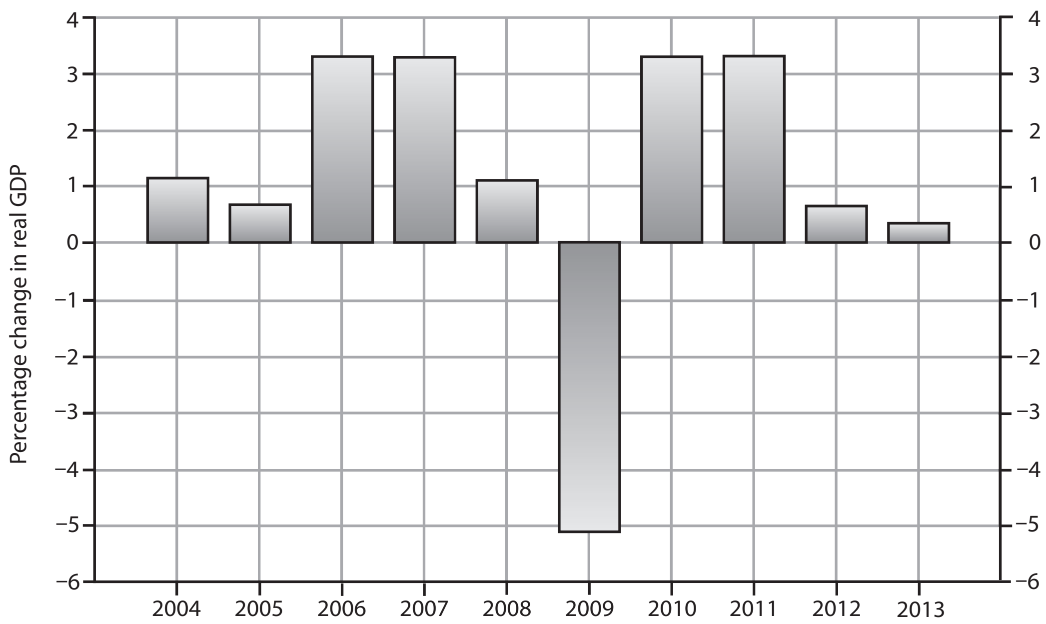
5 The German economy

Figure 1 German government fiscal deficits and surpluses 2004–2013 (percentage of GDP)



(Source: adapted from www.tradingeconomics.com/germany/government-budget)

Figure 2 Germany's economic growth rate 2004–2013



(Source: epp.eurostat.ec.europa.eu/tgm/graph)

Extract 1 The end of the German miracle?

Germany has one of Europe's lowest unemployment rates and an almost balanced fiscal budget. It is also Europe's manufacturing powerhouse, with a current account surplus that rivals China's.

Germany's manufacturing success is a rare combination of good luck and side-effects from past economic reforms. The country has benefited enormously from its historic strengths in capital goods, luxury cars and chemicals exactly matching demand from fast-growing emerging markets.

However, the factors behind these successes are now under pressure. Economic growth in emerging markets has slowed. The Chinese economy is being rebalanced from an investment-driven growth model to a consumption-driven one. In Europe, investment remains weak. All this translates into lower demand for German capital goods abroad. In addition, one result of the financial crisis is that wages have been pushed down across Europe, while German wages have been increasing slowly thanks to the low rate of unemployment.

Further, the economic conditions for businesses in Germany are worsening, increasing costs for companies. Public spending on education and on research and development as a share of output has been cut severely from the mid-1990s onwards. It now trails behind a number of other OECD countries, such as Austria, Finland and France. For roughly a decade, net public investment has been negative.

For a while, these trends were not widely noticed. After the investment boom in the early 1990s, infrastructure was in a relatively good state. However, the transport system is suffering from a lack of investment. Potholes are increasingly evident on the roads. The closure of the most important train line from Berlin in the summer of 2013 doubled the travel time from the capital to Wolfsburg where the headquarters of Volkswagen, the major German automobile manufacturer, is located. An increasing number of bridges are closed to heavy loads, and lorries sometimes have to make detours of several hundred kilometres. The waterways are in a poor condition, too. Additionally, qualified personnel are increasingly scarce, given the rapidly ageing workforce. All this makes production in Germany increasingly difficult and expensive. Labour productivity is now roughly at the level of 2007.

In principle, the solution is easy: spend more on infrastructure, universities and research institutes. Finding money should not be difficult. After years of tax cuts, there is room for slightly higher taxes, especially if the proceeds are put into productivity enhancing investment. However, this is not being planned. Instead of using these funds for infrastructure investment, the government plans to run a small but growing fiscal surplus in the coming years. This might create economic problems for future generations – the outcome the government is hoping its fiscal responsibility will prevent. Is having a little less government debt worth the loss of a world-leading manufacturing sector?

(Source: adapted from "The German miracle is now running out of road", *The Financial Times*, 30 August 2013, http://www.ft.com)

(a) With reference to Figure 1, explain what is meant by a fiscal surplus.

(4)

(b) With reference to Figure 2 and Extract 1, analyse **two** possible reasons for the low rates of economic growth in Germany since 2011.

(8)

(c) Germany has 'historic strengths in capital goods, luxury cars and chemicals' (Extract 1, lines 5–6). To what extent is such specialisation beneficial for a country?

(12)

(d) Assess the case for increased infrastructure investment by the German government.

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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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