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Candidate surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Monday 21 January 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 In 2016 the US President promised to impose tariffs on imports of Mexico's manufactured goods. This led to uncertainty, resulting in a 20% fall in the value of Mexico's currency, the peso.

(a) Assess factors that influence the exchange rate of a currency.

(15)

(b) To what extent might the depreciation in Mexico's currency improve its economic performance?

(25)

(Total for Question 1 = 40 marks)

2 In 2016 there was a significant increase in protectionist measures by many developed countries.

(a) Assess possible reasons why a developed country might restrict free trade.

(15)

(b) Assess factors, other than increasing trade barriers, which might explain changes in a country's pattern of trade with other countries. Refer to the principle of comparative advantage in your answer.

(25)

(Total for Question 2 = 40 marks)

3 In 2016 the current account deficit of the Balance of Payments in Canada was US$67.7 billion and in Brazil it was US$23.5 billion.

(a) Assess possible causes of a deficit on the current account.

(15)

(b) Discuss the significance of current account deficits to a country of your choice.

(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.

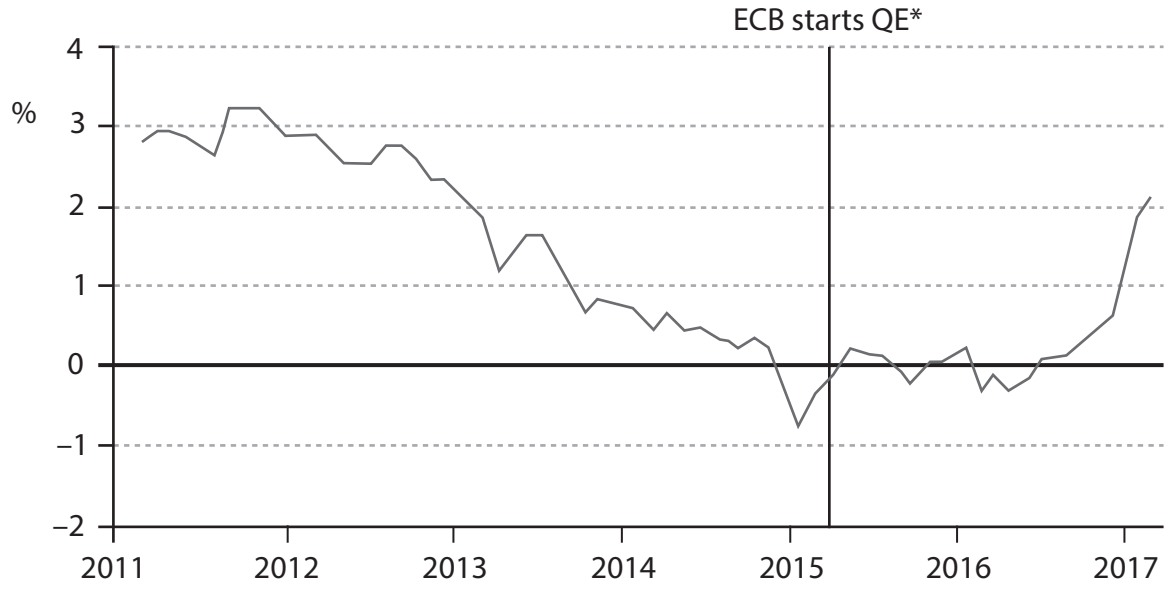
You should spend 60 minutes on this section.

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

Question 5 starts on page 28.

4 The eurozone economy

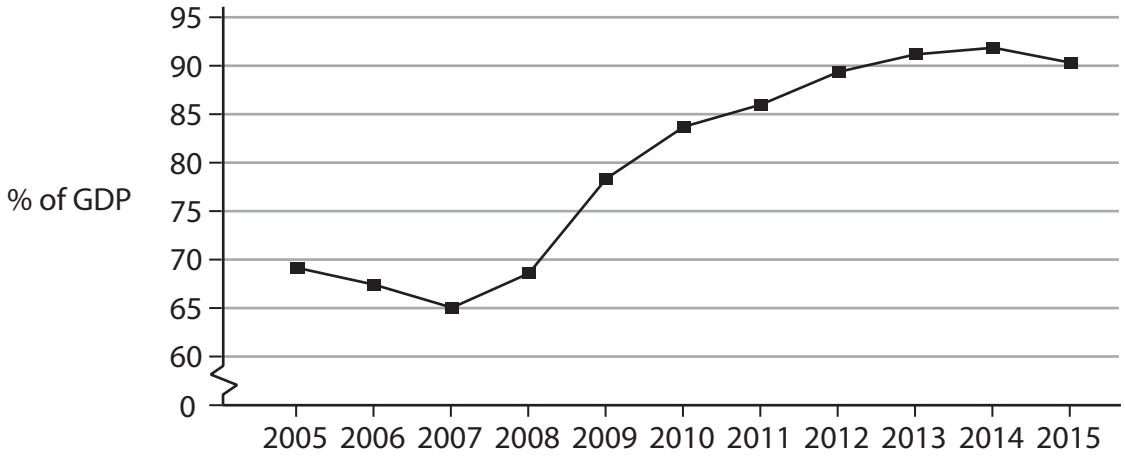
Figure 1 The rate of inflation as measured by the Consumer Price Index (CPI), 2011-2017



*ECB = European Central Bank
QE = Quantitative easing

(Source: adapted from https://www.ft.com/content/02fc7568-03eb-11e7-ace0-1ce02ef0def9)

Figure 2 Total national debts of eurozone countries as a % of eurozone GDP, 2005-2015



(Source: adapted from Eurostat - http://ec.europa.eu/eurostat/tgm/graph.do?tab=graph&plugin=1&pcode= teina225&language=en&toolbox=data)

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Extract 1 Asset purchases (quantitative easing)

The European Central Bank (ECB) has an objective to keep eurozone inflation close to, but under, 2%. In 2017 the inflation rate marginally exceeded the inflation target for the first time since 2013. This was caused by rising energy prices and an increase in the price of food, alcohol and tobacco.

In 2017 the ECB's President, Mr Draghi, decided to continue with the ECB's quantitative easing programme while keeping interest rates low. He also suggested that if the economy worsens, the Bank could cut the interest rate further or increase the rate of quantitative easing beyond the current €60 billion a month.

Some analysts questioned this policy of keeping the interest rate very low and maintaining a quantitative easing programme at a time of rising inflation. There is also concern that the ECB could face other problems if it extends its quantitative easing beyond 2017. For example, the ECB only has a limited number of assets available that it can purchase from its member countries. The current eurozone guidelines for quantitative easing do not allow the purchase of more than one-third of a country's debt.

A higher rate of economic growth in the eurozone has reduced the need for more quantitative easing. Economists predicted economic growth of 1.6% for both 2018 and 2019. The ECB has made it clear that it will only raise interest rates after it discontinues its quantitative easing programme, which is expected to run until the end of 2017. ECB economists forecast that the eurozone inflation will be 1.5% in 2018 and 1.7% in 2019.

(Sources: adapted from 'Pressure on ECB as eurozone inflation hits 4-year high', FT, https://www.ft.com/content/85b0bb4a-ff63-11e6-8d8e-a5e3738f9ae4; Draghi faces heat from hawks as eurozone inflation hits target, FT, https://www.ft.com/content/02fc7568-03eb-11e7-ace0-1ce02ef0def9)

Extract 2 National debts of eurozone countries

In 2017 the eurozone's annual fiscal deficit rose to approximately 1.7% of GDP. However, its total national debt fell from 91.2% in 2016 to 90.1% of GDP in 2017. Greece has the highest debt burden of any member country at 176.9% of GDP followed by Portugal at 133.4% of GDP. Estonia, on the other hand, has a debt of only 9.6% of GDP. Ireland, the eurozone's fastest growing economy in 2016, recorded an 8.5 percentage point fall in its debt as a proportion of GDP.

EU authorities have called for the implementation of supply-side polices to increase the eurozone's rate of economic growth. For countries with small national debts and strong fiscal surpluses, these policies include reducing high levels of bureaucracy and increasing the level of government expenditure on infrastructure. In contrast, countries with large national debts and fiscal deficits have been advised to deregulate their labour markets and reduce corporation tax to increase growth.

(Source: adapted from 'Eurozone debt ratio falls to lowest since 2012', FT, https://www.ft.com/content/b6456e79-a1da-3866-9a47-cf041369675c)

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(a) Explain what is meant by a 'fiscal deficit' (Extract 2, line 2).

(4)

(b) With reference to the information provided and your own knowledge, evaluate the likely impact of the ECB's quantitative easing programme.

(16)

(c) With reference to the information provided, discuss whether an increase in a country's national debt should be a cause for concern.

(12)

(d) Analyse **two** supply-side policies that the eurozone countries could implement 'to increase the eurozone's rate of economic growth' (Extract 2, lines 8 and 9).

(8)

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QUESTION 5 BEGINS ON THE NEXT PAGE.

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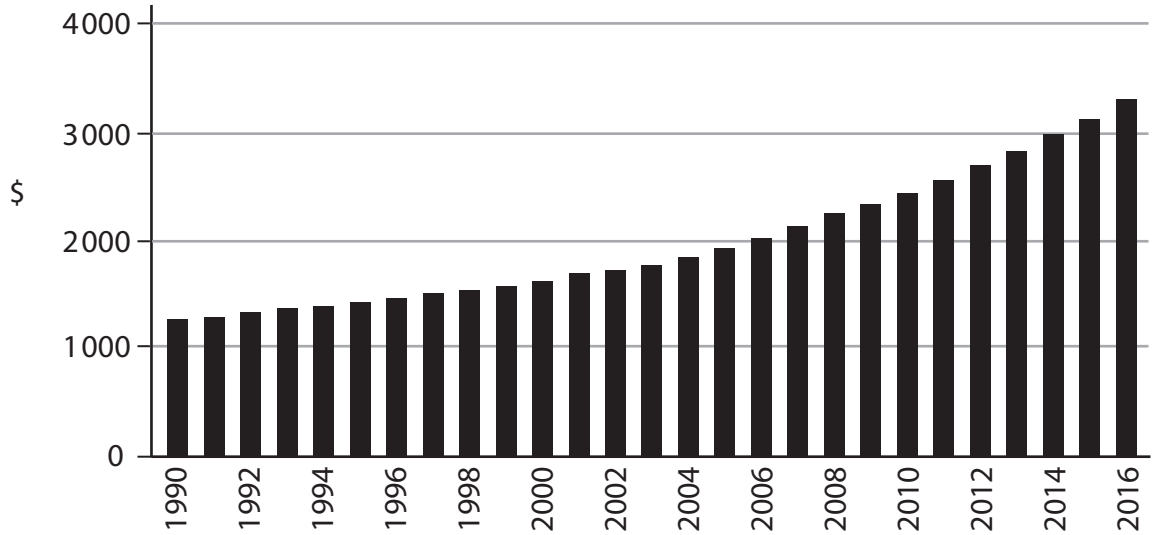
If you answer Question 5 put a cross in the box ☒ .

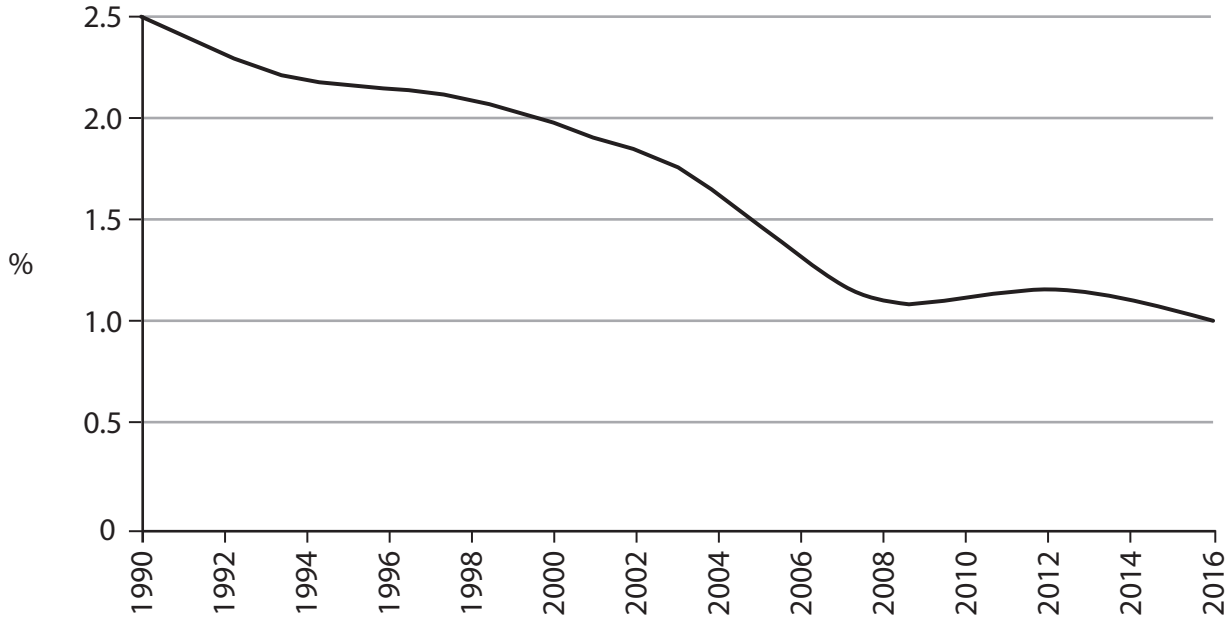
5 The economy of Bangladesh

Figure 1 GDP per capita ($ PPP), 1990-2016



(Source: adapted from http://www.theglobaleconomy.com/Bangladesh/GDP_per_capita_PPP/)

Figure 2 Annual population growth (%), 1990-2016



(Source: adapted from http://data.worldbank.org/indicator/SP.POP.GROW?end=2015&locations=BD&start=1979)

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Extract 1 Have microfinance schemes worked?

As the number of microfinance institutions (MFIs) has grown significantly in Bangladesh, debate continues over whether microfinance schemes benefit the poor. Some economists argue that the projects financed by these MFIs often fail because many entrepreneurs lack the necessary skills. In addition, borrowers may be charged high interest rates or become dependent on MFIs. Concerns remain about the debt collection methods of MFIs.

Before 2000 rapid population growth was the main reason for the increase in absolute poverty. However, MFIs have led to sustained benefits over the last 20 years contributing to a 10% reduction in absolute poverty. This means that nearly 2.5 million people are no longer living in absolute poverty. MFIs also have positive impacts on labour supply and children's schooling.

Microfinance schemes have helped to diversify borrowers' economic activities. Household income grew due to rising non-farm income. For households diversifying into non-farm activities, income growth is almost 29% higher than that of those who focus primarily on farming. The reduction in absolute poverty for this group is approximately 8% higher.

However, microfinance has made absolute poverty worse for some households. The reasons for this are that a large proportion of microfinance loans have been used to fund consumption and to help people buy the basic necessities they need to survive. As a result, borrowers do not generate new income that they can use to repay their loans. They end up taking out new loans to repay the old ones, getting into further debt.

When microfinance is used to fund new businesses, new entrepreneurs often encounter a lack of consumer demand. Their potential customers have low incomes, which they usually spend on basic goods that are already available.

There is also a need to move away from using microfinance to support yet more basket-making and fruit-selling enterprises that will only maintain the informal economies of developing countries. Instead, capital should be directed towards the small and medium enterprises that generate employment and tax revenues.

Demand for microfinance continues to grow in Bangladesh, and policy recommendations have been made to ensure that microfinance is able to develop in a sustainable way. These include lowering the MFI maximum interest rate which is currently 27%, and promoting more competition amongst the MFIs.

There are other ways of reducing absolute poverty, which include reducing capital flight, providing subsidies to entrepreneurs and giving them unemployment benefits when they fail.

(Sources: adapted from 'How microfinance has reduced rural poverty in Bangladesh', IFPRI, http://www.ifpri.org/blog/how-microfinance-has-reduced-rural-poverty-bangladesh; 'Does microfinance really help poor people', The Guardian, https://www.theguardian.com/global-development-professionals-network/2014/oct/08/developing-countries-informal-economies-microfinance-financial-inclusion; 'The microfinance delusion: who really wins?', The Guardian, https://www.theguardian.com/global-development-professionals-network/2015/jun/10/the-microfinance-delusion-who-really-wins)

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(a) Explain what is meant by 'absolute poverty' (Extract 1, line 9).

(4)

(b) Analyse **two** likely economic effects of 'rapid population growth' (Extract 1, line 8).

(8)

(c) With reference to the information provided, evaluate the effectiveness of microfinance schemes, such as those implemented in Bangladesh.

(16)

(d) Discuss policies, other than microfinance schemes, that could be implemented to reduce absolute poverty in Bangladesh.

(12)

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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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