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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

Monday 1 February 2016 – 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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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 In August 2014, the USA introduced tariffs of between 20% and 40% on solar panel products imported from China and Taiwan.

(a) Discuss the possible reasons for the introduction of such restrictions on free trade.

(15)

(b) Evaluate the likely economic effects of an increase in protectionism on the global economy.

(25)

(Total for Question 1 = 40 marks)

2 (a) 'Macroeconomic policies rarely achieve their intended objectives.'

Discuss the problems facing policy makers when applying macroeconomic policies.

(15)

(b) 'Cutting taxes is the most effective way for a government to reduce unemployment.'

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

(25)

(Total for Question 2 = 40 marks)

3 (a) Before April 2014, the Tunisian government intervened in the currency market to stabilise the value of its currency, the dinar.

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

(15)

(b) After April 2014, the Tunisian government reduced its intervention in the currency market. In the following four months the Tunisian dinar depreciated 6% against the euro and 9% against the US dollar.

To what extent might the depreciation of the dinar be beneficial to the Tunisian economy?

(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

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SECTION B

Answer EITHER Question 4 OR Question 5.

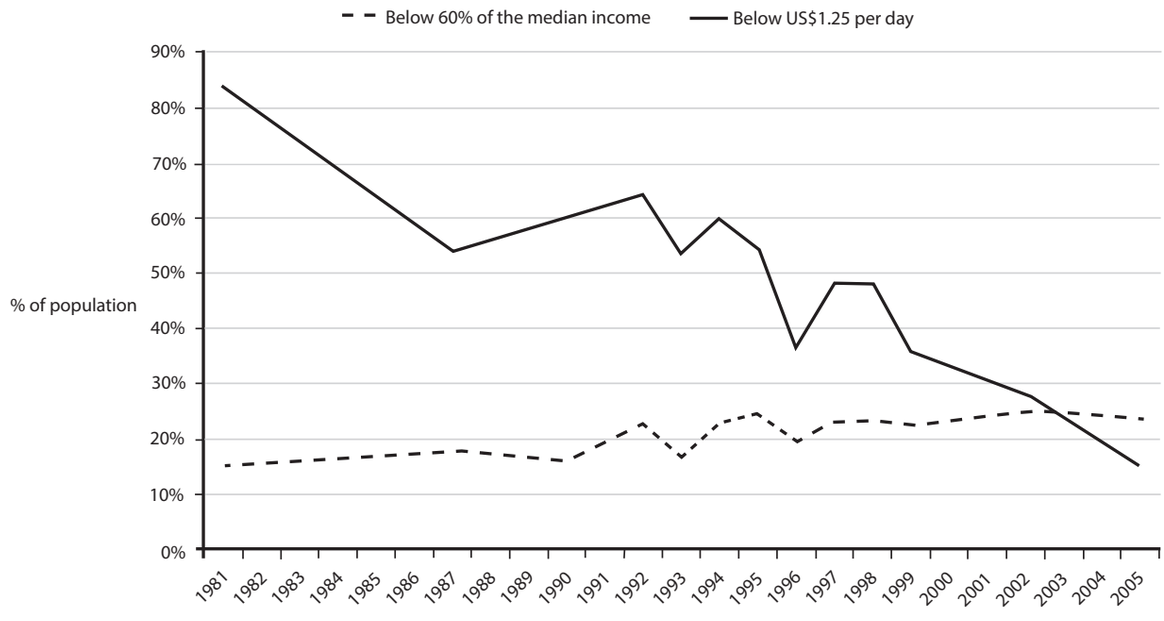
You should spend 60 minutes on this section.

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

Question 5 starts on page 28.

4 Global income inequality

Figure 1 Percentage of the Chinese population living below given poverty lines, 1981–2005



(Source: 'On the Relevance of Relative Poverty for Developing Countries', Christopher Garroway and Juan R. de Laiglesia, OECD Development Centre Working Paper No. 314, 25 September 2012, http://www.oecd-ilibrary.org/docserver/download/5k92n2x6pts3.pdf?expires=1407413528&id=id&accname=guest&checksum=A75B55C561BDBC9E7782C66D9F501402)

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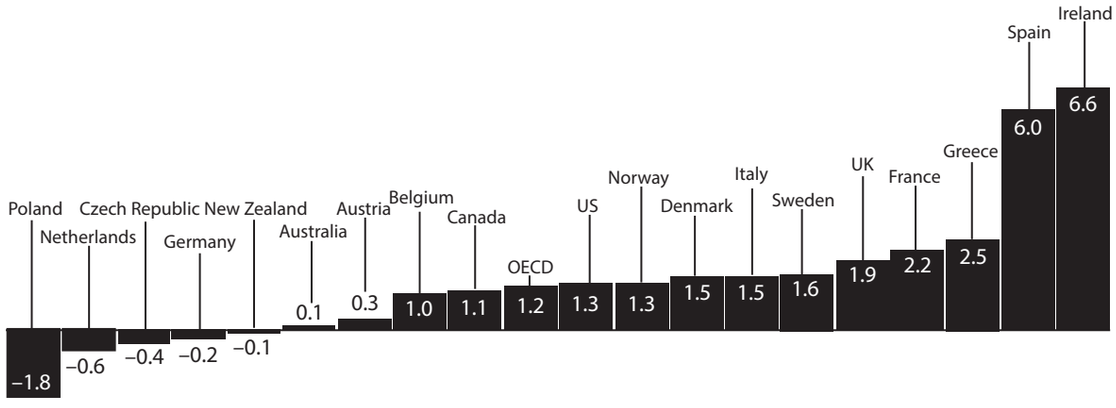
Figure 2 Change in the Gini coefficient, 2007-2011, selected countries and OECD average (percentage point change)



(Source: OECD)

Extract 1 Income inequality within most developed countries has increased

The forces of globalisation have reduced the number of manufacturing and administrative jobs in the USA and Europe but at the same time have lifted hundreds of millions of people out of absolute poverty in China and India. They have made western economies far more unequal, while reducing inequalities between developed and developing countries. The winners are factory workers in China and India; the losers are those who previously did those jobs in developed countries.

Income inequality within developed countries has been increasing for two or more decades, but the combination of the 2008–09 financial crisis and the increased incomes of those who are already very rich, has accelerated this trend.

US President Barack Obama noted in a 2013 speech: "As good manufacturing jobs automated or headed offshore, workers lost their bargaining power, and jobs paid less... the top 10% no longer takes one-third of our income – it now takes half".

Since the 1970s, the share of total income taken by the top decile of income earners in the USA has risen sharply. This has been aided by trade liberalisation and deregulation. The top earners in the USA are mostly not living off income from wealth and property. Instead, they are the working rich – such as bankers and lawyers – and entrepreneurs.

(Source: adapted from 'Capitalism: in search of balance', John Gapper, *The Financial Times,* 24 December 2013, http://www.ft.com/cms/s/0/4a0b8168-6bc0-11e3-a216-00144feabdc0.html?ftcamp=crm/email/20131224/nbe/Analysis/product&siteedition=uk#axzz2oNrZkbqz)

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Extract 2 China tackles income inequality

In 2013 the Chinese Government announced extensive policy guidelines to narrow the growing gap between rich and poor. It promised to use more of the profits of state-owned enterprises to fund ambitious welfare programmes and to take further steps to eliminate corruption and provide for the poor.

The Chinese State Council's new guidelines called for state-owned enterprises to pay an additional 5% of their profits to the government by 2015. According to the Peterson Institute for International Economics, Chinese central state-owned enterprises earned more than one trillion RMB, or US$160 billion, in net profits in 2011, but only 82.3 billion RMB was paid out in dividends.

Economists have long been urging the Chinese Government to force state-owned enterprises to pay more of their profits to the central government as a way to help pay for increased spending on pensions, health care, low-income housing and education. More spending in these areas is seen as crucial to China's economic rebalancing, freeing up household income for consumption.

The State Council said that personal income tax would be adjusted to capture more of the income from the nation's higher income earners. While no new tax rates were announced, the guidelines pointed to the need to bring "all sources of income" under the tax system.

The nation's business leaders and some of its government officials have been able to amass fortunes that often evade the Government's tax collections. The State Council suggested that it might introduce taxes on inheritance and property. Authorities will also increase efforts to track and control illegal income. The State Council promised tough action in cases of false reporting of assets, noting a rising problem with hidden wealth.

(Source: adapted from 'China tackles income divide', Liyan Qi and William Kazer, *The Wall Street Journal*, 5 February 2013, http://online.wsj.com/news/articles/SB10001424127887324761004578285592964530314)

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

(4)

(b) With reference to Figure 2, analyse the change in income inequality in Ireland. Illustrate your answer with a Lorenz curve diagram.

(8)

(c) With reference to the information provided and your own knowledge, assess the likely causes of rising income inequality within the USA.

(12)

(d) With reference to the information provided and your own knowledge, evaluate the likely impact of the policies announced by the Chinese State Council.

(16)

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(b) With reference to Figure 2, analyse the change in income inequality in Ireland. Illustrate your answer with a Lorenz curve diagram.

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(12)

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QUESTION 5 BEGINS ON THE NEXT PAGE.

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

5 Economic growth in Sub-Saharan Africa

Figure 1 Foreign direct investment (FDI) projects in Sub-Saharan Africa, by industry sector, as a percentage of the total value of FDI

	2003–07 (%)	2013 (%)
Technology, media and telecommunications	14	20
Retail and consumer products	12	17
Financial services	12	15
Business services	6	12
Mining and metals	13	2
Coal, oil and natural gas	11	3
Other	32	31

(Source: EY's 2014 Africa Attractiveness Survey: Executing Growth, http://emergingmarkets.ey.com/wp-content/uploads/2014/05/Africa_attractiveness_2014_infographic_FINAL1.jpg)

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Extract 1 Growth in the commodities and services sectors

Economic activity throughout Sub-Saharan Africa is continuing to expand: GDP growth was 4.7% in 2013 and is projected to reach 5.2% in 2014 and 5.4% in 2015, according to the World Bank.

A World Bank report says that growth in the region is broad-based and is supported by strong public sector and private sector investment demand and robust household consumption. The rise in commodity prices, and the rapid inflow of foreign capital as a result of loose monetary policies in high-income economies, is also key to the region's sustained economic growth since the mid-1990s, the report notes.

Across the region there has been a rapid growth in inward foreign direct investment (FDI). Two investment trends are central to driving this expansion – the extended commodities boom brought about by the unprecedented scale of development in Asia, and growing trend of transnational corporations to offshore manufacturing activities. The new wave of FDI not only delivers investment and employment but also opens up new opportunities through deeper global trade integration.

The World Bank's report shows that the commodities and services sectors are Sub-Saharan Africa's best performers: the share of the primary product sector rose from 9% of GDP during 1995–99 to 12.5% during 2007–11 while that of services grew from 40% of GDP to 47%. While high commodity prices have helped the region in recent years, the heavy reliance on commodity-based exports also makes the region highly vulnerable to the shocks in commodity prices.

There are other key factors to maintain and share growth within Sub-Saharan Africa. These include:

- good governance and institutions;
- investing in the people of Africa – especially the youth;
- promoting infrastructure across the region;
- reducing barriers to trade and investment;
- making sure there are adequate services and infrastructure for the rapidly expanding African cities.

Globalisation of services is a potentially important source of growth for Africa. Two favourable trends that support this view are that first, the trade in services is the fastest growing sector in global trade and that secondly, developing countries' share of world exports in services has been increasing. Technology and outsourcing are enabling traditional services to overcome their old constraints such as physical and geographic proximity. Modern services, such as software development, call centres, and outsourced business processes, can be traded like value-added, manufactured products.

Sub-Saharan Africa's services exports, which total US$50 billion, are less than all other developing regions'; however, these exports are expanding annually at about 12%, on average. Traditional services such as transportation and travel have declined from 73% of total services in 2005 to less than 64% in 2012, while modern services exports (such as business and financial services) have increased their share from just over 26% of total services to about 36% over the same period.

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In some countries such as Mauritius, Rwanda, and Tanzania, modern services recorded annual growth rates of over 10% between 2005 and 2012, with Rwanda starting from a low base of less than US$40 million in modern services exported in 2005 to over twice that amount, at almost US$85 million, by 2012. Over 60% of those employed in large companies in Mauritius work in the service sector, which offers more employment opportunities than either agriculture or manufacturing. While these countries have experienced the fastest increase in modern services, others like Kenya are also emerging as places where modern services are becoming drivers of growth and development.

(Source: adapted from 'More Household Spending plus Increased Investments in Natural Resources and Infrastructure Mean Higher Growth for Africa', *Africa's Pulse*, Volume 9, World Bank, 7 April 2014, http://www.worldbank.org/en/region/afr/publication/more-household-spending-plus-increased-investments-in-natural-resources-and-infrastructure-mean-higher-growth-for-africa)

(a) With reference to Extract 1, explain what is meant by 'Globalisation' (Extract 1, line 29).

(4)

(b) With reference to Extract 1, analyse **two** possible reasons for Sub-Saharan Africa's 'sustained economic growth since the mid-1990s' (Extract 1, line 8).

(8)

(c) Discuss measures that governments might take to 'maintain and share growth within Sub-Saharan Africa' (Extract 1, line 21).

(12)

(d) With reference to the information provided and your own knowledge, evaluate the likely benefits to Sub-Saharan Africa of further diversification away from primary product industries and into the services sector.

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TOTAL FOR SECTION B = 40 MARKS

TOTAL FOR PAPER = 80 MARKS