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Please check the examination details below before entering your candidate information

Candidate surname	Other names

Centre Number | Candidate Number

Pearson Edexcel International Advanced Level

Wednesday 25 October 2023

Afternoon (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 Sections A and 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.

Turn over ▶

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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 Which **one** of the following is a *non-economic* factor that might constrain the rate of economic growth and economic development of a country?

☒ **A** A poorly educated workforce

☒ **B** Volatile commodity prices

☒ **C** Capital flight

☒ **D** High levels of corruption

(Total for Question 1 = 1 mark)

2 In 2021 the UK experienced a fall in labour productivity. It remained below the average labour productivity of its main trading partners.

Ceteris paribus, which **one** of the following can be deduced from this statement?

☒ **A** UK goods and services were less internationally competitive than those of its trading partners

☒ **B** Average export prices of UK goods and services were lower than the average export prices of its trading partners

☒ **C** Unit labour costs in the UK were the same as the average unit labour costs of its trading partners

☒ **D** The UK experienced a significant deterioration in its terms of trade

(Total for Question 2 = 1 mark)

3 In 2020 Japan's central bank, the Bank of Japan, increased its reserve asset (liquidity) requirements for commercial banks.

Ceteris paribus, which **one** of the following is the most likely effect of this decision?

☒ **A** An increase in the money supply

☒ **B** An increase in the level of real output

☒ **C** A decrease in the rate of inflation

☒ **D** A decrease in the rate of unemployment

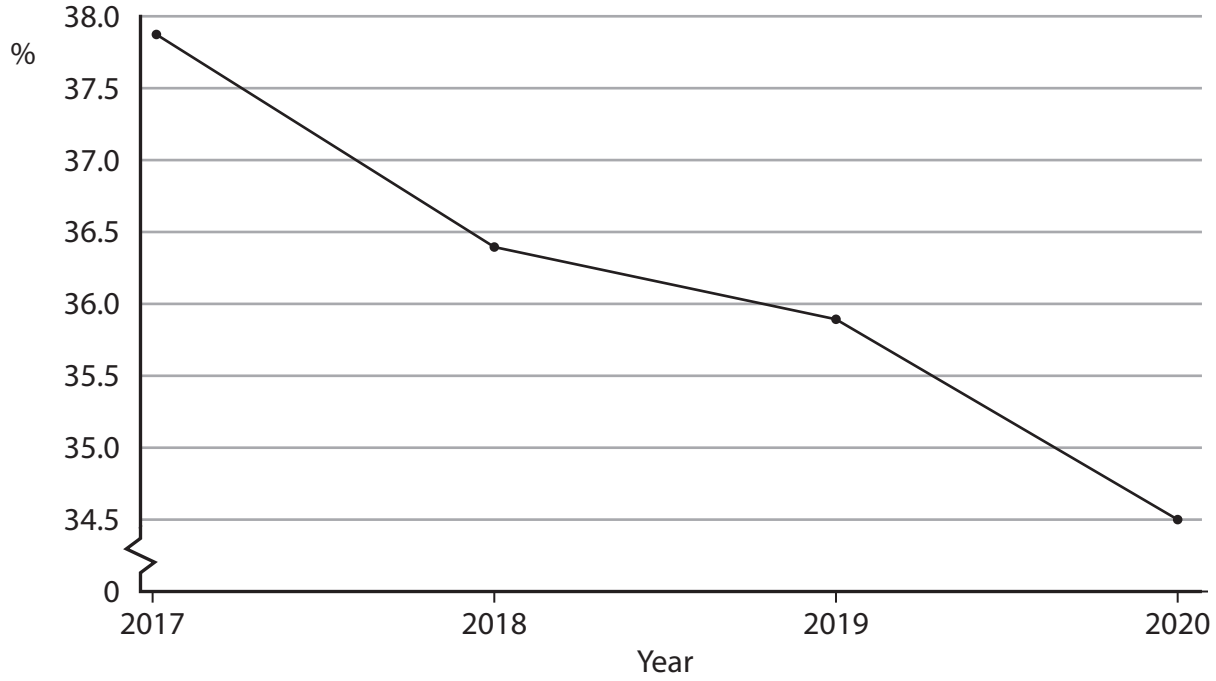
(Total for Question 3 = 1 mark)

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4 The chart shows Georgia's Gini coefficient, expressed as a percentage, between 2017 and 2020.



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

- ☒ **A** The distribution of income became more unequal
- ☒ **B** Georgia experienced perfect income equality
- ☒ **C** Income inequality increased by 3.4%
- ☒ **D** Georgia's Lorenz curve shifted closer to the line of perfect equality

(Total for Question 4 = 1 mark)

5 In 2022 Madagascar had an absolute poverty rate of 71%.

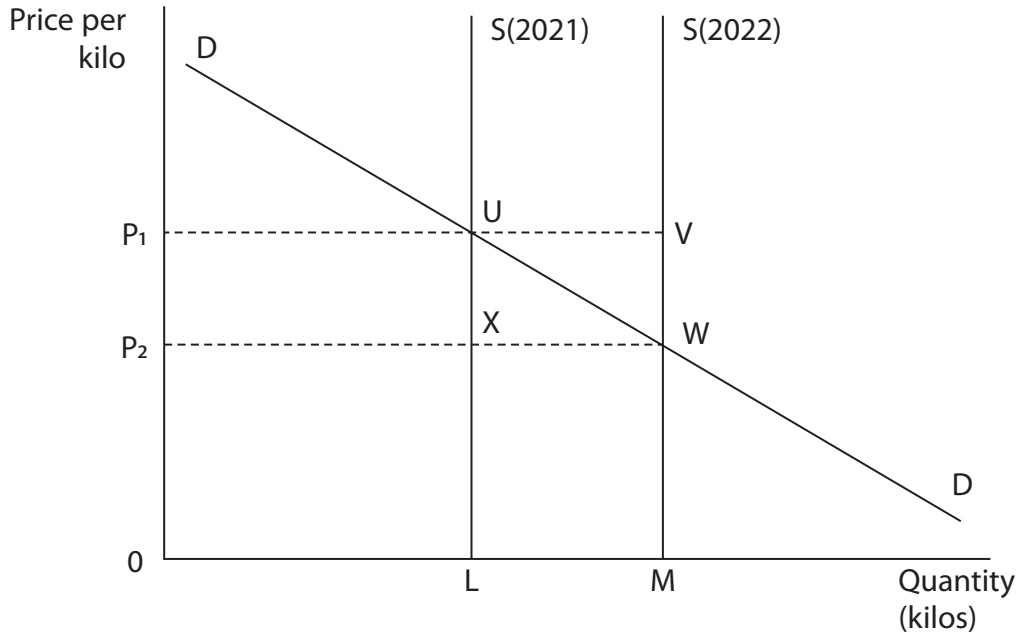
Which **one** of the following statements about absolute poverty is true?

- ☒ **A** Absolute poverty is the inability of individuals or groups to meet their basic needs
- ☒ **B** Absolute poverty is based on value judgements and is subject to changes over time
- ☒ **C** Absolute poverty measures the percentage of people within a country earning less than 60% of median income
- ☒ **D** Absolute poverty measures the percentage of people earning more than $2.15 a day at 2017 PPP values

(Total for Question 5 = 1 mark)

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6 The graph shows the market for rice in Indonesia. The Government guarantees a minimum support price of P_1 and operates a buffer stock scheme. Between 2021 and 2022 output of rice increased from 0L to 0M.



Which **one** of the following areas would be the government expenditure on the buffer stock scheme?

☒ **A** UVWX

☒ **B** UVML

☒ **C** P_2P_1UX

☒ **D** P_2P_1VW

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

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SECTION B

Study Figures 1 and 2 and Extract A in the Source Booklet before answering Question 7.
Write your answers in the spaces provided on the following pages.

7 (a) In 2021, the Government of Pakistan made a debt servicing payment of $32.27 billion.

With reference to Figure 1, calculate debt servicing payments as a proportion of national debt in 2021. You are advised to show your working.

(2)

(b) Explain what is meant by a 'foreign currency gap' (Extract A, line 13).

(4)

(c) With reference to Figure 2 and the first paragraph of Extract A, examine **two** likely effects of the depreciation of the rupee against the US dollar.

(8)

(d) With reference to Extract A, analyse **two** roles of the IMF.

(6)

(e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of an increase in income tax rates, aimed at high-income households, on the economy of Pakistan.

(14)

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(d) With reference to Extract A, analyse **two** roles of the IMF.

(6)

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(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS

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SECTION C

Answer TWO questions from this section.

8 Between 2000 and 2020, Gibraltar's terms of trade worsened by 44.6% and Greece's terms of trade worsened by 14.3%.

Evaluate factors that might cause a country's terms of trade to worsen.

(Total for Question 8 = 20 marks)

9 In 2021 it was estimated that a large proportion of the fiscal deficits in both Brazil and Suriname was structural.

To what extent is a structural fiscal deficit more serious than a cyclical fiscal deficit? Refer to a developing country of your choice in your answer.

(Total for Question 9 = 20 marks)

10 In the first quarter of 2022 the USA and Australia both experienced inflows of foreign direct investment (FDI) of $67 billion and $59 billion respectively.

Evaluate the potential economic benefits to a developed country of FDI inflows.

(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

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 8** ☒ **Question 9** ☒ **Question 10** ☒

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

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Economics

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Source Booklet

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Sources for use with Section B

The economy of Pakistan

Figure 1 National debt, $ billions, 2018-2022

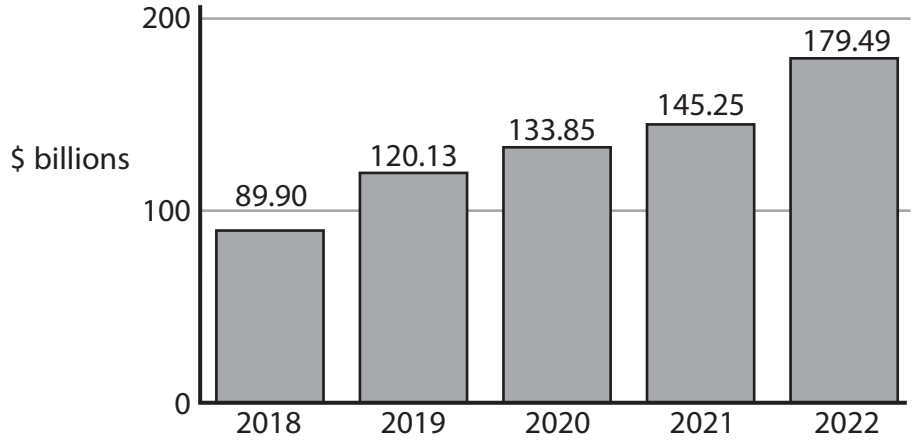
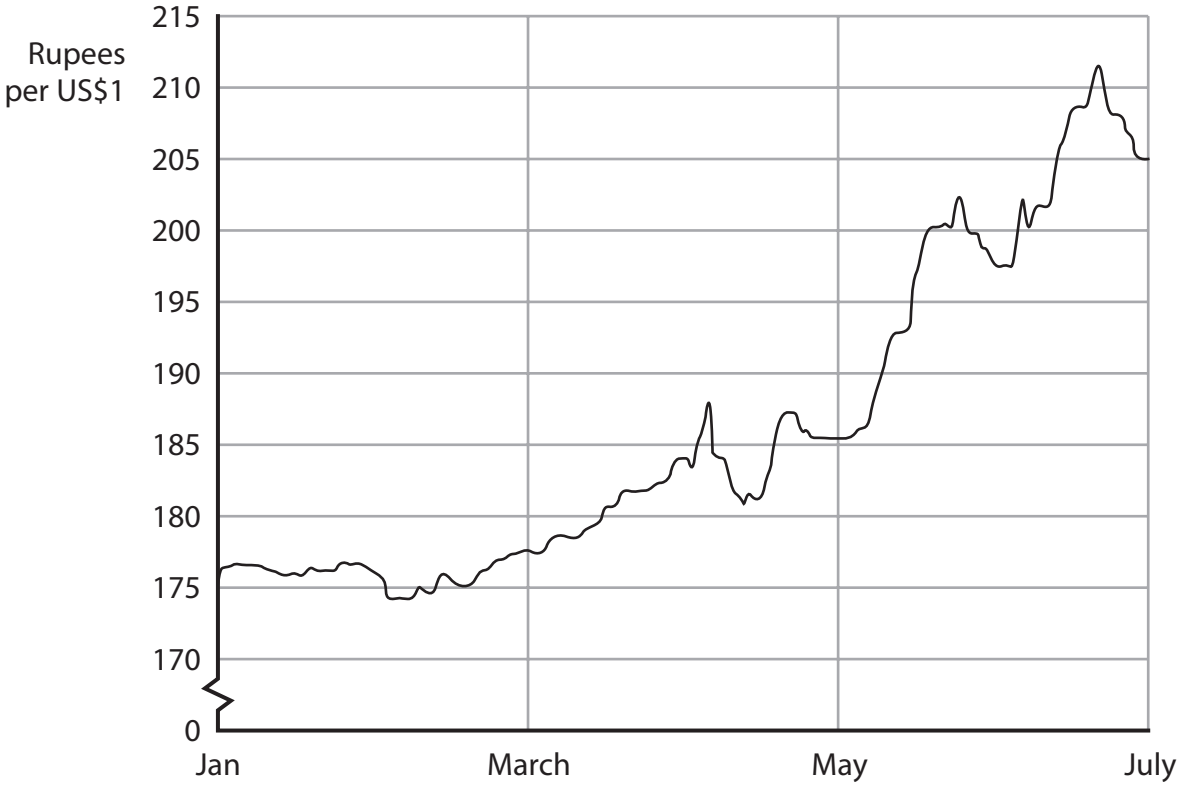


Figure 2 Rupee-US dollar exchange rate, January 2022 to June 2022



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Extract A Economic outlook

Between January and June 2022 Pakistan's currency, the rupee, depreciated against the US dollar. This was mainly as a result of rising global inflation rates and the strong appreciation of the US dollar. However, economists expected the external value of the rupee to increase against the US dollar in the third quarter of 2022. They anticipated that the dollars earned by Pakistan from its exports would be greater than the dollars paid for its imports and debt servicing.

Pakistan experienced a significant decline in foreign currency reserves from $16 billion in June 2021 to $10 billion in June 2022. Many economists believed that the economy could be on the verge of an economic collapse in the third quarter of 2022.

In June 2022, Pakistan's central bank, the State Bank of Pakistan (SBP), informed Pakistan's Government that the country's rising foreign currency gap would have a negative impact on its ability to import. The SBP claimed that the rising foreign currency gap was likely to increase further because of higher debt servicing payments. To prevent these reserves from running out, the SBP suggested a temporary ban on the import of non-essential goods.

Pakistan's Government borrowed $1.2 billion from the IMF to prevent a further fall in foreign currency reserves. This financial support enabled the Government to reduce its current account deficit of the balance of payments and to help finance the country's national debt.

The loan from the IMF required the Government of Pakistan to meet certain conditions. These included a reduction in the fiscal deficit, partly by the removal of fuel and energy subsidies. The IMF also required Pakistan's central bank to raise its base rate of interest to stabilise the rupee.

Previous governments of Pakistan have not always met the terms of their loan agreements with the IMF. For example, the fiscal deficit has not been reduced significantly because the government collects very little revenue from direct taxes, especially from the booming property market. Large houses cost anywhere between $500 000 and $2 million to purchase but the owners only pay a small proportion as tax. The IMF proposed that high-income households should pay significantly more income tax than low-income and middle-income households.

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Acknowledgements

Figure 1 from:
https://www.statista.com/statistics/531850/national-debt-of-pakistan/

Figure 2 adapted from:
Trading economics, https://tradingeconomics.com/pakistan/currency

Extract A adapted from:
ET, https://economictimes.indiatimes.com/news/international/world-news/pakistan-on-brink-of-economic-collapse/articleshow/93191862.cms;
FT, https://www.ft.com/content/31f9fbd5-996a-4c24-8c5d-3fcf824c0d93;
FT, https://www.ft.com/content/23f50890-c184-4ee8-bb53-794db2673171