

# Paper 2

This document contains several past papers for the A level Economics specification. However be aware that these papers are **NOT** the same as the papers that you will be sitting in the summer. The papers enclosed are taken from papers created before the specification change that came in alongside the new Linear A level.

However some of the questions share enough similarities with the ones that you will be asked during the 2018 exam to be useful for the purposes of revision.

How to use this paper:-

5. The calculation part of a 5 mark question closely approximates to a 2 mark question.
6. The 10 mark question closely approximates to a 9 mark question.
7. The 15 mark questions closely approximate to a 15 mark question.
8. The 25 mark questions are the same.

Name:



## A-level ECONOMICS

### Unit 4 The National and International Economy

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Tuesday 13 June 2017

Afternoon

Time allowed: 2 hours

#### Materials

For this paper you must have:

- an AQA 12-page answer book
- a calculator.

#### Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Paper Reference** is ECON4.
- In **Section A**, answer **either** Context 1 **or** Context 2.
- In **Section B**, answer **one** essay.

#### Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

#### Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer either Context 1 or Context 2.

Total for this Context: 40 marks

Either

Context 1

## THE GLOBAL CONTEXT

Study Extracts A, B, and C, and then answer all parts of Context 1 which follow.

**Extract A: Macroeconomic performance indicators and UK trade with selected south east Asian economies, 2014**

Country	Growth rate, % change in real GDP	Total GDP \$bn (PPP)	Share of total UK exports (%)	Share of total UK imports (%)
Indonesia	5.0	2686	0.2	0.3
Malaysia	6.0	769	0.5	0.4
Singapore	2.8	454	1.2	0.8
Taiwan	3.8	1078	0.4	0.9
Thailand	0.9	1069	0.5	0.6

Source: Official statistics, 2015

## Extract B: The Trans-Pacific Partnership

Indonesia and Taiwan have both declared their interest in joining the Trans-Pacific Partnership (TPP), which is a trade deal involving several countries in Asia and North America, including the USA and Japan. The TPP will apply to 40% of the global economy and, for USA exporters alone, 18 000 individual tariffs will be reduced to zero.	1
The main focus of the TPP is to create free trade in services, allowing greater access to markets for more firms which, over time, may provide a boost to productivity and provide benefits from economies of scale. The arguments in favour of free trade are very powerful. Alongside the potential gains from export growth, it should create more competition, boost investment, allow consumers greater choice and cheaper prices. There are also benefits such as improved international relations, as well as the further development of comparative advantage.	5
Taiwan's Prime Minister said "If Taiwan and Indonesia were to become members of the TPP, Indonesian companies would witness reduced import costs, which would also benefit Taiwan. The small and medium-sized enterprises of Taiwan also offer a wealth of experience that can help boost Indonesia's technological and production capabilities." The impact of the TPP will depend on whether or not its membership grows. If more countries do join, they will be able to develop industries in which they hold a comparative advantage, leading to ever-increasing globalisation.	15
The UK Prime Minister, David Cameron, has put forward proposals to secure ambitious trade deals with the rest of the world, warning that the European Union (EU) must embrace emerging markets or face decline. He has attempted to move forward talks on a free trade deal between the EU and the Association of Southeast Asian Nations (ASEAN) bloc which includes Indonesia. In 2014, Indonesia was the fourth most populous country in the world. Its economic growth rates have been in excess of 5% and, with global growth improving, Indonesia is likely to grow even faster, making it one of the most important future world markets.	20
	25

Source: News reports, 2015

**Extract C: Is free trade always good?**

Not everyone is happy with the idea of free trade, with many arguing that some form of protectionism is needed. Trade unions in 'richer economies' are often worried about the impact free trade has upon the labour market. They point to less developed economies having little in the way of minimum wage laws or worker protection, giving them an unfair advantage, particularly in low-skilled, manual work. There is strong evidence to suggest that regional inequality in the UK has been made worse by free trade.

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Recently, the UK government has been criticised by some for not offering protection against state-subsidised Chinese steel firms who have under-cut prices of domestic producers, contributing to their closure. There is also the argument that newly-emerging domestic firms may never be able to get a foothold in their home market due to the power and magnitude of foreign competition. Critics of free trade also point to the negative impact on jobs. Free trade can also lead to increased instability as a result of global external shocks.

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Trade deals themselves have also come under scrutiny, with many arguing that the benefits are usually overstated by the supporters of free trade. The deals often have requirements, such as environmental safeguards designed to reduce overfishing and deforestation, but these are frequently broken and are difficult to regulate. The power that multinational corporations (MNCs) may gain at the expense of democratically elected governments is also of concern. Often the MNCs demand the removal of workers' rights and regulations designed to protect the environment and consumers. The issue of MNCs avoiding tax has also been prominent in recent times.

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Any kind of deal between the EU and ASEAN economies is still a long way off, and the UK must wait to see how new trade deals affect its macroeconomic performance.

Source: News reports, 2015

0 1

Using the data in **Extract A**, calculate in £bn, the value of the UK's exports to Taiwan in 2014, if the total value of the UK's exports to the world in that year was £500bn and identify **one** other significant feature of UK trade with the selected south east Asian economies in 2014.

**[5 marks]**

0 2

**Extract B** (lines 15–18) states: 'The impact of the TPP will depend on whether or not its membership grows. If more countries do join, they will be able to develop industries in which they hold a comparative advantage, leading to ever-increasing globalisation.'

Explain the term 'comparative advantage' and analyse **two** causes of increased globalisation in the world.

**[10 marks]**

0 3

**Extract C** (lines 21–22) states: 'Any kind of deal between the EU and ASEAN economies is still a long way off, and the UK must wait to see how new trade deals affect its macroeconomic performance.'

Using the data and your knowledge of economics, evaluate the extent to which international agreements to increase free trade are likely to be beneficial to the UK's macroeconomic performance.

**[25 marks]**

Turn over ►

Do not answer Context 2 if you have answered Context 1.

Total for this Context: 40 marks

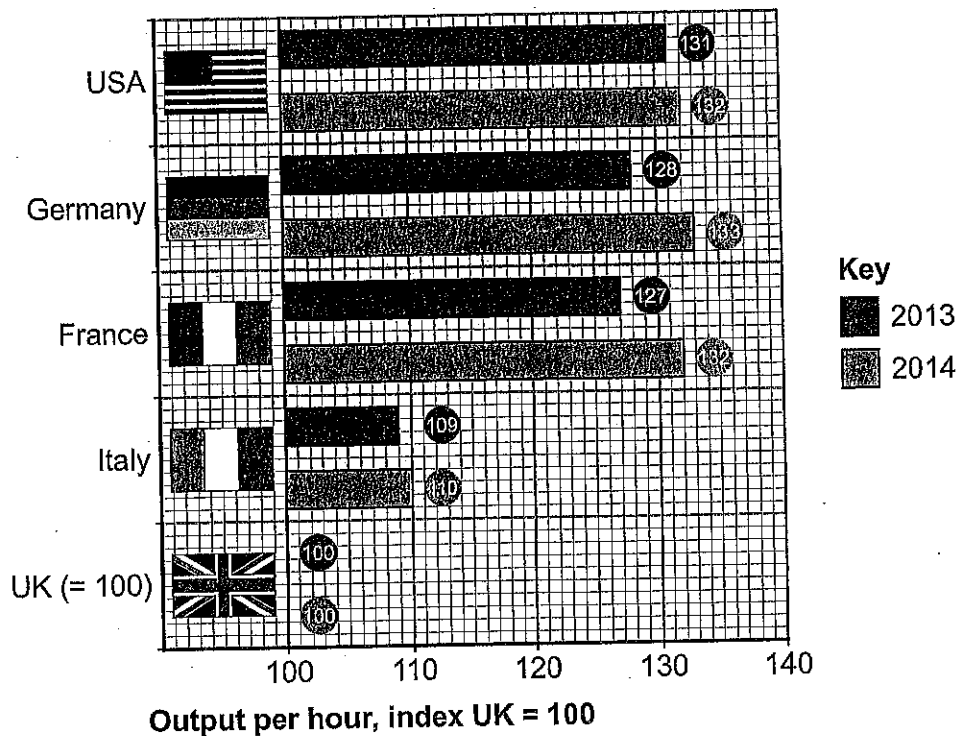
or

## Context 2

### THE EUROPEAN UNION CONTEXT

Study Extracts D, E and F, and then answer all parts of Context 2 which follow.

**Extract D: Index of output per hour worked in the US and four selected EU nations in 2013 and 2014**



Source: Official statistics, 2015

### Extract E: The UK's productivity gap

In 2014, official figures showed that the UK was much less productive than all of the G7 (the seven leading industrial nations), except Japan. The Office for National Statistics said output per hour was 18 percentage points below the G7 average, the largest difference since 1991, and well below several other leading European Union (EU) economies. 1

Improvements in productivity and supply-side policies are often seen as key in helping to improve living standards. The UK Chancellor, George Osborne, has pledged to take steps to encourage more foreign direct investment and improvements to infrastructure to boost productivity. Some economists argue that UK productivity had been held back since the financial crisis by the creation of many low-skilled, low-paid jobs where productivity improvements are difficult to achieve. 5

Nobel Prize winner Paul Krugman noted in his book, *The Age of Diminished Expectations*, 'Productivity isn't everything, but in the long run it's almost everything'. Unless improvements are made to the amount each worker produces, employers are unlikely to increase real wages and living standards cannot be expected to rise. 10

This is not just to do with workers working harder. It depends on supply-side factors such as the skills of the workforce and the capital firms have available. Much more investment in plant, machinery, skills and infrastructure is needed to bring the UK's productivity up to the levels of other advanced economies. 15

Source: News reports, 2015

### Extract F: The Italian productivity puzzle

In Italy, growth has stalled over the last decade. Italian real GDP is still lower than it was in 2001, before the eurozone was formed. With a debt-to-GDP ratio of over 120%, Italy's fiscal problems may stretch many years into the future. Italy's unit labour costs have also increased relative to competitors, leading to the suggestion that stagnant productivity may be behind its current economic weaknesses. However, things may not be as bad as they first appear. 1

Italy's exports have done surprisingly well for a country often seen as having competitiveness problems. According to United Nations statistics, Italy has remained the world's top ranking exporter in textiles and clothing during the economic downturn, and is ranked second behind Germany in non-electronic machinery. Its makers of high-class fashion and precision machine tools have gained an international reputation for innovation and boosted GDP. The solution to Italy's unemployment problem and low growth may be to try to develop these high-value and high-quality industries further. 5

The International Monetary Fund has suggested that traditional cost competitiveness measures, such as unit labour costs, may no longer be the best way of calculating how well countries like Italy are doing in terms of productivity. Technological or design innovation might boost wages in an economy, as high-skilled jobs are created. An increase in unit labour costs can therefore be a sign of more high-level jobs being created in an increasingly innovative and competitive economy. Although Italian unit labour costs have risen by 5% since 2002, against a 20% fall in Germany, Italy has benefited from gaining cheaper raw materials, maintaining its export competitiveness. 15

Why are productivity rates in other economies important for the UK? Well, for a start, improved international productivity can lead to lower prices for consumers in the UK, and boost welfare. It can also drive competitiveness in the domestic economy and, through globalisation, it can lead to both product and process innovation. However, if other EU economies continue to have higher productivity than the UK, it could be a sign of structural weakness that will damage the competitiveness of the UK economy. 20

Source: News reports, 2015

0 4

Using the data in **Extract D**, calculate to one decimal place, how much greater in percentage terms German output was per hour compared to Italian output per hour in 2014, **and** identify **one** other significant point of comparison between the productivity of EU nations.

[5 marks]

0 5

**Extract E** (lines 6–8) states: 'The UK Chancellor, George Osborne, has pledged to take steps to encourage more foreign direct investment and improvements to infrastructure to boost productivity.'

Explain the term 'foreign direct investment' **and** analyse how foreign direct investment **and** improvements to infrastructure may boost productivity.

[10 marks]

0 6

**Extract F** (line 21) asks: 'Why are productivity rates in other economies important for the UK?'

Using the data and your knowledge of economics, evaluate the significance of productivity improvements in the UK **and** in other EU economies for the performance of the UK economy.

[25 marks]

Turn over ►

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**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

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**Either**

**Essay 1**

In January 2009, £1 could buy approximately 1.04 euros on the foreign exchange market. By July 2015, £1 could buy approximately 1.44 euros.

**0 7** Explain the factors that may lead to a rise in the exchange rate of a currency. **[15 marks]**

**0 8** Evaluate the impact on the UK's macroeconomic performance of a sustained rise in the value of the pound sterling against the euro. **[25 marks]**

or

**Essay 2**

The Office for Budget Responsibility (OBR) forecast that government spending would account for 36% of GDP by 2020 compared to 45% of GDP in 2010.

**0 9** Explain the economic reasons for government spending. **[15 marks]**

**1 0** To what extent do you regard a contraction of the public sector to be beneficial for the UK economy? Justify your answer. **[25 marks]**

or

**Essay 3**

It is now nearly a decade since the financial crisis caused a recession in the UK. In March 2009, the Monetary Policy Committee (MPC) set the UK Bank Rate at 0.5%, which was a record low, in order to stimulate economic growth.

**1 1** Explain the main features of a recession. **[15 marks]**

**1 2** Discuss the importance of low interest rates in bringing about sustained economic growth in an economy such as the UK. **[25 marks]**

**END OF QUESTIONS**



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## A-level ECONOMICS

### Unit 4 The National and International Economy

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Thursday 23 June 2016

Afternoon

Time allowed: 2 hours

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  - use specialist vocabulary where appropriate.

#### Advice

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## Section A

Answer either Context 1 or Context 2.

Total for this Context: 40 marks

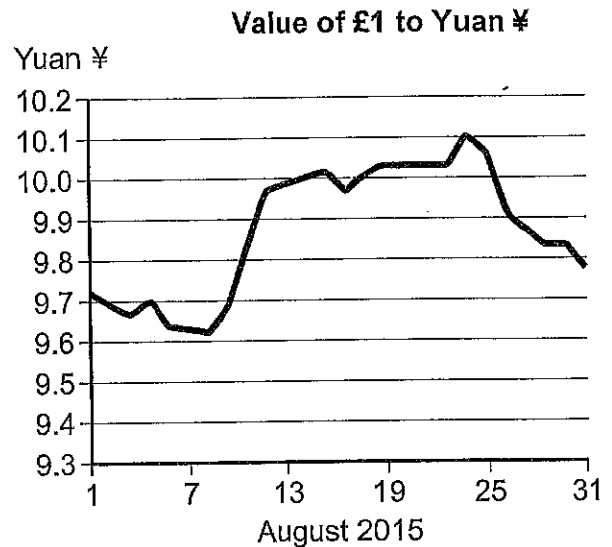
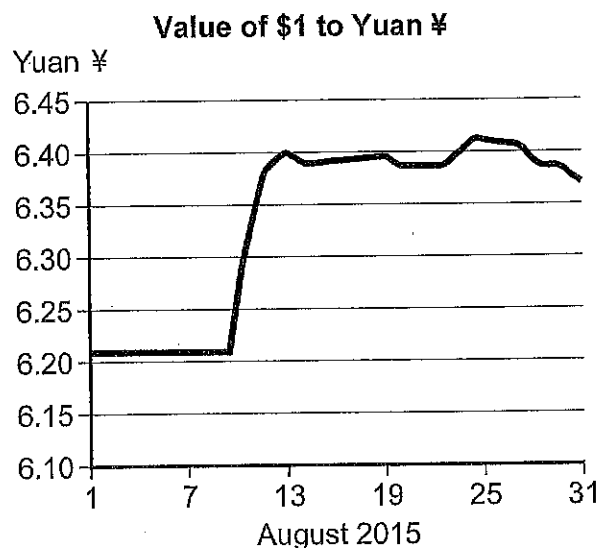
Either

Context 1

## THE GLOBAL CONTEXT

Study Extracts A, B and C, and then answer all parts of Context 1 which follow.

## Extract A: Value of US Dollar and UK Pound Sterling to the Chinese Yuan, August 2015



Source: Official statistics, 2015

## Extract B: Currency wars

After China's recent devaluation of its currency (the yuan), several other emerging economies followed and reduced the value of their own currencies in an attempt to retain their international competitiveness. This sent shockwaves around global markets and increased fears of a currency war (nations engaging in successive devaluations in order to gain a competitive advantage). However, the most important change appears to be that caused by the Central Bank of China. The perception that the world's single biggest customer for raw materials is in economic difficulties has created fears for the stability of big commodity producing economies and damaged investor confidence. These economies include Kazakhstan, Russia, Brazil, South Africa and Malaysia.

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"The appearance of China deliberately devaluing its exchange rate to boost growth has added urgency for policymakers elsewhere to do what they can to gain more export revenue", said an analyst. However, the devaluation of the exchange rate in China may also threaten the economic growth of many developed economies such as the UK and the USA. As these economies begin to reach their productive capacities, they are likely to increase their interest rates, which may appreciate their own exchange rates, thereby worsening the situation.

The US government, in particular, has been angered. Although China claims to be trying to manage the yuan's value against a basket of currencies, the yuan is still, in practice, loosely pegged to the dollar. If the dollar appreciates, then so does the yuan. As a result, this may prompt China to peg the value of their currency at an even lower value against the dollar as a result. It is argued that the Chinese should float their currency freely to make global trade fairer, rather than manipulate its value. However, devaluation of the yuan has allowed Chinese exporters to further improve competitiveness and, by raising the price of imports, has also helped China to stave off deflation.

Source: News reports, 2015

**Extract C: Exchange rate systems**

The UK has allowed market forces to determine its exchange rate for over 20 years but, in the face of growing global competition, this may be damaging to the UK's prosperity. Is it time the UK considered manipulating its currency directly and managing its exchange rate in order to reduce the ever-increasing trade deficit and to help improve its performance? 1

Monetary policy has generally focused on the control of inflation using interest rates and, in recent times, quantitative easing has been used to help revive the economy. Much less attention has been paid to the exchange rate. If the UK did attempt to manage its exchange rate, it would not be the first European economy to do so. In 2011, Switzerland introduced what it called a 'currency ceiling' to try to block the steep appreciation of the Swiss franc, which had become a safe haven for investors frightened by the Eurozone debt crisis. The Swiss government realised that to allow the Swiss franc to appreciate might damage domestic exporters and plunge Switzerland into a long period of deflation. 5 10

To keep the value of the Swiss franc against the euro below the ceiling, the Swiss National Bank created new francs and sold them, accumulating foreign currency reserves. This was very costly to the Swiss government and some feared that it might ultimately lead to inflation. Managed currencies also make it difficult to use the other monetary policy instruments effectively, which is why most economies have moved to allowing their currency's value to be determined solely by market forces. That being said, when the Swiss returned to a freely floating system, their exchange rate increased by nearly 30% in one day. Having a managed exchange rate could, however, lead to more stability for the UK, boosting both trade and investment from abroad. This could help to improve the UK's macroeconomic performance, despite the growing global uncertainties. 15 20

Source: News reports, 2015

0 1

Using the data in **Extract A**, calculate (to one decimal place) the percentage change in the exchange rate between the **US dollar** and the **Chinese yuan** between 1 August 2015 and 13 August 2015, and identify **one** significant comparison between the exchange rates of the US dollar and the UK pound sterling with the Chinese yuan over the period shown.

[5 marks]

0 2

**Extract B** (lines 12–14) states: 'the devaluation of the exchange rate in China may also threaten the economic growth of many developed economies such as the UK and the USA.'

Explain the phrase 'devaluation of the exchange rate' and analyse how a devaluation of the Chinese currency (the yuan) may affect economic growth in the UK.

[10 marks]

0 3

**Extract C** (lines 2–4) asks: 'Is it time the UK considered manipulating its currency directly and managing its exchange rate in order to reduce the ever-increasing trade deficit and to help improve its performance?'

Using the data and your knowledge of economics, evaluate the view that the UK should focus its monetary policy on managing the exchange rate in order to improve macroeconomic performance.

[25 marks]

Turn over ►

Do not answer Context 2 if you have answered Context 1.

Total for this Context: 40 marks

or

## Context 2

### THE EUROPEAN UNION CONTEXT

Study Extracts D, E and F, and then answer all parts of Context 2 which follow.

#### Extract D: Selected economic data for Spain

	2010	2011	2012	2013	2014
Population (millions)	46.6	46.7	46.8	46.8	46.5
Real GDP (€, bn)	1081	1075	1055	1049	1058
Unemployment Rate (%)	19.9	21.4	24.8	26.1	24.4
Current Account Balance (€, bn)	-42.4	-34.0	-3.0	15.1	8.5

Source: Official statistics, 2015

#### Extract E: Is the crisis over in Spain?

The Spanish economy has been benefiting from an upturn in the economic cycle within the Eurozone. The European Central Bank's (ECB's) adoption of quantitative easing has given a boost to the Eurozone. The sharp fall in energy prices caused by the recent collapse in the price of oil has also acted like a tax cut, but Spain seems to have been doing much better than the single currency bloc as a whole, which grew at a much lower rate during this period.

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The Spanish government claims that the recent recovery is partly due to the supply-side labour market reforms it has carried out since being elected in 2012. These reforms include: making it less expensive for employers to dismiss permanent workers; allowing firms to opt out of pay setting agreements within industries; allowing employers to set their own conditions of employment with their employees; and also reducing 'red tape'. At the same time, tax on firms' profits has been cut from 30% to 25%.

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As a result of these and other measures, Spain has moved up the World Bank's 'ease of doing business' rankings from 52nd to 33rd during the last two years (in comparison, the UK has moved from 7th to 8th over the same period).

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Economists' views on the impact of the reforms vary. Some suggest that they help to explain why Spain has been recovering better than other countries such as Italy and Portugal. Some estimates have suggested that unemployment would have peaked at 20%, rather than 26%, if the reforms had taken place earlier. However, others have argued that the source of the recovery has not been the structural reforms but rather the adjustments forced upon businesses and workers in coping with the severe recession, in particular through lower wages.

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The Spanish economic recovery, however, needs to be put into perspective. Despite the improvement in growth and the decline in unemployment, Spain's unemployment rate is still the second highest in Europe, with only Greece having a higher rate.

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Source: News reports, 2015

**Extract F: Unemployment in the UK – as good as it gets?**

The UK labour market is showing some healthy signs. A significant number of new jobs are continuing to be created and the unemployment rate stood at 5.7% at the end of 2014, in comparison to a Eurozone average of 11.1%. Economic growth has increased the demand for labour. However, some are now arguing that further improvements in the unemployment statistics can only be gained through improvements in the supply-side of the economy, rather than relying on demand.	1 5
Wages are growing at their highest rate for over three years and inflation is at its lowest level on record. Consumers are in a much stronger position and the prospects for the UK economy have improved. At the same time, some European economies are showing signs of growth, which is likely to boost UK exports. However, further efforts to reduce the unemployment rate may prove difficult. Some argue that there are jobs out there, but some people are not willing or able to take them.	10
Labour market programmes are in place in the form of training, subsidies for private employers and help for individuals to find work. However, the UK government has also embarked on a number of policy changes in an attempt to force the unemployed back to work and to deal with the rising costs of welfare. Measures such as the creation of the benefits cap (which limits the maximum amount that people of working age can receive in benefits) and restricting the uprating of Jobseeker's Allowance to the rate of inflation or 1% (whichever is lower) are all part of an attempt to encourage the unemployed to seek work. However, some would say that this is punishing the unemployed. The announcement of the introduction of a National Living Wage in the recent budget is claimed by the government to offset the effect of the changes to the benefits system.	15 20

Source: News reports, 2015

- 0 | 4** Using the data in **Extract D**, calculate (to the nearest whole number) the real GDP per capita in Spain for 2014 **and** identify **one** significant comparison between the unemployment rate and real GDP over the period shown. **[5 marks]**

- 0 | 5** **Extract E** (lines 1–2) states: 'The Spanish economy has been benefiting from an upturn in the economic cycle within the Eurozone.'

Explain the term 'upturn in the economic cycle' **and** analyse why this may have caused Spain's unemployment rate to fall.

**[10 marks]**

- 0 | 6** **Extract F** (lines 4–6) states: 'some are now arguing that further improvements in the unemployment statistics can only be gained through improvements in the supply-side of the economy, rather than relying on demand.'

To what extent do you agree that a further reduction in the UK's unemployment rate is most likely to be achieved by improvements in the supply-side rather than the demand-side of the economy? Use the data and your own knowledge of economics, to justify your answer.

**[25 marks]****Turn over for Section B****Turn over ►**

## Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

**Either**

### Essay 1

'George Osborne talks about boosting exports and rebalancing the economy, but the Chancellor is not nearly as worried about the trade deficit as he is about the budget deficit.'

Source: The Guardian: Economics Blog, 30 June 2015

**0 7** Explain the factors which are likely to cause a large budget deficit. **[15 marks]**

**0 8** To what extent do you agree that a persistent trade deficit is more damaging to the UK's macroeconomic performance than a persistent budget deficit? Justify your answer. **[25 marks]**

or

### Essay 2

After a period of inflation below the target rate, the Consumer Price Index (CPI) inflation rate was recorded as -0.1% in early 2015. The Governor of the Bank of England wrote: 'A temporary period of falling prices, driven by large adjustments in a few specific components of the CPI, is a fundamentally distinct phenomenon from 'deflation'... The UK is not experiencing 'deflation'.'

Source: Bank of England: Letter to the Chancellor, Mark Carney, 12 February 2015

**0 9** Explain the possible causes of deflation in an economy. **[15 marks]**

**1 0** Evaluate the possible consequences for the performance of the UK economy of the actual rate of inflation being below the Monetary Policy Committee's (MPC's) target rate. **[25 marks]**

or

### Essay 3

In 2014, the UK's contributions to the European Union (EU) budget rose by £2.7bn, making it the second largest net contributor. However, it is argued that the UK benefits much more from the trade and the job creation that EU membership brings.

**1 1** Explain how membership of a customs union, such as the EU, affects the pattern and volume of trade between countries. **[15 marks]**

**1 2** Evaluate the extent to which individuals and firms in the UK benefit from membership of the EU. **[25 marks]**

**END OF QUESTIONS**



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General Certificate of Education  
Advanced Level Examination  
June 2015

## Economics

## ECON4R

### Unit 4 The National and International Economy

Friday 19 June 2015 9.00 am to 11.00 am

**For this paper you must have:**

- an AQA 12-page answer book
- a calculator.

**Time allowed**

- 2 hours

**Instructions**

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**Advice**

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer **either** Context 1 or Context 2.

**Total for this Context: 40 marks**

**Either**

**Context 1**

### THE GLOBAL CONTEXT

Study **Extracts A, B and C**, and then answer **all** parts of Context 1 which follow.

**Extract A: New Zealand marginal income tax rates for every \$1 of taxable income**

Taxable income	Income tax rates 2010/11	Income tax rates 2014/15
from \$0 to \$14 000	12.5%	10.5%
from \$14 001 to \$48 000	21%	17.5%
from \$48 001 to \$70 000	33%	30%
\$70 001 and over	38%	33%

Source: Inland Revenue - New Zealand, 2014

**Extract B: New Zealand's low tax economy**

In New Zealand, The National Party recently won the general election on policies of cutting taxes and balancing the budget, beating a Labour Party opposition that promised to put up taxes. When taxation is progressive, it is highly debatable whether or not increasing top rate taxes on income raises extra revenue, or whether it may result in less money being collected. Significantly reducing the top rate of income tax appears to have revived the economy, and been rewarded with electoral success as well. 1  
5

After the financial crash of 2008, New Zealand started shifting taxes from earnings to consumption. While VAT was increased from 12.5% to 15%, income taxes were cut, including the top rate from 38% to 33%, and corporation tax was also cut by 2%. The government believed that lower taxes would create faster growth, a risky assumption at the time. Some cuts in government spending were also made to accompany the package. 10

The lower taxes seem to have worked. New Zealand has witnessed one of the most robust recoveries in the developed world, despite suffering a major shock (the Christchurch earthquake in 2011). The economy is forecast to expand by 3.9% in 2014, a faster rate than the UK or US. Higher tax revenues, and tight control of public spending, meant it was one of only three OECD countries able to balance its budget in 2014. 15

However, there are plenty of differences between the UK and New Zealand. For a start, it is a tiny country, with only 4.5 million people. It has been helped by strong dairy prices, although agriculture only accounts for 4% of GDP. New Zealand currently ranks 7th in the Human Development Index whereas the UK is 14th. Perhaps most importantly, its major trading partners are the fast-growing Asian-Pacific economies, while the UK is linked with the Eurozone. One big difference is in the structure of the economy. New Zealand has a far smaller public sector, with the state responsible for 32% of GDP, compared with almost 43% in the UK, but a smaller state also needs less tax revenue to fund it. Maybe the UK also should consider tax cuts to secure growth. 20  
25

Source: news reports, 2014

**Extract C: Where does tax go in the UK?**

In the UK, from November 2014, HM Revenue & Customs will begin sending 24 million working people the first Annual Tax Summary, showing how their money is being spent by the state, in order to make taxation more transparent. For example, someone on a salary of £30 000 will see that £1663 of their money is spent on welfare, with £1280 going to health, £892 going to education, £822 going to the state pension and £475 going on national debt interest. Ministers believed that showing exactly where taxpayers' money goes could make voters more receptive to controversial Government changes to the benefits system.	1 5
However, the tax summaries have been heavily criticised in that they may make individuals more inclined to support political parties which favour lower taxes, without considering the wider picture of what state spending provides. The breakdown does not make clear that most of the welfare budget goes to pensioners, the sick and disabled people. The Treasury originally planned to show just 3% went towards unemployment benefits while much larger amounts went to children and families, elderly people and those unable to work, but this has been left off the tax summaries.	10 15
A Labour Party spokesperson said: 'This government's record on tax is giving millionaires a huge tax cut while everyone else pays more.' She added: 'Families and pensioners are paying more in higher VAT, but that tax isn't included in these tax summaries and independent figures from the Institute of Fiscal Studies show that, by next year, families will be £974 a year worse off because of tax and benefit changes since 2010.'	20

Source: news reports, 2014

**0 1** Using the data in **Extract A**, calculate the income tax payable in 2014/15 for someone in New Zealand earning \$30 000 of taxable income **and** identify **one** significant feature of the tax rates between 2010/11 and 2014/15.

**[5 marks]**

**0 2** **Extract B** (lines 3–5) states: 'When taxation is progressive, it is highly debatable whether or not increasing top rate taxes on income raises extra revenue, or whether it may result in less money being collected'.

Explain the term progressive tax **and** analyse why a rise in income tax rates may lead to lower tax revenue.

**[10 marks]**

**0 3** **Extract C** (lines 9–11) states: 'However, the tax summaries have been heavily criticised in that they may make individuals more inclined to support political parties which favour lower taxes, without considering the wider picture of what state spending provides.'

Using the data and your knowledge of economics, to what extent do you agree that cuts to direct taxation would benefit growth **and** living standards in the UK? Justify your answer.

**[25 marks]**

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

**Total for this Context: 40 marks**

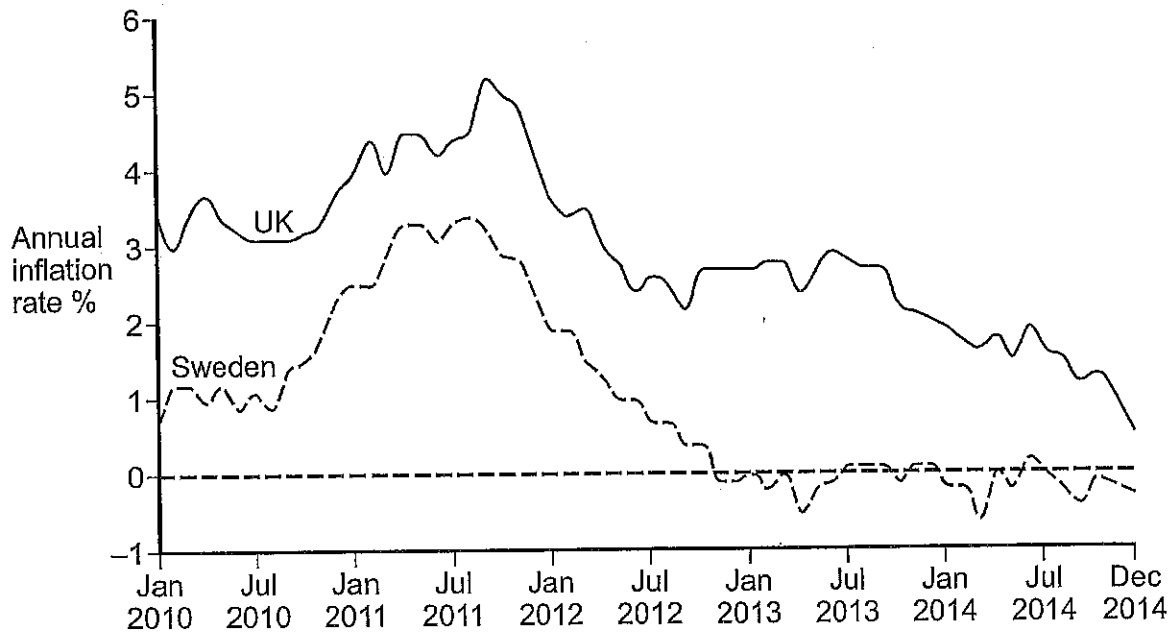
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## Context 2

### THE EUROPEAN UNION CONTEXT

Study **Extracts D, E and F**, and then answer **all** parts of Context 2 which follow.

#### Extract D: Annual inflation rates of the UK and Sweden using the Consumer Price Index (CPI)



Source: IEconomics <http://ieconomics.com/inflation-rate-sweden-uk> accessed 16/01/15

#### Extract E: Sweden's economic fortunes

Only a few years ago, the Riksbank (the central bank of Sweden) was the envy of the world. The Swedish economy was a star performer early in the global recovery following the 2008 economic crisis. Sweden's economy grew three times faster than the Eurozone's in 2010. Even better, the Riksbank felt confident enough in recovery to start raising interest rates. Its main interest rate reached 2% by July 2011, while rates in most other rich economies stayed nearer to zero.

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However, some economists argue that, from the beginning, Sweden's interest rate increases looked premature. When the first rate increase came, unemployment stood at 8.2%, while the inflation rate was 1.1%, well below the central bank's target. Concerns about financial stability influenced the decision to maintain higher interest rates, even though economic conditions deteriorated. The Riksbank was worried that rising household borrowing and soaring house prices could lead to adverse consequences in the long run. Yet the strategy did not go as planned and no doubt contributed to deflation in 2013.

10

Unemployment in Sweden has remained high and private sector debt as a share of GDP is higher now than it was in 2010 but, at the same time, house prices have continued to climb. In October 2014, the Riksbank announced it was cutting its main interest rate to zero in an effort to stimulate the economy.

15

However, the effectiveness of the central bank's ability to respond to avoid deflation is a concern because it becomes very difficult to further stimulate domestic demand as real interest rates approach zero. On the other hand, low interest rates contributed to the Swedish currency, the Krona, falling sharply in value, which helped exports and provided some cushion against weak global demand and further deflation. 20

Source: news reports, 2014

**Extract F: Is deflation a bad thing?**

Deflation is the new economic menace threatening European economies including the UK. In the Eurozone in particular, the European Central Bank is considering the use of quantitative easing to help avoid deflation; but why is it such a problem? Firstly, there is the argument that deflation delays spending. However, this does not relate to all forms of consumption. Another reason is the effect on debtors. Prices and perhaps incomes may fall, but the real value of debt increases. For firms experiencing falling revenues, and households with declining incomes, debt repayments become more of a burden. Governments can be caught in the same trap, because if prices and incomes fall, so does tax revenue. 1 5

There is an alternative view that moderate deflation is not a bad thing, especially if it is the result of innovation that reduces production costs. Also, some comfort is to be had from falling or barely rising prices as this goes some way to improve competitiveness. Some of the Eurozone's economies desperately need to become more competitive and they need to either reduce costs or increase productivity. However, falling prices deter investment, which makes productivity improvements far more difficult. 10 15

Source: news reports, 2014

**0 4** Calculate (to 2 decimal places) Sweden's Consumer Price Index (CPI) figure in December 2015 if the CPI figure stood at 314.05 in December 2014, and the annual rate of inflation was minus 0.3% **and** using **Extract D**, identify **one** significant comparison between the inflation rate for Sweden and the UK. [5 marks]

**0 5** **Extract E** (lines 20–22) states: '...it becomes very difficult to further stimulate domestic demand as real interest rates approach zero. On the other hand, low interest rates contributed to the Swedish currency, the Krona, falling sharply in value...'. Explain the term 'real interest rates' **and** analyse why low interest rates may lead to a fall in the value of a currency on the foreign exchange market. [10 marks]

**0 6** **Extract F** (line 1) states: 'Deflation is the new economic menace threatening European economies including the UK.' Using the data and your knowledge of economics, evaluate the view that deflation in the EU's economies would inevitably be damaging to the UK's macroeconomic performance. [25 marks]

**Turn over for Section B**

**Turn over ►**

---

**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

---

**Either**

**Essay 1**

In 2014, George Osborne revived the idea of 'full employment' as a macroeconomic goal but what is actually meant by full employment is often debated by economists, with some arguing that a natural rate of unemployment exists.

**0 7** Explain the factors which might determine the natural rate of unemployment. **[15 marks]**

**0 8** Evaluate the view that reducing unemployment inevitably has trade-offs with other macroeconomic objectives. **[25 marks]**

or

**Essay 2**

Globalisation and outsourcing of manufacturing provides several potential benefits to economies. However, some countries, such as the UK, continue to suffer persistent trade deficits but are unable to resort to import controls.

**0 9** Explain how the UK Government could reduce a balance of payments deficit on the current account, other than through the use of import controls. **[15 marks]**

**1 0** Assess the view that, for the UK, the economic benefits of globalisation outweigh the costs. **[25 marks]**

or

**Essay 3**

Savings often provide the funds for investment. In 1997, the UK saving ratio stood at 13%, at the beginning of the financial crisis in 2007 it was only 5% and by 2014 it had risen slightly to 7%.

**1 1** Explain why the saving ratio may fall. **[15 marks]**

**1 2** Evaluate the likely impact of a fall in the saving ratio on the performance of the UK economy. **[25 marks]**

**END OF QUESTIONS**



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General Certificate of Education  
Advanced Level Examination  
June 2015

## Economics

## ECON4

### Unit 4 The National and International Economy

Friday 19 June 2015 9.00 am to 11.00 am

**For this paper you must have:**

- an AQA 12-page answer book
- a calculator.

#### Time allowed

- 2 hours

#### Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Paper Reference** is ECON4.
- In **Section A**, answer **either** Context 1 **or** Context 2.
- In **Section B**, answer **one** essay.

#### Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
  - There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

#### Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer either Context 1 or Context 2.

Total for this Context: 40 marks

Either

Context 1

## THE GLOBAL CONTEXT

Study Extracts A, B and C, and then answer all parts of Context 1 which follow.

## Extract A: Macroeconomic performance of the US and UK economies, 2011–2014

		2011	2012	2013	2014 (estimated)
United States	Real GDP growth (%)	1.8	2.8	1.9	3.0
	Unemployment (%)	8.9	8.1	7.5	7.0
	Inflation (%)	3.2	2.1	1.5	1.5

		2011	2012	2013	2014 (estimated)
United Kingdom	Real GDP growth (%)	1.1	0.1	0.7	1.5
	Unemployment (%)	8.0	7.9	7.6	7.1
	Inflation (%)	4.5	2.8	2.6	2.3

Source: Official statistics, 2014

## Extract B: Will growing inequality damage the US economy?

Some economists are predicting that the US will play a leading role in driving world economic growth and, as the country which is the UK's main export partner, this may provide an injection into the UK's circular flow of income. However, since the 2008 financial crash, there has been debate in the US over whether or not economic growth can be strengthened and, if so, how best to achieve this. Within this debate, there are growing concerns about the specific issue of income inequality. The top 1% of earners have received 95% of the increase in income since the financial crisis. Since 2009, the top 1% have seen their incomes rise on average by 31.4%, whereas the rest of the population has seen a rise of only 0.4%. 1

The economist, Joseph Stiglitz, has highlighted inequality as one of the prime reasons why the US has continued to struggle to recover. His basic argument is that the rich have a lower marginal propensity to consume (the proportion of any increase in income spent) and a higher marginal propensity to save (the proportion of any increase in income not spent) than the poor. 5

Such inequality also creates unsustainable 'property-price bubbles' as wealthy individuals increase the demand for property to let out on the rental market which further fuels inflation. Tax receipts, which could be injected into the economy, also end up being reduced, as the rich are able to exploit loopholes to avoid payment of tax. For this reason, Stiglitz argues that it is necessary for the US Government to intervene to deal with inequality. If the incomes of the poor were raised, increased consumption would occur. This argument is refuted by Paul Krugman, who states that there are some European economies with much lower income inequality which are also in a mess. 10

Source: News reports, 2013

**Extract C: Incentives and economic performance**

<p>Could inequality be adversely affecting economic performance? According to some economists, capitalism is not working effectively. Reducing trade union power and creating more flexible labour markets have created greater income inequality. Successive governments have also reduced taxation on companies and high earners (such as the cut in income tax for those earning over £150 000 from 50% to 45%) in order to promote incentives and wealth generation, as well as focusing much of the UK's hopes on the financial services industry. These policies, however, have created greater divides in terms of the 'haves' and 'have nots' which may have consequences for the UK's macroeconomic performance.</p>	1 5
<p>There has been a shift, over the last generation, in the share of GDP from the workforce to shareholders of between 5%–7%, with many low earners finding it difficult to get onto the property ladder. Neo-classical economists cite the trickle-down effect as a way of improving the living standards of all by cutting taxes for upper income groups and business, stating that economic progress depends on saving and innovation which, in turn, depends on the ability to make high profits. However, research by the Tax Justice Network claims that, when there are high levels of inequality, to avoid tax, financial capital often leaves the country, rather than staying in the domestic economy.</p>	10 15
<p>It has been argued that other policies such as public sector pay rise limits of 1%, benefits rising at 1% rather than inflation-linked increases, and the removal of some housing benefit, as well as the culture of bankers' bonuses, have all contributed to growing inequality. This is likely to have consequences for consumer spending power, but may also help to contribute to reduced inflationary expectations. There has also been criticism of the UK banking system, in that it has been too focused on making quick financial returns rather than long-run investment. Ultimately, these factors may damage the UK's ability to achieve its macroeconomic targets.</p>	20 25

Source: News reports, 2013

**0 1** Using the data in **Extract A**, calculate the number of people in the US labour force in 2013, if the number of people unemployed in 2013 was 12 million, **and** identify **one** significant point of comparison between the macroeconomic performance of the US and that of the UK over the period shown.

[5 marks]

**0 2** **Extract B** (lines 1–3) states: 'Some economists are predicting that the US will play a leading role in driving world economic growth and, as the country which is the UK's main export partner, this may provide an injection into the UK's circular flow of income.'

Explain the term 'circular flow of income' **and** analyse how economic growth in the US may lead to increased national income in the UK.

[10 marks]

**0 3** **Extract C** (lines 7–9) states: 'These policies, however, have created greater divides in terms of the 'haves' and 'have nots' which may have consequences for the UK's macroeconomic performance.'

Using the data and your knowledge of economics, assess the importance for UK macroeconomic performance of increasing income inequality, **both** domestically **and** in other economies.

[25 marks]

Turn over ►

Do not answer Context 2 if you have answered Context 1.

Total for this Context: 40 marks

or

## Context 2

### THE EUROPEAN UNION CONTEXT

Study Extracts D, E and F, and then answer all parts of Context 2 which follow.

#### Extract D: Annual fiscal balance and total public sector debt as a % of GDP for selected European economies, 2012–2014

	2012		2013		2014 (forecast)	
	Fiscal balance as a % of GDP <sup>1</sup>	Total debt as a % of GDP	Fiscal balance as a % of GDP <sup>1</sup>	Total debt as a % of GDP	Fiscal balance as a % of GDP <sup>1</sup>	Total debt as a % of GDP
France	-4.6	90	-3.7	93	-3.5	94
Germany	+0.2	82	-0.3	82	-0.1	78
Ireland	-7.7	117	-7.5	122	-4.5	120
Eurozone Average	-3.6	93	-2.9	95	-2.6	95
UK	-8.3	90	-7.0	94	-6.4	97

Source: IMF Fiscal Monitor Report, 2013

<sup>1</sup>Fiscal balance is the budget deficit/surplus as a % of GDP in a financial year.

#### Extract E: The French economy faces problems

The International Monetary Fund (IMF) has warned the French government that, unless it makes major economic reforms to lower its labour costs and avoid tax rises, the economy is likely to experience reduced growth. This view was echoed in a recent survey of bankers, in which France was identified as the most serious threat to Europe's recovery from the debt crisis which has crippled growth and driven unemployment to record highs. The outlook for France, the Eurozone's second largest economy, is more worrying than that for Italy, Spain or Germany.

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The Chief Executive Officer of the Institute of International Finance said: 'There's a lack of concern about international competitiveness in France.' French President, François Hollande, is failing to revive business investment in the face of one of the world's highest tax burdens. Such investment could generate greater efficiency and higher productivity, especially important if the euro's exchange rate does not always work in France's favour.

10

An IMF spokesperson, Edward Gardner, also said that French unemployment, which currently stands at 11%, would continue to rise, despite President Hollande's vow to reduce it by the end of the year. 'It reflects in large part a general phenomenon in Europe that the recovery is slower in coming than we had expected.' The euro area's recovery almost came to a halt as the French economy unexpectedly shrank and German growth slowed.

15

The failure of the French economy to improve is in contrast to the overall success of the German economy and the stronger signs of recovery in the UK. President Hollande now

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faces difficult choices in reducing government spending to reach European budget deficit commitments. Furthermore, a recent announcement that VAT will rise, despite previous claims that there would be no significant tax rises, may cause further problems for the economy.

25

Source: News reports, 2013

### Extract F: Ireland emerges from bailout

Whilst many of the Eurozone members still face instability in their own economies, Ireland became the first economy to emerge from its bailout since the Eurozone crisis began. In its final report on Ireland's progress under the rescue scheme, the European Commission said: 'With public sector debt at 122% of GDP in 2013, Ireland needs to continue with its fiscal reduction programmes, reduce private-sector debt and improve bank profitability to revive lending.'

1

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Of the UK's top ten European trading partners, Ireland is the only one with which the UK has a current account surplus. The importance of trade with Ireland is therefore of great significance. The Irish and UK economies are highly integrated and it is not yet clear how further cuts in Ireland might impact on the UK's macroeconomic performance.

10

Public sector debt across many European nations is still at very dangerous levels and Ireland's debt to GDP ratio is the second highest in the EU. Higher national debts may lead to problems such as crowding out, where private sector investment is reduced due to increased public sector borrowing. The EU introduced the Stability and Growth Pact (limiting total debt as a percentage of GDP to 60% and annual deficits to 3% of GDP) in order to prevent individual economies from creating instability across the EU. However, EU member countries have struggled to keep to the pact, with only four member countries not breaking the rules. Both Ireland and the UK have breached the pact since 2008. No doubt more problems lie ahead for the Eurozone.

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Source: News reports, 2013

0 4

Using the data in **Extract D**, calculate the value of debt in Ireland in 2012, to the nearest billion euros, if the GDP of the economy was €164bn in 2012, **and** identify **one** significant feature of the fiscal balance data over the period shown.

[5 marks]

0 5

**Extract E** (lines 8–9) states: 'There's a lack of concern about international competitiveness in France.'

Explain what is meant by 'international competitiveness' **and** analyse how the international competitiveness of France might be improved.

[10 marks]

0 6

**Extract F** (lines 14–18) states: 'The EU introduced the Stability and Growth Pact ...in order to prevent individual economies from creating instability across the EU. However, EU member countries have struggled to keep to the pact, with only four member countries not breaking the rules.'

Using the data and your knowledge of economics, evaluate the likely impact on the UK economy of other EU countries attempting to reduce their public sector debt at the same time.

[25 marks]

Turn over for Section B

Turn over ►

---

**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

---

**Either**

**Essay 1**

There are several countries, such as Iceland, Serbia and Turkey, which may join the European Union in the future and so become members of the single market.

0	7
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 With the help of **either** a numerical example **or** a diagram, explain how the theory of comparative advantage demonstrates that countries can benefit from international trade. **[15 marks]**

0	8
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 Evaluate the view that further enlargement of the European Union would be beneficial for the UK economy. **[25 marks]**

or

**Essay 2**

Since the start of the financial crisis of 2007–2008, the UK, the Eurozone and the USA have adopted quantitative easing (QE) in an attempt to stimulate their economies.

0	9
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 Explain how the process of quantitative easing in the UK might increase the rate of inflation. **[15 marks]**

1	0
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 To what extent do you agree that maintaining inflation at the target rate of 2% should be the top priority of UK macroeconomic policy? Justify your answer. **[25 marks]**

or

**Essay 3**

The economies of Mexico, Indonesia, Nigeria and Turkey (MINT) have all been identified as the next main emerging market economies with high rates of growth. However, there are warnings that what goes up will eventually come down.

1	1
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 Explain why economies may go from periods of economic growth to recession. **[15 marks]**

1	2
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 Evaluate the view that living standards must be rising in economies which are experiencing economic growth. **[25 marks]**

**END OF QUESTIONS**



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General Certificate of Education  
Advanced Level Examination  
June 2014

## Economics

## ECON4

### Unit 4 The National and International Economy

Tuesday 10 June 2014 1.30 pm to 3.30 pm

**For this paper you must have:**

- an AQA 12-page answer book
- a calculator.

#### Time allowed

- 2 hours

#### Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

#### Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.  
There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

#### Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer EITHER Context 1 OR Context 2.

Total for this Context: 40 marks

EITHER

Context 1

## THE GLOBAL CONTEXT

Study Extracts A, B and C, and then answer all parts of Context 1 which follow.

**Extract A: UK Inflation (%) as measured by the Retail Prices Index (RPI) and the Consumer Prices Index (CPI), 2004–2011**

Year	RPI	CPI
2004	3.0	1.3
2005	2.8	2.1
2006	3.2	2.3
2007	4.3	2.3
2008	4.0	3.6
2009	-0.5	2.1
2010	4.6	3.3
2011	5.2	4.5

Source: ONS, accessed on 8 August 2012

**Extract B: Inflation never quite goes away**

Governments around the world seeking a cure for inflation accept that such a cure may never be achieved. They recognise, therefore, that the next best thing is effective control in order to secure economic stability and sustained economic growth. Even then, past experience suggests that inflation will never be fully under control. Governments recognise that there may be both national and international forces at work which have a bearing on prices. International causes of inflation are inevitably going to be more difficult, or impossible, for a country to control than those whose origins are from within that country.

1

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Some economists might argue that a weak global economy can help to suppress inflation but this weakness, if it persists, will have costs in terms of jobs and living standards. In any case, there may still be pessimism about inflation in the long term. As growth strengthens both in emerging and advanced economies, consumer demand, energy costs, primary commodity prices and wage costs are certain to rise. Agricultural commodity prices, for example, have fallen in recent decades but a significant upward trend could occur.

10

Such a trend will be reinforced by the growth of a global population, now over 7 billion. An increasing global inflation problem could have serious consequences for all aspects of UK macroeconomic performance, including the balance of payments and employment.

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It breeds uncertainty for government, consumers and businesses and raises expectations of future inflation. Because it affects competitiveness and can disrupt trade and investment

flows, the impact on both the current and the capital accounts of the balance of payments needs to be assessed. It is also likely that worsening inflation can halt any hesitant recovery. Overall, economic instability can be expected. 20

Source: news reports, 2012

### Extract C: Is money the root of all evil in the UK?

In September 2011, UK inflation, as measured by the CPI, was 5.2%. By June 2012, it was down to 2.4%. This fall has resulted from reductions in global energy and food prices, as well as a stronger pound and significant price reductions by retailers. The fear of some economists is that these factors will be of a temporary nature, especially when recovery gets under way nationally and globally, and inflation will prevail once more. 1  
5

Such fears have led these economists to criticise the Bank of England for continuing with its loose monetary policy of low interest rates and quantitative easing. They accept that this policy was pursued in good faith in order to generate economic recovery and prevent deflation, but point to continuing disappointing performance. They fear that the main consequence will be inflation and point to the Bank's own view in its Inflation Report of August 2012 that 'considerable uncertainty surrounds the inflation outlook'. 10

The Quantity Theory of Money is relevant here. It predicts a direct relationship between increases in the money supply and increases in the price level. Increases in the money supply can begin to influence such factors as interest rates and the exchange rate, as well as business and consumer confidence. When the feared impact of increases in the money supply is added to the anticipated global inflationary forces, it is argued that UK inflation will inevitably rise. As for the global economy, rising inflation could also be a major obstacle to any UK economic recovery. 15

Source: news reports, 2012

**0 1** Using **Extract A**, calculate the difference between the annual average value of RPI and the annual average value of CPI for the years 2005 to 2008, and identify **one** other significant comparison between the RPI and the CPI for the period 2004 to 2011. [5 marks]

**0 2** **Extract C** (lines 12–13) states that the Quantity Theory of Money 'predicts a direct relationship between increases in the money supply and increases in the price level'. Explain the term 'price level' **and** analyse how increases in the money supply of an economy may bring about increases in the price level in that economy. [10 marks]

**0 3** **Extract B** (lines 15–16) argues: 'An increasing global inflation problem could have serious consequences for all aspects of UK macroeconomic performance, including the balance of payments and employment.' Using the data and your economic knowledge, discuss the possible impact on the UK balance of payments of an increasing rate of inflation throughout the global economy. [25 marks]

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

**Total for this Context: 40 marks**

OR

Context 2

### THE EUROPEAN UNION CONTEXT

Study Extracts D, E and F, and then answer all parts of Context 2 which follow.

**Extract D: GDP at current prices (\$US billion) for selected European countries, 2008 – 2011**

Country	2008	2009	2010	2011
France	2191	2171	2220	2290
Germany	3048	2952	3060	3205
Norway	293	264	280	306
UK	2203	2131	2222	2223

Source: OECD, accessed on 8 August, 2012

**Extract E: Would the UK be left out in the cold by saying goodbye to the EU?**

In recent years, growing disenchantment with the EU has led to calls for the UK to leave the organisation. Supporters and opponents of UK membership have presented coherent arguments. 1

A study by the so-called Bruges Group, which opposes the EU, estimated the annual cost of UK membership to be £65bn. This included an estimated cost to businesses of £28bn to comply with EU regulations and an annual net contribution to the EU Budget of £14.6bn. A member of the EU Commission in 2011 estimated that the Common Agricultural Policy (CAP) causes the UK consumer to pay up to three times as much for food than if the CAP did not exist. The common external tariff raises prices of imports into the EU, including the prices of consumer goods and resources used by businesses. It also protects inefficient, high-cost EU producers. 5 10

Those supporting UK membership point, for example, to the 3.5 million UK jobs created from trade with the EU, either within the export sector or, more widely, through the operation of an export-led multiplier. The Single European Market has helped trade creation and has allowed EU labour to move to the UK, to the benefit of UK businesses. Despite not being in the eurozone, the UK has continued to attract a large share of the world's investment funds so that it is now the third largest recipient internationally. It is claimed that a large part of this is due to EU membership. The EU as a whole has also exerted much greater influence than could any individual EU country in negotiations to further global free trade. One business organisation has argued that non-membership would be like 'sitting outside in the corridors rather than at the decision table'. 15 20

Sources: various, 2012

**Extract F: Should the UK envy Norway?**

Critics of the EU point to the experience of Norway which has twice rejected EU membership. Instead, along with Iceland and Liechtenstein, Norway joined the European Economic Area (EEA). This is an association of these three countries and all 27 EU members. It means that Norway is subject to just one third of the EU regulations faced by full members. It is governed by the so-called "four freedoms". These are the free movement of goods, services, people and capital between members of the EEA. These freedoms form the essence of the EU Single Market. 1  
5

Despite Norway enjoying the "four freedoms" within the EEA, one of the main disadvantages of non-membership is that the EU common external tariff applies to Norwegian exports to the EU. Norway's important processed fish exports, for example, face EU tariffs of up to 12%. In turn, Norway imposes duties on goods from the EU such as a 400% tariff on French cheese imports. Clearly, Norway does not benefit from free trade to the extent that full members of the EU enjoy. 10

Those opposing full membership point to Norway's non-participation in the CAP, allowing it to have its own policy on agriculture and food prices. They point also to low unemployment and annual average GDP growth of 2.75% over the past 40 years. One recent estimate gives Norway's GDP per head as £40 000, the UK's as £23 000, and an EU average of £21 150. Would such a favourable picture continue within the EU? Of course, conclusions are difficult to reach because it cannot easily be judged how Norway would have fared had it been a full member of the EU. Other factors, such as its significant benefits from oil and gas reserves, would need to be considered in any assessment. 15  
20

Source: news reports, 2012

**0 4** Norway's annual average GDP growth rate has been 2.75% over the past 40 years. Using **Extract D**, calculate in \$US billions, to the nearest whole number, what Norway's GDP at current prices would be in 2012, assuming an annual growth rate of 2.75%, and identify **one** significant feature of the data in **Extract D** for the period 2008 to 2011. [5 marks]

**0 5** **Extract E** (lines 12–14) points out that UK trade with the EU has created 3.5m jobs in the UK 'either within the export sector or, more widely, through the operation of an export-led multiplier'. Explain the term 'export-led multiplier' and analyse **two** possible economic reasons for an increase in UK exports to the EU. [10 marks]

**0 6** **Extract E** (lines 1–2) states: 'In recent years, growing disenchantment with the EU has led to calls for the UK to leave the organisation.' Do you agree with the view that the UK economy would benefit if the UK left the EU? Justify your answer using the data and your economic knowledge. [25 marks]

Turn over for Section B

Turn over ►

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**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

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**EITHER**

**Essay 1**

In July 2012, the Office for Budget Responsibility concluded that UK Government measures to cut the budget deficit have improved the UK's long-term economic prospects.

**0 7**

Explain possible economic reasons why a government might prefer to cut government spending to reduce a budget deficit rather than raise taxes.

**[15 marks]**

**0 8**

To what extent do you agree, if at all, that the implementation of a budget deficit reduction programme will improve the UK's long-term economic prospects? Justify your answer.

**[25 marks]**

**OR**

**Essay 2**

'When the exchange rate of a country's currency causes problems, it may be down to free market forces, but government intervention might be to blame.'

**0 9**

Explain **three** possible determinants of a country's exchange rate against other currencies.

**[15 marks]**

**1 0**

Assess the importance of a floating exchange rate to a country trying to achieve macroeconomic stability.

**[25 marks]**

**OR**

**Essay 3**

'Economic shocks can bring with them significant consequences for macroeconomic performance, as the UK knows only too well.'

**1 1**

Using at least **one example of each**, explain how demand-side and supply-side shocks might harm a country's economic growth.

**[15 marks]**

**1 2**

Evaluate the likely impact of world economic growth **both** on the UK economy **and** on individuals in the economy.

**[25 marks]**

**END OF QUESTIONS**



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General Certificate of Education  
Advanced Level Examination  
June 2013

## Economics

## ECON4

### Unit 4 The National and International Economy

Tuesday 11 June 2013 9.00 am to 11.00 am

**For this paper you must have:**

- an AQA 12-page answer book
- a calculator.

**Time allowed**

- 2 hours

**Instructions**

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

**Information**

- The marks for questions are shown in brackets.  
The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

**Advice**

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer EITHER Context 1 OR Context 2.

EITHER

Total for this Context: 40 marks

Context 1

## THE GLOBAL CONTEXT

Study Extracts A and B, and then answer all parts of Context 1 which follow.

**Extract A: Real GDP growth, unemployment rate, and inflation, selected Middle Eastern economies, 2010**

Economy	Real GDP growth (%)	Unemployment rate (% of labour force)	Inflation (%)
Egypt	5.1	9.0	11.7
Iran	3.2	13.2	12.4
Iraq	0.8	15.3	2.4
Jordan	2.3	12.5	5.0
Qatar	16.6	0.5	-2.4
Saudi Arabia	4.1	10.8	4.1

Source: official statistics, 2011

**Extract B: A decade of change, challenge and opportunity**

This year, ten years will have passed since the downfall of Saddam Hussein in Iraq. Over these years the Middle East and North African countries (MENA) have continued to witness economic and political instability, culminating in the recent so-called 'Arab Spring' uprisings in countries such as Egypt, Libya and Syria.

1

The *Organisation for Economic Cooperation and Development (OECD)* distinguishes two groups within the MENA region. The resource-rich economies, such as Iraq, Saudi Arabia and Dubai, are recognised as being different from those seen as resource-deficient, such as Egypt and Jordan. For both groups, however, and despite the political problems for some, the OECD is optimistic about future growth.

5

The OECD argues that, as the global economy recovers, demand for goods and services from European and emerging markets in particular will encourage development of MENA's manufacturing and service sectors. Just as the UK, for example, enjoys a comparative advantage in financial services, some MENA economies are now developing attractively priced manufactured goods. Tourism is also ripe for further development.

10

<p>However, although the OECD points to economic progress having been made, recent years have highlighted challenges which need to be faced in the MENA economies if there is to be further progress. Improvements in labour productivity and hence competitiveness are essential for increased trade with the rest of the world. More foreign investment in infrastructure and manufacturing plant is desperately needed, with advanced countries such as the UK having a role to play here. Unemployment remains persistently high in some MENA countries, as does inflation.</p>	15
<p>Jordan is beginning to show what can be done to bring about a more successful economy. Through productivity improvements, it is now one of the most competitive MENA countries. This has helped it to negotiate a number of significant free trade agreements, including those with the EU and the US. Exports have brought increased economic growth to Jordan, as has domestic investment.</p>	20
<p>One of the benefits of economic success can be a higher standard of living. The Human Development Index (HDI) allows international comparisons of living standards. The Arab states of the Middle East have seen an improvement in the index from 0.444 in 1980 to 0.641 in 2011. The latter figure can be compared with 0.862 for the UK.</p>	25
<p>Income per head, access to healthcare and education, life expectancy, the quality of the environment and a fair distribution of income are key factors in any assessment of living standards. The UK and other developed countries need to remember that higher living standards can mean bigger markets for goods and services.</p>	30
<p>In many of the MENA economies, there is still much to be done to achieve sustained economic success. But, where Jordan leads, others will begin to follow. To do so would see a significant strengthening of MENA's economic importance in the global economy.</p>	35

Source: news reports, 2012

- 0 1** Using the data on unemployment in **Extract A**, calculate the number of people unemployed in Egypt in 2010, given a labour force of 27 million, **and** identify **one** other significant feature of the data for 2010. (5 marks)
- 0 2** **Extract B** (line 27) states: 'One of the benefits of economic success can be a higher standard of living.'
- Explain the term 'a higher standard of living' **and** analyse **two** factors which can be considered in any assessment of a country's standard of living. (10 marks)
- 0 3** **Extract B** (lines 36 – 37) states that, if other MENA economies were to follow Jordan's lead, there would be a 'significant strengthening of MENA's economic importance in the global economy'.
- To what extent, if at all, should developed countries such as the UK be concerned about a significant strengthening of the economic importance of MENA countries in the global economy? Justify your answer, using the data and your economic knowledge. (25 marks)

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

OR

**Total for this Context: 40 marks**

**Context 2**

**THE EUROPEAN UNION CONTEXT**

Study **Extracts C and D**, and then answer **all** parts of Context 2 which follow.

**Extract C: Real GDP (annual % change), the European Union and selected EU economies, 2010–2013**

	Actual	Actual	Forecast	Forecast
	2010	2011	2012	2013
France	1.4	1.6	0.2	1.0
Germany	3.6	3.0	0.3	1.5
Italy	1.5	0.4	– 2.2	– 0.6
Spain	– 0.1	0.7	– 1.7	– 0.3
UK	2.1	0.9	0.6	2.0
Euro area	1.9	1.6	– 0.5	0.8
<b>European Union</b>	<b>2.0</b>	<b>1.6</b>	<b>– 0.1</b>	<b>1.2</b>

Source: adapted from OECD (2012), "Gross domestic product in US dollars", Economics: Key Tables from OECD, No 5. <http://dx.doi.org/10.1787/gdp-cusd-table-2012-1-en>

**Extract D: Economic growth or a double-dip recession?**

In the third quarter of 2011, UK real GDP rose by 0.6%. Within this, manufacturing output increased by just 0.1%, while services such as banking and finance showed a 0.7% increase. Unemployment was around 8% of the labour force.

1

Such weak growth figures are a reflection of the economic situation within the European Union (EU) as a whole. The likelihood is that the next few years for the UK economy will be bleak. This pessimism is shared by other EU countries.

5

Prospects do not look good for the EU economy as a whole but, of course, the detailed picture varies between member countries. There has been a general deterioration in confidence. Intense financial turmoil in money and capital markets is affecting both investment and consumption. Deficit-reduction programmes are also suppressing domestic demand. Weaknesses in the global economy are holding back UK and EU exports. In mid-2011, the hope had been expressed by some economists that exports would be a major driver of economic growth, but such optimism proved groundless.

10

Attention has again turned to domestic demand within the EU. The projected decrease in inflation in the UK and in other member countries, coupled with limited wage growth, should at least limit any further significant erosion of real disposable income. However, there is continuing concern over the level of household debt which may yet constrain demand. Overall, the fears of a double-dip recession still loom large. 15

Within the UK, there is a debate over the relative importance of the various potential sources of growth in the next few years. There is a view that tightening of fiscal policy in the UK, together with similar policies in other EU countries, is damaging consumer demand and business confidence unnecessarily. The UK think-tank, the Institute for Public Policy Research (IPPR), argues for changes to be made to UK fiscal policy, and supports more severe spending cuts only when the economy improves. 20

The Institute therefore points to three possible solutions to the problem of slow UK and EU growth. These are: increases in government spending; substantial increases in global demand; and households and firms being given stronger incentives to spend more, for example through tax cuts. While growth in demand is seen as an important determinant of economic growth over the next few years, elements of government spending and incentives to business can make important contributions to the strengthening of the supply side of the economy. 25 30

None of the solutions offered by the IPPR seems likely to occur at the moment. The UK Government appears to be determined to maintain its tight fiscal policy, arguing that it is the only basis for sustained long-term growth. The global economy is far from stable, with increased talk by some of greater protectionism, although the emerging markets, such as India and Brazil, offer some hope for UK and EU exports. Households lack the confidence, and often the ability, to increase spending, while companies lack the optimism to invest. It needs to be borne in mind that the EU remains the UK's most important single trading partner by far. The best hope for stronger UK economic growth must therefore surely rest with the EU, but this requires the eurozone to be stabilised and macroeconomic conditions to improve throughout the EU. 35 40

Sources: news reports, 2012

**0 4** Using the data in **Extract C**, calculate for Germany in 2011 the change in real GDP in €bn, given real GDP in 2010 of €2500bn, **and** identify **one** other significant feature of the data for the period 2010 to 2013. (5 marks)

**0 5** **Extract D** (line 18) states: 'Overall, the fears of a double-dip recession still loom large.'  
Explain the phrase 'double-dip recession' **and** analyse **two** possible reasons for unemployment rising in a recession. (10 marks)

**0 6** **Extract D** (lines 39 – 41) argues that the 'best hope for stronger UK economic growth must therefore surely rest with the EU, but this requires the eurozone to be stabilised and macroeconomic conditions to improve throughout the EU'.

To what extent would you agree that the EU is likely to offer the 'best hope for stronger UK economic growth' over the next few years? Justify your answer, using the data and your economic knowledge. (25 marks)

Turn over for the next question

Turn over ►

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**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

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**EITHER**

**Essay 1**

In November 2011, the UK inflation rate was 4.8%, the rate of unemployment was 8.3%, while Bank Rate remained at 0.5%.

0	7
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 Explain **two** economic consequences for an individual **and two** economic consequences for an economy of an increase in its price level. *(15 marks)*

0	8
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 To what extent are low interest rates appropriate in the UK at a time of high inflation? *(25 marks)*

**OR**

**Essay 2**

Weaknesses in the UK balance of trade in goods persist, with a deficit of £27.6bn in the third quarter of 2011, compared, for example, to £23.3bn in the same quarter in 2010.

0	9
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 Explain **three** reasons for a country such as the UK experiencing persistent deficits in the balance of trade in goods. *(15 marks)*

1	0
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 Discuss the possible contribution of supply-side reforms to achieving an improvement in the UK balance of trade in goods. *(25 marks)*

**OR**

**Essay 3**

The formation of single markets by countries in various parts of the world, including within Europe, has shown that much is to be gained from increased economic cooperation.

1	1
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 Explain the main features of a single market, such as that which exists within the European Union (EU). *(15 marks)*

1	2
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 Evaluate the possible economic costs and benefits to an EU member state, such as the UK, of being part of the EU single market. *(25 marks)*

**END OF QUESTIONS**



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General Certificate of Education  
Advanced Level Examination  
January 2013

## Economics

## ECON4

### Unit 4 The National and International Economy

Wednesday 30 January 2013 1.30 pm to 3.30 pm

For this paper you must have:

- an AQA 12-page answer book
- a calculator.

#### Time allowed

- 2 hours

#### Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

#### Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

#### Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer EITHER Context 1 OR Context 2.

EITHER

Total for this Context: 40 marks

Context 1

## THE GLOBAL CONTEXT

Study Extracts A and B, and then answer all parts of Context 1 which follow.

**Extract A: Annual real GDP growth rates and unemployment rates (%), world and selected regions, 2007 to 2010**

Annual real GDP growth rates (%)	2007	2008	2009	2010 (forecast)
World	5.3	2.8	-0.6	4.8
Developed economies and EU	2.6	0.3	-3.4	2.3
Middle East and North Africa	6.0	5.1	2.4	4.4

Unemployment rates (% of labour force)	2007	2008	2009	2010 (forecast)
World	5.6	5.7	6.3	6.2
Developed economies and EU	5.8	6.1	8.4	8.3
Middle East and North Africa	10.4	9.9	10.1	10.1

Source: official statistics, 2011

**Extract B: Worrying times across the world for unemployment**

In August 2011, it was reported that unemployment in the US economy had fallen in July from 9.2% to 9.1% of the labour force. This was seen by some as a turning point, a time when stronger real GDP growth would signal an economic recovery despite the effects of economic shocks persisting. Oil price increases, banking crises and interest rate rises are examples of such shocks. At a time when global unemployment was around 6%, many saw the US unemployment statistic as just a tiny bright spot in an otherwise depressing picture, both in America and globally.

1

5

Data from the *International Labour Organisation* (ILO) show a picture of increasing unemployment in developed economies for the period 2007 to 2009, with some levelling out in 2010 and 2011. UK unemployment in mid-2011 was around 8%. Some had anticipated that this figure would be far higher given a significant tightening of fiscal policy in the UK, severe debt problems in parts of the eurozone and a US economy stubbornly refusing to recover. Both the eurozone and the US economies are important trading areas for the UK. Further increases in UK unemployment were seen as inevitable despite job creation taking place. The number of people in work in the UK rose by 184 000 between April and June 2011, taking the total in work to over 29 million.

10

15

The UK Government has argued that its policy of fiscal restraint is the correct one in order to reduce the budget deficit, although the Managing Director of the *International Monetary Fund* (IMF) has argued that recovery in aggregate demand is 'the single best cure for unemployment'. 20

However, the Managing Director of the IMF has also argued that targeted programmes in the labour market are vital, even to the extent of wage subsidies paid to employers for vulnerable groups such as the young unemployed. The more people in work, he argued, the greater the spending power available to help recovery by raising demand for goods and services. The teaching of new skills and the encouragement of occupational and geographical mobility are a vital part of such programmes. For example, in the UK, the Government's Work Based Learning Programme includes apprenticeship programmes aimed at unemployed young people. Another targeted UK scheme is the Work Programme. This is designed to help the long-term unemployed of whatever age to find a job. 25  
30

Such supply-side measures are regarded by some as an irrelevance in the short term when stimuli to aggregate demand are seen to be so urgently needed. However, all economies need to look at their long-term performance, and supply-side measures can create a stronger labour market. Economic recovery is then more likely to occur.

Source: official statistics, 2011

**0 | 1** Using **Extract A**, identify **two** significant points of comparison between annual real GDP growth and unemployment for the period 2007 to 2010. (5 marks)

**0 | 2** **Extract B** (lines 3–4) states that 'stronger real GDP growth would signal an economic recovery despite the effects of economic shocks persisting'.  
Explain why stronger real GDP growth would signal an economic recovery **and** analyse how **one** economic shock might prevent recovery in an economy. (10 marks)

**0 | 3** **Extract B** (lines 21–22) suggests that 'targeted programmes in the labour market are vital' in order to reduce unemployment.  
Using the data and your economic knowledge, to what extent would you agree that such programmes are likely to be the most effective way of reducing unemployment in developed economies such as the UK? Justify your answer. (25 marks)

**Turn over for Context 2**

**Turn over ►**

Do **not** answer Context 2 if you have answered Context 1.

OR

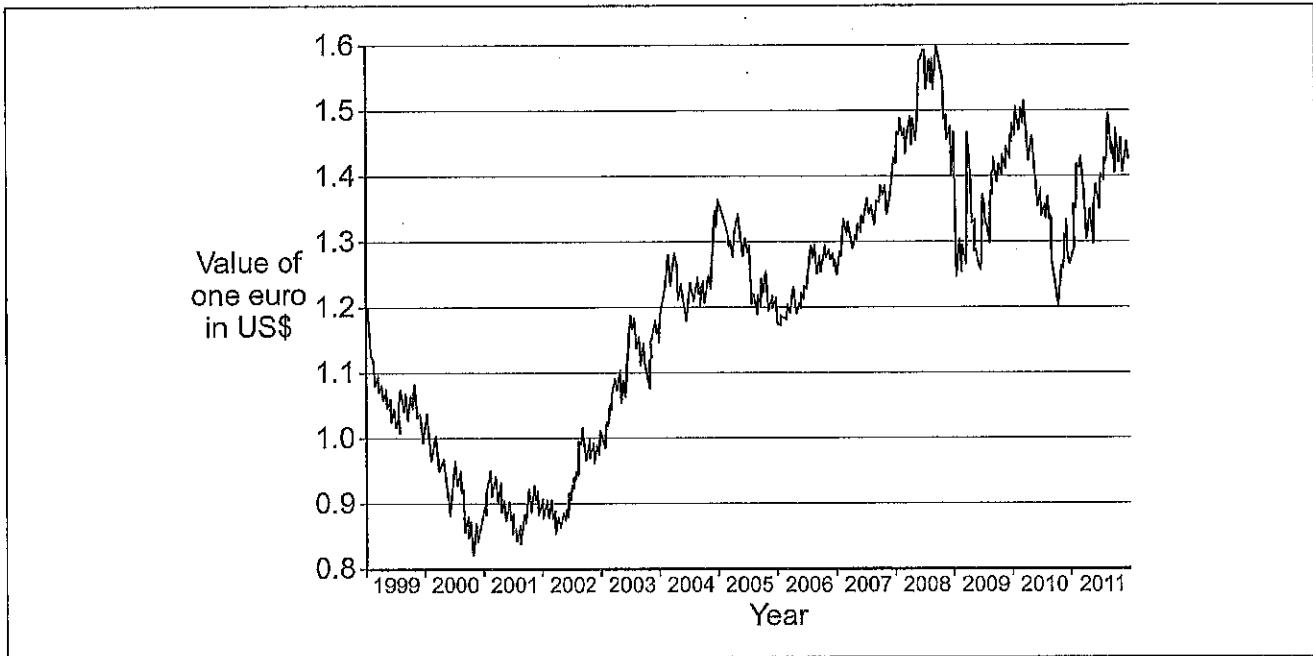
**Total for this Context: 40 marks**

**Context 2**

**THE EUROPEAN UNION CONTEXT**

Study **Extracts C and D**, and then answer **all** parts of Context 2 which follow.

**Extract C: The US\$/euro exchange rate, 1999 to 2011**



Source: European Central Bank, 2012

**Extract D: Can the eurozone survive?**

Before the global recession of 2008, the euro had emerged as a successful major currency, making travel and trade for member countries much easier. Those countries traditionally with weaker currencies, such as Italy, Greece and Spain, were given a degree of stability which fostered economic growth. Some leading economists and politicians were urging the UK to adopt the euro, seeing it as a major step towards the full integration of the UK into the European Union (EU).

1

5

The global recession changed everything. By 2011, there were many in the UK relieved that we were still outside the eurozone. The growing debt crisis in the eurozone has inevitably had repercussions for the euro. Stronger members found themselves being called upon to offer financial support to those economies in trouble. Media reports began to suggest that the ultimate outcome of the debt crisis would be the break-up of the eurozone, with some of the weaker members such as Spain, Italy and Greece re-adopting their former national currencies.

10

The UK Government has adopted a policy of fiscal restraint in order to reduce annual borrowing and to try to limit the growth of the National Debt (the total outstanding debt of the government). It urged the weaker members of the eurozone in particular to adopt a similar policy if they were to retain membership.

15

However, the potential benefits of leaving the eurozone are not lost on some politicians and economists within the weaker economies. One such benefit is the absence of the same 'one-size-fits-all' interest rate. For example, some countries still in recession in the eurozone saw their interest rates, as set by the European Central Bank, rise to 1.25% in July 2011. This was at a time when the Bank of England kept the UK Bank Rate at 0.5%. Countries could also restore an exchange rate for their own currencies which would give them a competitive edge, rather than being forced to cut wages and jobs. They would also not be obliged to follow such a strict policy of fiscal restraint which remaining members would have to follow. 20 25

There are others, however, both within these countries and beyond, who warn against departure from the eurozone. It is difficult to predict what the economic impact on the UK might be should there be a break-up of the eurozone. The impact would depend on a number of factors, including how many countries left and which countries these were. It might also depend on the degree of economic instability which departure from the eurozone might cause in those countries as they restored their national currencies, and the impact on the stability of the remaining members of the eurozone. It has to be borne in mind, however, that the EU would still exist. 30

The UK might expect disruption to trade, at least in the short term, with consequences for the balance of payments. Another banking crisis could also emerge. International money, seeking a safe haven, might favour the pound sterling and thus strengthen its external value. These potential developments have implications for UK growth and employment and pose yet another threat to the current recovery. The UK might be relieved to be outside the eurozone. However, the UK is certainly not immune from the possible consequences of its break-up. 35 40

Source: various sources, 2011

**0 4** Using **Extract C**, calculate the price in dollars of a good exported from the eurozone to the US at the start of 1999 priced at 20 euros **and** identify **one** significant feature of the dollar/euro exchange rate for the period 1999 to 2011. (5 marks)

**0 5** **Extract D** (lines 19–26) refers to economies which, if they left the eurozone, would no longer be obliged to follow such a strict policy of fiscal restraint and could enjoy other economic benefits.

Explain the phrase 'policy of fiscal restraint' **and** analyse **one** potential economic benefit for an economy if it leaves the eurozone. (10 marks)

**0 6** **Extract D** (lines 28–29) states that it 'is difficult to predict what the economic impact on the UK might be should there be a break-up of the eurozone'.

Using the data and your economic knowledge, assess the possible impact on the UK economy if a number of countries leave the eurozone. (25 marks)

**Turn over for Section B**

**Turn over ►**

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**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

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**EITHER****Essay 1**

'Globalisation has made many economies more prosperous, but all economies have been made more vulnerable to economic shocks.'

0	7
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Explain the term 'globalisation' **and** the role that multinational companies play in the development of globalisation. (15 marks)

0	8
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To what extent, if at all, have the economic consequences of globalisation differed between developed and developing countries? (25 marks)

**OR****Essay 2**

In March 2011, the UK Office for Budget Responsibility (OBR) forecast that the budget deficit would fall from 7.9% of GDP in the financial year 2011–2012 to 1.5% in 2015–2016.

0	9
---	---

Explain the term 'living standards' **and** analyse how cuts in government spending to lower the budget deficit might affect living standards in the UK. (15 marks)

1	0
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Discuss whether the UK Government should **either** raise taxes **or** cut government spending to achieve its 2015–2016 fiscal objective. (25 marks)

**OR****Essay 3**

'The avoidance of price deflation must always be the major macroeconomic objective.'

1	1
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Explain how changes in the price level in the UK are measured through the use of price indices such as the RPI and CPI. (15 marks)

1	2
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Evaluate the view that the avoidance of price deflation should always be the major macroeconomic objective. (25 marks)

**END OF QUESTIONS**



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General Certificate of Education  
Advanced Level Examination  
June 2012

## Economics

## ECON4

### Unit 4 The National and International Economy

Wednesday 20 June 2012 9.00 am to 11.00 am

**For this paper you must have:**

- an AQA 12-page answer book
- a calculator.

**Time allowed**

- 2 hours

**Instructions**

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

**Information**

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

**Advice**

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer EITHER Context 1 OR Context 2.

EITHER

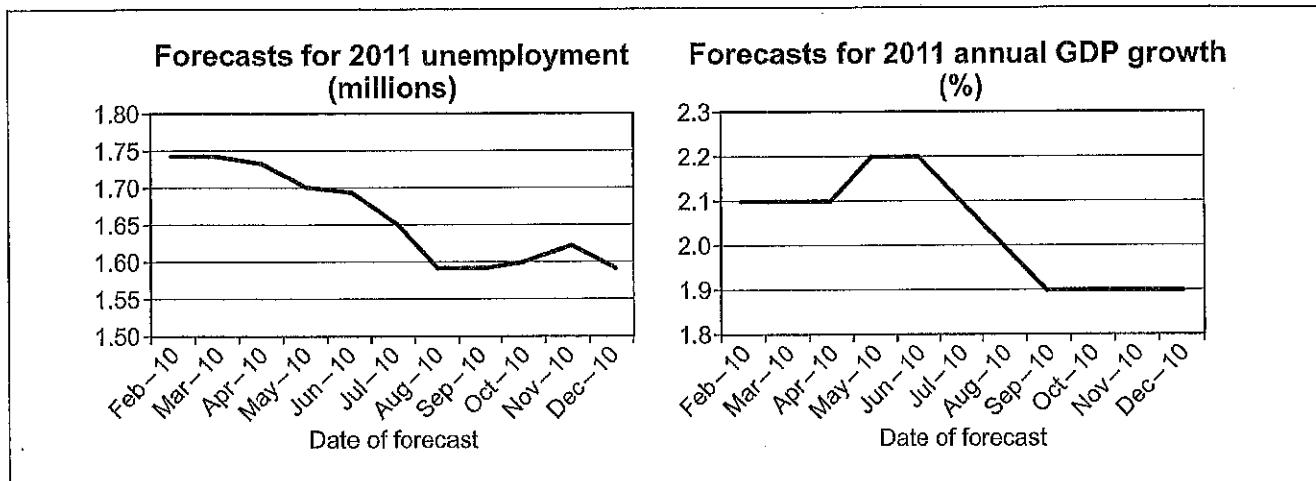
Total for this Context: 40 marks

Context 1

## THE GLOBAL CONTEXT

Study Extracts A and B, and then answer all parts of Context 1 which follow.

**Extract A: Monthly average of forecasts made in 2010 for 2011 UK unemployment and 2011 UK annual GDP growth\***



\* The data show the average of forecasts for 2011 made each month in 2010. For example, the figure for unemployment of 1.7 million for June 2010 is the average of all the forecasts made in that month (June 2010) for unemployment in 2011. The figure for annual GDP growth of 1.9% for September 2010 is the average of all the forecasts made in that month (September 2010) for the annual rate of growth of GDP in 2011.

Source: official statistics, accessed on 6 January 2011

## Extract B: Winners and losers

The debate over the consequences of globalisation for individual countries continues. Inevitably, there will be benefits and costs, winners and losers. For example, whilst the UK has experienced deindustrialisation, its service sector has been successful in world markets. 1

As the debate continues, one aspect of globalisation cannot be disputed: that the greater integration of economies has meant that major events occurring in one part of the world will have an impact not just on the affected country or region but are now much more likely to have global significance. 5

Some events are known about well in advance of them actually happening. Major sports competitions are an example. In 2012, for instance, the UK will host the Olympic Games. Similarly, Russia and Qatar will host the football World Cup in 2018 and 2022 respectively. The economic impact of such events on host countries is likely to be positive. For other countries, the immediate impact is likely to be more limited. However, the UK and other economies could benefit if these events make the host countries more open to trade and investment in the long term. 10 15

Other events are far less predictable or are completely unpredictable. For example, how might the UK cope with a disruption to gas and oil supplies if relations with Russia deteriorate or political turbulence in the Middle East escalates? What path to recovery will the UK take following the devastating effects of the 2008 US financial crisis?

Generalisations about the economic impact of natural disasters are often unhelpful. 20

Hurricane Katrina in 2006, which caused billions of dollars of damage in the New Orleans area of the USA, had minimal economic impact on the rest of the world. However, the Japanese earthquake and tsunami in 2011 are on a different scale. Japan accounts for 7% of world GDP. There are fears that the scale of the damage may lead to a return to recession in Japan, as fearful Japanese consumers spend less and save more. Global supply chains originating in Japan, such as car components supplied to the rest of the world, have been severely disrupted. The UK, as well as Japan's other trading partners, will struggle to maintain exports to the Japanese market until stability is restored. 25

Like any other country, the UK needs to have a strong economy to be able to respond successfully to all types of global event and to secure sustained economic growth. 30

Important factors include high productivity, resource mobility, innovation, skilled labour, a strong infrastructure in its widest sense and general flexibility in the economy. The ability to make use of these supply-side qualities will, however, also depend on aggregate demand. The impact of major global events on UK aggregate demand will inevitably vary considerably, positively or negatively, with unknown consequences for macroeconomic performance. 35

Source: news reports, 2010/11

**0 | 1** Using **Extract A**, calculate to one decimal place the % change in the average unemployment forecast in February 2010 compared with December 2010 **and** identify **one** significant point of comparison between the forecasts for unemployment and GDP growth over the period shown. (5 marks)

**0 | 2** **Extract B** (lines 13–15) refers to the possible benefit to the UK and other economies if countries hosting major sports competitions become more open to investment in the long term.

Explain the term 'investment' **and** analyse **two** possible economic benefits for the UK when it is investing overseas. (10 marks)

**0 | 3** **Extract B** (lines 29–30) states that 'the UK needs to have a strong economy to be able to respond successfully to all types of global event...'.

Using the data and your economic knowledge, assess the significance to UK macroeconomic performance of major global events such as sports competitions, natural disasters and economic downturns. (25 marks)

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

OR

Total for this Context: 40 marks

Context 2

THE EUROPEAN UNION CONTEXT

Study Extracts C and D, and then answer **all** parts of Context 2 which follow.

Extract C: Turkey: selected macroeconomic indicators, 2008 to 2012

	<i>Actual</i>		<i>Forecast</i>		
	2008	2009	2010	2011	2012
GDP at current prices (US\$ billions)	730	614	729	790	846
Inflation (%)	10	6	9	6	6
Unemployment (% of labour force)	11	14	11	11	10
Current account balance (US\$ billions)	-42	-14	-38	-43	-48

Figures are rounded.

Source: official statistics, accessed on 6 January 2011

Extract D: Turkey – gateway to Asia

Turkey has been in talks since 2005 regarding possible membership of the European Union (EU). While further enlargement of the EU causes some concern, serious consideration needs to be given to Turkey. Its geographical position links Europe and Asia. Since Asia is currently driving world economic growth, Turkey can be an important strategic gateway to Asia for the EU.	1 5
The UK Government supports Turkey's application for EU membership but questions still persist. If Turkey joins the EU, can the UK successfully take up the resulting trade and investment opportunities? Will the UK be overwhelmed by imports and cheap migrant labour? Will UK businesses be determined enough to grasp any opportunities?	
Turkey has a population of 75 million, which is expected to rise to 100 million by 2020. The average age is just 27 and it has vast economic potential. Turkey's GDP is ranked 18th in the world, and GDP per capita is £7163. Like the UK, there has been some negative growth in recent years but the economy recovered to achieve 11% growth in the first quarter of 2010. Between 2002 and 2007, Turkey's annual average economic growth of 7% was far greater than that of the UK.	10 15
About 50% of Turkey's exports are to Europe, with textiles being particularly important. Machinery and semi-manufactured goods are major imports. The UK does not yet rank alongside countries such as Germany, Italy, China and the US as important exporters to Turkey, but opportunities certainly exist.	

Turkey has had a reputation for economic instability. Since 2005, for example, inflation has been between 5% and 12%. Unemployment has remained in double figures: 10% of the labour force in 2005 and 14% currently. However, Turkey now boasts a relatively modest budget deficit of between 4% and 5% of GDP. 20

Despite a degree of instability, Turkey is seen as an attractive centre for investment. For example, the country received £115 bn in foreign direct investment in 2009. However, Turkey's infrastructure still leaves much to be desired. 25

UK businesses need to consider the potential economic opportunities. Lord Digby Jones, formerly of the *Confederation of British Industry* (CBI), points out that Turkey's recent economic growth is from a low base. According to Lord Jones, "Whereas a little bit of growth in a prosperous country such as Germany does not make much difference, in a developing country such as Turkey millions of people get richer". This is perhaps an exaggeration, especially in the short run, but a valid point is being made. 30

The UK must not be blind to the potential problems of Turkey's possible membership of the EU and must also be in a position to grasp the opportunities which are sure to appear.

Source: news reports, 2010

**0 | 4** Using **Extract C**, calculate to one decimal place the % change in Turkey's GDP at current prices between 2008 and 2009 **and** identify **one other** significant feature of the data. (5 marks)

**0 | 5** **Extract D** (lines 14–15) states: 'Between 2002 and 2007, Turkey's annual average economic growth of 7% was far greater than that of the UK.'  
Explain the term 'economic growth' **and** analyse **two** possible causes of economic growth. (10 marks)

**0 | 6** **Extract D** (lines 33–34) argues that the 'UK must not be blind to the potential problems of Turkey's possible membership of the EU and must also be in a position to grasp the opportunities which are sure to appear'.  
Using the data and your economic knowledge, assess the potential economic consequences for the UK if Turkey joined the EU. (25 marks)

**Turn over for the next question**

**Turn over ►**

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**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

---

**EITHER****Essay 1**

'For a strong recovery there is a need to encourage spending, ideally by businesses but also by households in the short term.'

0	7
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 Explain **four** features of a recession. *(15 marks)*

0	8
---	---

 Discuss the importance of low interest rates in bringing about a recovery from recession in an economy such as the UK. *(25 marks)*

**OR****Essay 2**

'The long-term progress made towards a free-trade world must be maintained. Calls for greater protectionism would lead to a disastrous collapse of global economic activity.'

0	9
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 Explain **three** protectionist policies that a government could introduce to reduce a deficit on the current account of the balance of payments. *(15 marks)*

1	0
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 Assess the view that the progress made towards free trade has brought significant economic benefits **both** to the UK **and** to the rest of the world. *(25 marks)*

**OR****Essay 3**

'UK government policy might not always be able to achieve fully all the macroeconomic objectives which are regarded as important.'

1	1
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 Explain how budget deficits in an economy might help to influence the rate of inflation in that economy. *(15 marks)*

1	2
---	---

 Evaluate the view that, in the long run, conflict between the major macroeconomic objectives can be avoided. *(25 marks)*

**END OF QUESTIONS**



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General Certificate of Education  
Advanced Level Examination  
January 2012

## Economics

## ECON4

### Unit 4 The National and International Economy

Tuesday 31 January 2012 9.00 am to 11.00 am

**For this paper you must have:**

- an AQA 12-page answer book
- a calculator.

**Time allowed**

- 2 hours

**Instructions**

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

**Information**

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

**Advice**

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer EITHER Context 1 OR Context 2.

EITHER

Total for this Context: 40 marks

Context 1

## THE GLOBAL CONTEXT

Study Extracts A and B, and then answer all parts of Context 1 which follow.

Extract A: India: balance of payments on current account, quarterly (Q), 2009 (\$bn)

	Q1	Q2	Q3	Q4
Exports of goods	38.5	57.5	53.6	39.4
Imports of goods	58.7	82.7	92.8	73.5
Invisible balance *	+19.0	+22.0	+26.5	+22.4
Balance of payments on current account	?			

\* Invisibles comprise trade in services, investment income and transfers

Source: official statistics, accessed on 9 August 2010

Extract B: A passage to India

In July 2010, the UK Prime Minister led a Government delegation to India. The hope was that India's economic success could help to bring some relief to the UK economy and speed the recovery process through increased exports.	1
India's growth in 2010 is expected to be about 9%. Its GDP per capita is \$3100, although over 400 million Indians live below the international poverty line of \$1.25 per day. It has a labour force of almost 500 million but an official rate of unemployment of 11%. Quarterly sector growth is impressive: 1.8% in services, 2.2% in manufacturing and 1.7% in agriculture between January and March 2010.	5
For the Indian Government, inflation and economic growth are top of the agenda. Unfortunately, there is often a trade-off between these two macroeconomic indicators. Inflation jumped from 1.3% in October 2009 to almost 5% in November 2009. However, food inflation was 19%. As in other countries, rising oil costs are also amongst the causes of inflation for the Indian economy.	10

<p>The UK Government still hopes to promote increased UK economic involvement in India. Certainly Indian business has become more involved in the UK. <i>Tata</i>, one of India's oldest companies, is now the UK's leading manufacturer through its ownership of <i>Corus Steel</i> and <i>Jaguar Land Rover</i>. India is now more likely to be creating jobs in the UK through direct investment rather than 'stealing' them, for example through call-centre activity relocated from the UK. UK business needs to rise to the challenges and opportunities presented in India. Companies such as <i>Vodafone</i> (telecommunications) and <i>BAE Systems</i> (defence and aerospace) are amongst the recent success stories and it is widely believed that India's increased demand for world-class services, for example financial and legal, can be met by the UK.</p>	15
<p>Infrastructure investment is urgent. Each year, about 40% of India's agricultural produce rots before arriving at market because of inadequate storage facilities and poor road and rail links. The Indian Government's plans to spend \$500bn between 2010 and 2013 on new ports, roads, rail links and airports will help to improve the situation. This investment is an export opportunity for UK firms specialising in infrastructure projects. The growth of the Indian economy will also help UK service exporters such as banking, education and health-care businesses. Currently, India accounts for only 1% of UK exports.</p>	25
<p>However, India remains fiercely protective, and investment and trade flows from the UK could remain limited. Progress will depend on whether a long-awaited EU-India trade deal becomes a reality and on the outcome of the <i>World Trade Organization's</i> global trade talks. Many argue that India can only benefit from increased international trade.</p>	30
<p>The UK Government said at the time of the Prime Minister's July 2010 visit to India that the UK had a vital stake in India's rise to becoming a global power and in its future prosperity. At the same time, a view was also expressed that the UK needs India much more than India needs the UK. It is hoped that all aspects of the UK's macroeconomy can eventually benefit as India develops further.</p>	35

Source: news reports, 2010

- 0 1** Using **Extract A**, calculate India's balance of payments on current account for the first quarter (Q1) of 2009 **and** identify **one** significant feature of the data for India's balance of payments on current account for 2009. (5 marks)
- 0 2** **Extract B** (line 10) suggests that 'there is often a trade-off' between inflation and economic growth.
- Explain why there might be a trade-off between inflation and economic growth **and** analyse **one** cause of inflation. (10 marks)
- 0 3** **Extract B** (lines 2–3) states that 'India's economic success could help to bring some relief to the UK economy and speed the recovery process through increased exports'.
- Using the data and your economic knowledge, assess the importance to the UK economy of continued economic growth in India. (25 marks)

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

OR

Total for this Context: 40 marks

Context 2

THE EUROPEAN UNION CONTEXT

Study Extracts C and D, and then answer all parts of Context 2 which follow.

Extract C: Greece: GDP (€bn) 2006, and the annual % change in the components of GDP, 2007 – 2009 \*

Components of GDP	GDP (€bn)	Annual % change in the components of GDP		
	2006	2007	2008	2009
Household consumption	153	3.0	2.0	-2.0
Investment	45	5.0	-7.0	-14.0
Government consumption	34	8.0	1.0	10.0
Exports of goods and services	48	6.0	4.0	-18.0
Imports of goods and services	70	7.0	0.0	-14.0
<b>GDP (aggregate demand)</b>	<b>?</b>	5.0	2.0	-2.0

\* Figures rounded to nearest whole number

Source: official statistics, accessed on 9 August 2010

Extract D: The fiscal remedy for recession

The recession of 2009 brought renewed interest amongst EU governments in a so-called Keynesian approach to spending their way out of recession. They were desperate to avoid a prolonged period of negative growth and the accompanying mass unemployment.	1
In the UK, as well as within the eurozone, fiscal rules were abandoned as the fight for economic recovery began. The Stability and Growth Pact of the eurozone, to which the UK had also adhered in an informal way before the recession, limited budget deficits to 3% of GDP and a nation's debt to 60% of GDP. Such constraints were often far exceeded and increasing concerns were being expressed. In May 2010, the new UK Government became a prominent voice within Europe for a reversal of fiscal policy, with public spending cuts and tax increases.	5 10
The UK Government's policy was given some support by the economic crisis unfolding in Greece, a member of the eurozone. The Greek Government needed to be 'bailed out' by fellow member states if it was not to default on its debts. It had a budget deficit of 14% of GDP and a national debt of 115% of GDP in 2009, a year when its GDP also fell by 2%.	

There was concern in the EU that such a situation had been allowed to develop, with increasing calls for EU-wide controls. France and Germany were pressing for an EU institution such as the European Commission to provide such a role, with the power to impose an EU-wide fiscal policy on all member states and not just the eurozone. 15

The UK Government opposed any such powers over member countries. However, it had gone as far as to establish an Office for Budget Responsibility (OBR), intended to keep the Government's tax and spending plans under control by providing a reality check on the state of the nation's finances. The OBR, however, does not have the powers that some were envisaging for the EU. 20

In a climate of greater stability in 2010, some still believed that an EU-wide fiscal policy needed to be a key part of the evolution towards a federal state. It cannot be denied that the best way forward must be that which delivers macroeconomic stability across the EU. Whether this comes about through member governments each developing a policy of fiscal responsibility or through a fiscal policy imposed by the EU on all member states remains open to debate. 25

Source: various sources, 2010

**0 4** Using **Extract C**, calculate the value of GDP for Greece in 2006 and identify **one** significant feature of the data for the annual percentage change in the components of GDP for the period 2007 to 2009. (5 marks)

**0 5** **Extract D** (lines 1–2) refers to EU governments 'spending their way out of recession'. Explain the term 'spending their way out of recession' and analyse **two** reasons for government spending **other** than to influence the economic cycle. (10 marks)

**0 6** **Extract D** (lines 16–18) suggests that France and Germany would like the EU to have 'the power to impose an EU-wide fiscal policy on all member states and not just the eurozone'. Using the data and your economic knowledge, assess the possible economic consequences for the UK economy of an EU-wide fiscal policy requiring all member states to balance their budgets. (25 marks)

**Turn over for the next question**

**Turn over ►**

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**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

---

**EITHER****Essay 1**

UK exports of goods which, in 2002, were valued at £187 billion, had risen to £228 billion in 2009. The deficit on the UK balance of trade in goods rose from £48 billion in 2002 to £82 billion in 2009.

0	7
---	---

 Explain **three** possible reasons for growth in the value of an economy's exports of goods. (15 marks)

0	8
---	---

 Evaluate the view that an increasing deficit in UK trade in goods is a major problem for the UK economy. (25 marks)

**OR****Essay 2**

Sustained economic growth can often benefit a country's living standards through higher income per head. In the UK from 2001 to 2007, the annual average growth in real income per head was +3%. For 2008 and 2009, it was -3%.

0	9
---	---

 Explain how supply-side factors might help to achieve sustained economic growth. (15 marks)

1	0
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 Discuss the view that the main reason for a country wanting to achieve sustained economic growth is to bring about an increase in private sector consumption. (25 marks)

**OR****Essay 3**

The global economic slowdown in recent years saw UK unemployment, as measured by the claimant count, rise from 870 000 in 2004 to 1.5 million in 2009.

1	1
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 As unemployment rises, explain **two** possible economic problems which might affect individuals in the UK **and two** possible economic problems which might affect the UK economy as a whole. (15 marks)

1	2
---	---

 To what extent would a significant fall in the exchange rate of the pound sterling achieve a sustained reduction in unemployment in the UK? (25 marks)

**END OF QUESTIONS**



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General Certificate of Education  
Advanced Level Examination  
June 2011

## Economics

## ECON4

### Unit 4 The National and International Economy

Thursday 23 June 2011 1.30 pm to 3.30 pm

**For this paper you must have:**

- an AQA 12-page answer book.
- You may use a calculator.

#### Time allowed

- 2 hours

#### Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

#### Information

- The marks for questions are shown in brackets.  
The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

#### Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer EITHER Context 1 OR Context 2.

EITHER

Total for this context: 40 marks

Context 1

## THE GLOBAL CONTEXT

Study Extracts A and B, and then answer all parts of Context 1 which follow.

## Extract A: Macroeconomic indicators: UK and selected African economies, 2008

Economy	Real GDP growth (% change on previous year)	Real GDP growth per capita (% change on previous year)	Consumer price inflation (%)
UK	0.7	0.1	3.6
Botswana	2.9	1.8	12.6
Ghana	7.3	4.6	16.5
Mozambique	6.8	4.7	10.3
South Africa	3.1	1.3	11.5

Source: official statistics, accessed on 21 December 2009

## Extract B: Living standards

Economists can generally agree on the causes of economic growth such as investment, innovation and improvements in productivity. There is greater disagreement over the consequences. An important part of the debate is the impact of economic growth on living standards. The debate has become more complex as measurement of living standards has taken on greater sophistication. GDP per capita (income per head) remains one of the basic measures.

1

5

Supporters of continued economic growth point to increased consumption possibilities, greater welfare, more support for the disadvantaged and more resources for health, education and infrastructure.

Opponents of unlimited economic growth point to the rapid depletion of exhaustible natural resources and environmental deterioration. The Copenhagen Summit of December 2009 brought the latter issue into sharp focus once again.

10

Various indices, such as the Human Development Index, incorporate a number of factors into their calculations in order to give as comprehensive a view of living standards as possible and to allow more accurate international comparisons. Factors include life expectancy, infant mortality and nutritional levels.

15

The Legatum Institute publishes a global survey annually, popularly known as a 'prosperity index'. It brings together data on, for example, economic growth, welfare, happiness, crime and healthcare. This data is then used to rank countries.

The 2009 index ranked 104 countries. The UK was placed 12th (its best position for three years). Low scores for key public services kept it out of the top ten. All African countries were in the bottom half of the index. 20

However, the continent of Africa is undergoing economic change. The World Bank points to a rapid transformation in some countries. Mozambique has seen annual average growth of 8% in the last decade, Kenya has emerged as a major global supplier of cut flowers and Rwanda is developing tourism very successfully. While Lesotho is developing its clothing industry, Ethiopia is starting to manufacture footwear. Can we look to Africa for the next wave of 'emerging economies', to follow India and China? In 2009, Africa as a whole had the world's third highest rate of growth behind India and China. Africa's role as a major supplier of raw materials to China also illustrates its increasing economic links with the rest of the world. 25 30

As a result of this economic change, living standards in Africa will no doubt improve. Additionally, the living standards of developed countries, including the UK, will be affected by economic growth in Africa. Export markets for both goods and services will strengthen, as will investment opportunities, and natural resources will become more accessible. 35

But how long before the UK faces stiff competition from Africa in agriculture, manufacturing and service activities? No one can accurately predict the impact on the UK economy but the careful monitoring of developments in Africa will become increasingly necessary.

Source: various sources, 2010

**0 1** Using **Extract A**, identify **two** significant features of the macroeconomic indicators shown for 2008. (5 marks)

**0 2** **Extract B** (line 1) argues: 'Economists can generally agree on the causes of economic growth'.

Explain the term 'economic growth' and analyse **two** ways in which economic growth can be achieved. (10 marks)

**0 3** **Extract B** (lines 33–34) argues that 'the living standards of developed countries, including the UK, will be affected by economic growth in Africa'.

Using the data and your economic knowledge, assess the view that living standards in the UK are likely to benefit from sustained economic growth in the economies of Africa. (25 marks)

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

OR

Total for this context: 40 marks

Context 2

THE EUROPEAN UNION CONTEXT

Study Extracts C and D, and then answer all parts of Context 2 which follow.

Extract C: Government budget balances (% of GDP): selected EU economies, 2007 to 2010

Country	2007	2008	2009 forecast	2010 forecast
France	-2.7	-3.4	-7.0	-7.1
Greece	-3.6	-5.0	-12.5	-12.7
Ireland	+0.1	-7.3	-12.1	-13.3
Italy	-1.5	-2.7	-5.6	-5.6
UK	-2.6	-5.1	-11.6	-13.2

Source: official statistics, accessed on 21 December 2009

Extract D: Is EU unity threatened?

Europe, and indeed much of the world, was shaken by the depth of the economic downturn from 2008. Many countries, including the UK, saw the solution to be a return to Keynesian economics and, therefore, tolerance of large budget deficits. This was coupled with significant monetary expansion, so that, in the UK for example, the Bank of England Bank Rate was cut to 0.5% in 2009, accompanied by a policy of 'quantitative easing' (increases in the money supply). 1 5

The UK pressed other EU governments to embark on fiscal expansion. Not all shared the UK's enthusiasm and, at best, wanted only a much more modest fiscal stimulus than was the case in the UK. However, events sometimes overtook such wishes. Ironically, given the scale of the UK fiscal stimulus, until the latter part of 2009 the UK was the only major economy to remain in recession. This may reflect the greater significance of the housing and financial sectors in the UK compared to other EU countries. 10

The fiscal position of many EU countries has given rise to concern. Italy, for example, now has a national debt (the total outstanding debt of central government) of around 120% of GDP, even though its annual budget deficit is not exceptionally large. Some countries have shown a greater determination than Italy to cut their deficits. In December 2009, for example, Ireland announced sharp cuts in public sector wages. But it is certainly not just Italy which has shown complacency. The EU's Stability and Growth Pact limits annual borrowing to 3% of GDP. EU governments are under increasing pressure to return to this target by 2014. 15 20

The short- to medium-term benefits of fiscal expansion during downturns cannot be denied. Government spending can initiate a powerful stimulus to an economy through the multiplier process. Aggregate demand therefore rises. The UK Pre-Budget Report put government spending at £676 billion. Tax cuts will give households more spending power. Coupled with cheap credit and retail price discounts, recovery can therefore be helped through increased consumption. 25

However, the impact of increased government borrowing arising from budget deficits across the EU is of concern amongst some economists. It may eventually force the authorities to increase interest rates, lead to 'crowding-out' of private sector activity and make public spending cuts and tax increases an inevitability. In the UK, for example, a VAT rate of 17.5% was restored in January 2010 following a temporary cut to 15%. Equally, the 2009 Pre-Budget Report announced an increase in National Insurance contributions. 30

The problem in trying to assess the impact of fiscal expansion is, of course, not knowing what might have happened without it. Certainly, some economists are quick to attribute the end of recession in France and Germany in 2009 to such fiscal loosening. Indeed, it is difficult to argue that, for any country in the EU, economic growth and employment cannot be beneficial to some extent at a time when business and consumer confidence are both at a low level. 35

Whether such a policy eventually causes inflation to make an unwelcome return remains to be seen. At that point, EU members may experience a greater urgency to balance budgets and reduce monetary expansion. 40

Source: various sources, 2010

**0 | 4** Using **Extract C**, identify **two** significant features of the government budget balances shown for the period 2007 to 2010. (5 marks)

**0 | 5** **Extract D** (lines 22–23) argues that government spending 'can initiate a powerful stimulus to an economy through the multiplier process'.

Explain 'the multiplier process' **and** analyse its possible impact on an economy's unemployment **and** economic growth. (10 marks)

**0 | 6** **Extract D** (lines 27–28) states that 'the impact of the increased government borrowing arising from budget deficits across the EU is of concern amongst some economists'.

Using the data and your economic knowledge, assess the impact on the UK economy of increased government borrowing by EU governments. (25 marks)

**Turn over for the next question**

**Turn over ►**

---

**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

---

**EITHER**

**Essay 1**

'The UK economy has recently been in the grip of its worst recession for 60 years.'

**0 7** Explain possible reasons for an economy moving from a period of prosperity to one of recession. *(15 marks)*

**0 8** Assess the contribution which supply-side reforms might make in helping avoid major recessions. *(25 marks)*

**OR**

**Essay 2**

'Inflation needs to be avoided at all costs but it is nowhere near as damaging to an economy as deflation.'

**0 9** Explain how inflation is measured in the UK through indices such as the Retail Prices Index (RPI) and the Consumer Prices Index (CPI). *(15 marks)*

**1 0** To what extent might it be argued that inflation is preferable to deflation? *(25 marks)*

**OR**

**Essay 3**

An economy which is enjoying rapid economic growth experiences a significant rise in the external value of its currency within a floating exchange rate system.

**1 1** Explain the factors which may lead to a rise in the exchange rate of a currency within a floating exchange rate system. *(15 marks)*

**1 2** Evaluate the possible macroeconomic consequences for an economy of a rise in the exchange rate of its currency. *(25 marks)*

**END OF QUESTIONS**



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**There are no questions printed on this page**



General Certificate of Education  
Advanced Level Examination  
January 2011

## Economics

## ECON4

### Unit 4 The National and International Economy

Tuesday 1 February 2011 1.30 pm to 3.30 pm

**For this paper you must have:**

- an AQA 12-page answer book.
- You may use a calculator.

#### Time allowed

- 2 hours

#### Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Question 1 **OR** Question 2.
- In **Section B**, answer **one** question.

#### Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.  
There are 40 marks for **Section A** and 40 marks for **Section B**.  
This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

#### Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer EITHER Question 1 OR Question 2.

EITHER

Total for this question: 40 marks

## Question 1

## THE GLOBAL CONTEXT

Study Extracts A and B, and then answer all parts of Question 1 which follow.

## Extract A: China's macroeconomic performance

	2006	2007	2008	2009 (forecast)	2010 (forecast)
Real GDP growth (%)	11.6	13.0	9.0	7.7	9.3
Inflation rate (%)	3.3	7.4	7.2	2.0	0.5
Fiscal balance (% of GDP)	1.6	3.5	4.2	-3.0	-2.7
Current account balance (% of GDP)	9.4	11.1	9.9	9.6	7.8

Source: official statistics, accessed on 29 July 2009

## Extract B: China: a bright spot in a gloomy world

China, despite its recent rapid growth, has not remained immune to the economic downturn as some economists had hoped. However, it remains an economy which is looking to the future with some optimism. It continues to invest in the production of raw materials and resources in other countries. The consequent increased global investment should give a much-needed boost to jobs and growth in countries benefiting from it. Despite this investment, growth in demand from China is likely to continue to push up world raw material prices in the long term.

5

Certainly, China has shown an increased recognition of the need to play its part in bringing about global recovery. For example, in a recent international agreement to boost the funds of the International Monetary Fund (IMF) by \$500 billion, China has agreed to contribute \$40 billion, compared to the UK's \$15 billion. The IMF can now fulfil its promise of loans to such countries as Poland and Mexico, which should contribute to the greater global stability needed for recovery.

10

Nevertheless, China, fearing inflation, has expressed its concern about the policy of some leading central banks, including the Bank of England, of quantitative easing (increasing the money supply) in order to bring about economic revival by increasing aggregate demand. China also knows that its policy of holding down the external value of its currency in

15

order to boost export-led growth is only likely to be successful if a global revival of demand is achieved. For example, China saw a 25% decline in exports in 2008. The depressed UK market will have contributed to this decline. 20

The other major world economies are keen to keep talking with China and win its approval for a host of measures to bring about recovery. They want to engage China in more long-term talks as well. These will include international financial reforms and environmental policies, especially as China's industrial growth continues to create negative externalities. 25

China has every reason to be optimistic about its future prospects. In June 2009, the *Organisation for Economic Co-operation and Development* (OECD) forecast growth for that year of 7.7% and 9.3% for 2010. To a country used to double-digit growth figures, this may seem like a recession. However, such figures are a far cry from the negative growth seen in many parts of the global economy, including the UK economy. 30

Nevertheless, the ongoing concern of the Chinese Government is reflected in the decision to give a \$565 billion fiscal stimulus to its economy in 2009. It is also considering protectionist policies, which may impact on those countries hoping to increase exports to China. For the World Bank, however, the Chinese economy remains a 'relative bright spot in an otherwise gloomy global economy' and countries such as the UK are keen to see China help pull the global economy out of recession. 35

China has reacted coolly to suggestions that a solution to the world's economic problems lies in the hands of two powers: itself and the US. Although the UK has played a leading role in international discussions on recovery, such an assertion may yet prove to have a ring of truth. What is certain is that co-operation is vital in ensuring that appropriate policies are followed to bring about a new era of sustained growth. 40

Source: various sources, 2009

### Question 1

- 0 | 1** Using **Extract A**, identify **two** main features of China's macroeconomic performance for the period 2006 to 2010. (5 marks)
- 0 | 2** **Extract B** (lines 4-5) refers to global investment undertaken by China. Explain the term 'global investment' **and** analyse **two** economic consequences for an economy receiving such investment. (10 marks)
- 0 | 3** In 2009, the World Bank described the Chinese economy as a "relative bright spot in an otherwise gloomy global economy" (**Extract B**, lines 34-35). Using the data and your economic knowledge, assess the consequences for the UK economy of China's continued economic growth during a global recession. (25 marks)

Turn over ►

Do not answer Question 2 if you have answered Question 1.

OR

Total for this question: 40 marks

Question 2

**THE EUROPEAN UNION CONTEXT**

Study Extracts C and D, and then answer all parts of Question 2 which follow.

**Extract C: EU unemployment (%)**

	March 2008	October 2008	March 2009
EU	6.7	7.3	8.3
UK	5.2	6.1	7.2
France	7.6	8.0	8.8
Latvia	6.1	9.3	16.1
Lithuania	4.3	7.2	15.5

Source: official statistics

**Extract D: Is European Union (EU) unity threatened?**

In March 2009, the Hungarian Government asked Germany for €190 billion to prevent what it saw as a new economic 'Iron Curtain' from going up across Europe. The term 'Iron Curtain' was intended to remind Europeans of the Soviet-era divide between the poorer Communist East and the more prosperous, free, democratic West. Hungary argued that, without such help, the contrast between the richer and poorer members of the EU would only widen further. Germany's refusal of Hungary's request symbolised, for many, the deepening divide between the EU's richer and poorer members.	1 5
The contrast in fortunes is seen by newer members of the EU, such as Latvia, Lithuania and Hungary, as one which can only worsen during the recession and which may threaten the EU's existence in the long term. On the other hand, some people in the more-established members of the EU, such as the UK and France, have become increasingly disillusioned with the EU and especially with the level of assistance now expected from these more-established members by the newer members.	10
At the Brussels Summit of March 2009, the Czech Prime Minister warned of 'the greatest crisis in the history of European integration'. Gordon Brown, for the UK, spoke of the need for unity and common policies. The Single European Market, for example, is seen as an evolving policy which can foster prosperity for all and bring closer integration.	15
Cyclical unemployment is now widespread, however, and has been growing faster in the Eastern members of the EU than in those of the West. This could increase tensions between Eastern and Western members of the EU. The impact of cyclical unemployment	20

on both individuals and whole economies can be serious, as incomes and output fall and welfare-dependency becomes more widespread.

Nevertheless, it would be wrong to argue that the wealthier members of the EU have been totally immune to the problem. The Netherlands, the worst affected Western member, experienced a 34% rise in unemployment between January 2008 and March 2009. There was a much greater rise in Latvia and Lithuania, both in the East. 25

During a recession, questions are likely to be asked about the future of the EU as policy disagreements emerge. Supporters claim that the EU is a force for good and needs to be strengthened, rather than weakened or abandoned. In this way, it is argued, East-West tensions can be kept at bay. 30

Such supporters feel that an enlarged EU, with open markets based on the Single European Market policy, helps spread benefits of membership across the whole organisation and offers the best chance of rapid recovery. In the UK, however, many see openness as a threat to jobs and to living standards.

In the current climate, it has also been argued that a more ambitious set of common macroeconomic policies would help speed recovery in the EU. Fiscal and supply-side policies come into this category, as well as monetary policy, even though only 16 members of the 27-member EU have adopted the euro. Even so, limited agreement on monetary policy, such as interest rates, could be of benefit. 35

The UK has not had the leading role in EU recovery policies that it has had globally, but it has shown a willingness to play its part in fostering unity and economic revival so that Europe can make a vital contribution to international recovery. Talk of disunity and the break-up of the EU can only cause instability and hinder economic recovery. This is something that members can ill-afford, particularly the UK. Growth, jobs and stable prices are desperately needed. 40 45

Source: various sources

## Question 2

**0 4** Using **Extract C**, identify **two** main features of unemployment for the period March 2008 to March 2009. (5 marks)

**0 5** **Extract D** (lines 18-20) suggests that cyclical unemployment 'is now widespread' and that this 'could increase tensions between Eastern and Western members of the EU'. Explain the term 'cyclical unemployment' **and** analyse **two** effects of cyclical unemployment. (10 marks)

**0 6** **Extract D** (lines 35-36) argues that 'a more ambitious set of common macroeconomic policies would help speed recovery in the EU'. Using the data and your economic knowledge, assess the impact on the UK economy of a recovery in the EU as a whole. (25 marks)

Turn over for the next question

Turn over ▶

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**Section B**

Answer **one** question from this section.

Each question carries 40 marks.

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**Question 3**

'Oil, as a form of energy, reigns supreme but it has brought significant problems to economies in terms of inflation in particular, and the potential for economic instability in general.'

**0 7** Explain the main causes of inflation. (15 marks)

**0 8** Discuss how rising oil prices might affect the macroeconomic performance of an economy. (25 marks)

**Question 4**

'While it is necessary to have macroeconomic policy objectives, such as price stability and full employment, they can sometimes prove difficult to reconcile.'

**0 9** Explain the various macroeconomic policy objectives **and** their importance to an economy. (15 marks)

**1 0** Discuss ways in which government economic policies can be used to try to reconcile conflicts between macroeconomic objectives. (25 marks)

**Question 5**

The deficit on the UK balance of trade in goods and services rose from £26 billion in 2003 to £44 billion in 2008.

**1 1** Explain the main factors which might help determine the volume of UK exports and imports. (15 marks)

**1 2** Evaluate government policies which might bring about a reduction in the UK deficit on the balance of trade in goods and services. (25 marks)

**END OF QUESTIONS**



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General Certificate of Education  
Advanced Level Examination  
June 2010

## Economics

## ECON4

### Unit 4 The National and International Economy

**For this paper you must have:**

- a 12-page answer book.
- You may use a calculator.

**Time allowed**

- 2 hours

**Instructions**

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.
- Remember to answer in your 12-page answer book only, **not** in this question paper.

**Information**

- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

**Advice**

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## SECTION A

Answer EITHER Context 1 OR Context 2.

EITHER

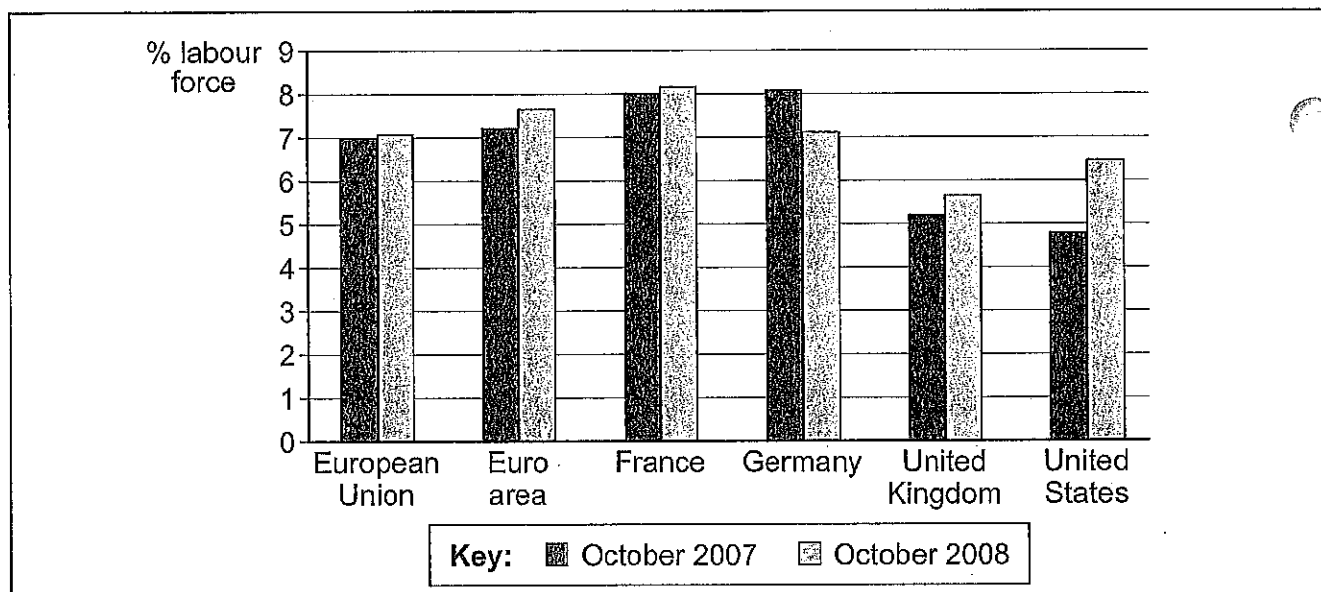
CONTEXT 1

THE GLOBAL CONTEXT

Total for this Context: 40 marks

Study Extracts A and B, and then answer all parts of Context 1 which follow.

Extract A: Selected unemployment rates, October 2007 and October 2008



Source: official statistics, accessed on 22 December 2008

Extract B: Does the UK really need globalisation?

There is every prospect, according to some forecasters, that the current economic crisis will be the worst since the Great Depression of the 1930s, with the financial problems spreading to previously untouched parts of the world. Deutsche Bank argued in October 2008 that the UK would be even more vulnerable than the US or the euro area given the significance of its housing and financial sectors. It now seems unlikely that economic 'powerhouses' such as India and China will provide support for the global economy through trade and investment. Such support might have helped avoid world recession and restored economic growth.

Deutsche Bank predicted global growth of 1.2% over the coming year; the *International Monetary Fund* (IMF) maintains that anything less than 3% can be regarded as recession. Unemployment is, of course, the human cost of an economic crisis. In the UK, it is predicted to rise to over 3 million by 2010. The *Organisation for Economic Cooperation and Development* (OECD) estimates a worldwide job-loss of over 20 million in the same period.

Globalisation, for all its benefits, has made it likely that economic problems in one part of the world will spread to other parts, and this has now proved to be the case. New technology, trade, investment and migration are all facilitating rapid economic change.

In the long term, globalisation has caused, and continues to cause, major changes across the world economy, irrespective of short-term economic conditions. In a number of developing countries, economic growth has far outstripped that of advanced nations, some having become significant manufacturing economies. While developed nations have benefited from low-cost manufactured imports, they have had to seek new comparative advantage in high-technology and service sector activities.	20
In the last few years, while some economists have argued that a fully global economy has arrived, others conclude that the impact of globalisation remains limited in development and impact. However, much-reduced trade controls, greater opportunities to exploit comparative advantage, high-speed electronic communication links and labour and investment flows, will surely strengthen the globalisation process. From this further strengthening, all countries, developing and developed, have the potential to benefit. Differentials persisting in wages and a lack of access to technology will begin to disappear.	25
Any accurate assessment of globalisation will be difficult in the current economic circumstances, encouraging distorted judgements to be made of its impact. In the UK, for example, the current economic problems may encourage us to forget too easily the high-growth, low-inflation years since the late 1990s. Globalisation must surely have played its part in the success of the UK economy in those years, whatever problems it may also have created.	30
	35

Source: news reports, 2008

**0 1** Using **Extract A**, identify **two** main features of unemployment rates for October 2007 and October 2008. (5 marks)

**0 2** **Extract B** (lines 5-8) argues: "It now seems unlikely that economic 'powerhouses' such as India and China will provide support for the global economy through trade and investment. Such support might have helped avoid world recession and restored economic growth."

Explain the term 'world recession' **and** analyse how **both** trade **and** investment can help to bring about economic growth. (10 marks)

**0 3** **Extract B** (lines 35-37) concludes: 'Globalisation must surely have played its part in the success of the UK economy...whatever problems it may also have created.'

Using the data and your economic knowledge, to what extent do you agree with the view that globalisation has been of benefit to UK macroeconomic performance? (25 marks)

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

OR

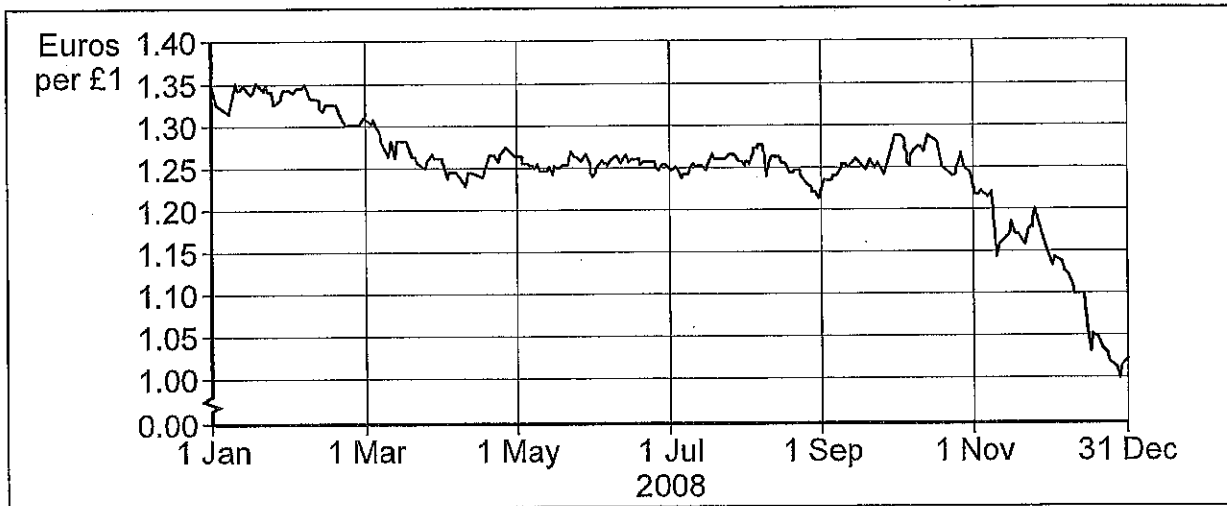
**CONTEXT 2**

**THE EUROPEAN UNION CONTEXT**

**Total for this Context: 40 marks**

Study **Extracts C and D**, and then answer **all** parts of Context 2 which follows.

**Extract C: The exchange rate of the pound sterling against the euro, January 2008 to December 2008**



Source: official statistics; accessed on 5 January 2009

**Extract D: Is it time for the UK to adopt the euro?**

In November 2008, European Union (EU) economics experts predicted that the UK would suffer the deepest recession of all the EU's major economies, with a contraction of 1% in 2009 and growth of only 0.4% in 2010. Overall, they also painted a bleak outlook for the EU, with growth of only 0.2% in 2009. Other forecasts suggest that even this may be optimistic.

1

Amidst the pessimism, the pound has continued to weaken to a point where it has often been close to parity with the euro (€1 = £1). In December 2008, 88p was needed to buy one euro, 30p more than was needed in October 2000. UK tourists in the euro area are being hit hard, as are UK citizens residing there.

5

On the other hand, in these difficult times, UK exporters will be seeing the weak pound as their potential salvation. There is also the hope that UK consumers are more likely to buy domestic goods than more expensive imports from the EU. Additionally, tourists from the euro area will bring their spending power into the UK retail sector.

10

It is not difficult to understand why the pound has fallen against the euro and other currencies. Speculators are selling pounds as economic forecasts worsen. There is also concern over the size of the UK fiscal boost and over interest rates approaching zero. Business confidence is a distant memory as consumers cut their spending.

15

The weakening of sterling has proved to be a rallying cry for those who support the adoption of the euro by the UK. They argue that the euro would be a safe haven from the

volatility being faced by the pound. They also argue that the recent fall in the exchange rate has taken sterling to a competitive rate at which it can be successfully locked into the euro area. However, they seem to ignore the fact that the euro could also fall apart under the strain of EU and world recession. 20

There are, of course, long-standing arguments for the UK's adoption of the euro. It would perhaps provide a further stimulus to UK-euro area trade and help to reinforce the benefits of the Single Market, of which the UK has been a member for many years. 25

Opponents are not slow to point to the loss of economic sovereignty and argue that we would be foolish to lose the power to set our own interest rates. Recent experience offers support for this argument. The success of the UK economy in the years up to 2008 will also reinforce the arguments of the euro's opponents.

Some might argue that it would be foolish to base a major long-term decision such as the adoption of the euro on the short-term problems which sterling has faced. On balance, UK adoption of the euro at such an economically unstable time remains highly unlikely, whatever the potential benefits. 30

Source: news reports, 2008

**0 | 4** Using **Extract C**, identify **two** main features of the exchange rate of the pound sterling against the euro for the period January 2008 to December 2008. (5 marks)

**0 | 5** **Extract D** (lines 13-14) argues that it 'is not difficult to understand why the pound has fallen against the euro and other currencies'.

Explain what is meant by 'the pound has fallen against the euro and other currencies' and analyse **two** determinants of such a fall. (10 marks)

**0 | 6** **Extract D** (lines 32-33) concludes that 'UK adoption of the euro at such an economically unstable time remains highly unlikely, whatever the potential benefits'.

Using the data and your economic knowledge, to what extent do you agree with the view that the UK economy would benefit if the euro were to be adopted by the UK at some point in the future? (25 marks)

Turn over for the next question

Turn over ▶

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**SECTION B**

Answer **one** essay from this section.

Each essay carries 40 marks.

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**EITHER****Essay 1**

'It is better to do everything you can to prevent deflation before it begins, even if there is only a small chance of it occurring.'

0	7
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 Explain how monetary policy might be used to prevent a period of deflation. (15 marks)

0	8
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 Assess the impact on UK macroeconomic performance of a prolonged period of deflation. (25 marks)

**OR****Essay 2**

'Failure to get a new trade deal would put another dark cloud over the world economy.'

Source: PETER MANDELSON, EU Trade Commissioner, July 2008

0	9
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 Explain the main economic determinants of a country's demand for imports. (15 marks)

1	0
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 Evaluate the significance for the UK balance of payments on current account of increased use of protectionist policies around the world. (25 marks)

**OR****Essay 3**

The Budget Report of April 2009 estimated that UK government borrowing for 2009-10 would be £175 billion, or about 12% of GDP.

1	1
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 Explain possible economic reasons for changes in the level **and** distribution of government expenditure. (15 marks)

1	2
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 To what extent should government borrowing be a cause for concern? (25 marks)

**END OF QUESTIONS**



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General Certificate of Education  
Advanced Level Examination  
January 2010

## Economics

## ECON4

### Unit 4 The National and International Economy

Tuesday 2 February 2010 1.30 pm to 3.30 pm

**For this paper you must have:**

- a 12-page answer book.

You may use a calculator.

**Time allowed**

- 2 hours

**Instructions**

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Question 1 **OR** Question 2.
- In **Section B**, answer **one** question.

**Information**

- The maximum mark for this paper is 80.  
There are 40 marks for **Section A** and 40 marks for **Section B**.
- The marks for questions are shown in brackets.
- The paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

**Advice**

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## SECTION A

Answer EITHER Question 1 OR Question 2.

## EITHER

## 1 THE GLOBAL CONTEXT

Total for this question: 40 marks

Study Extracts A and B, and then answer all parts of Question 1 which follows.

## Extract A: Exports of goods (\$bn, quarterly) for selected economies in 2007

	Q1	Q2	Q3	Q4
China	94	99	106	106
India	11	12	12	13
Japan	57	58	60	64
UK	35	36	37	39
USA	90	93	99	101

Source: official statistics, accessed on 27 May 2008

## Extract B: Is trade the key to success?

There are few economists today who will argue against the importance of international trade in promoting economic growth and thereby improving living standards. This can be through both its impact on aggregate demand and the stimulus given to supply-side reforms. Undoubtedly, much progress has been made in achieving freer trade.	1 5
A recent World Bank study concluded that the average incomes in 24 countries, which had reduced protectionist barriers and so had become much more open to trade, had risen by almost 70% in the period 1980 to 2000. More closed, protectionist, economies had seen their incomes per head rise by only 10%. Although other factors need to be considered in such an analysis, statistics such as these strengthen the argument that the benefits to growth and jobs, as well as to living standards, can be substantial.	10
Economic theory explains why trade might develop between countries. While absolute advantage might play a part, David Ricardo introduced the principle of comparative advantage. He argued that countries will specialise in the production of those items in which their comparative advantage is greatest; that is, where the opportunity cost of doing so is lower than that of another country or countries.	15
As trade develops, based on this principle, greater efficiency, lower prices, greater choice and economies of scale are among the benefits which might be experienced. But we cannot always be sure that comparative advantage is the most influential	20

factor in determining trade patterns. Both price and non-price factors, as well as protectionist policies such as tariffs, quotas and export subsidies, can be powerful influences. Some economists warn against what can be called a creeping protectionism, for example to protect jobs or to help new or declining industries, especially as world economic conditions deteriorate. 25

However, it may not be world economic conditions that encourage protectionism but simply survival against the stunning growth of individual economies. China, for example, growing by around 10% per annum, has seen an expansion of exports of 20% per annum.

Those in countries such as the US and UK who call for more protection need to bear in mind that, as China and others become richer, they will demand more and more of our goods and services. *The World Trade Organization* (WTO) works relentlessly to promote more free trade. The Doha trade talks began in 2001, providing a framework in which members agreed in 2004 and 2005 to cut substantially trade-distorting export subsidies, slash industrial tariffs and to consider freer trade in services. Emerging developing countries, such as India and Brazil, will, however, be opening their markets to a lesser extent. The WTO considered 2008 to be the 'crunch' year in trying to finalise such agreements. July of that year saw Doha end in failure. 30 35

Developed economies, such as the US and the UK, may be very concerned for their macroeconomic performance since these agreements could lead to greater openness of their economies to world markets. However, there is also widespread recognition of the actual benefits of free trade to developed economies. 40

Source: news reports, 2008

### Question 1

1 (a) Using **Extract A**, identify **two** main features of the exports of goods in 2007. (5 marks)

(b) **Extract B** (lines 1-2) refers to the 'importance of international trade in promoting economic growth'.

Explain the concept of economic growth **and** analyse **two** ways in which international trade can increase a country's economic growth. (10 marks)

(c) **Extract B** (lines 40-42) suggests that the US and the UK may be 'very concerned for their macroeconomic performance' if free trade agreements lead to greater openness of their economies.

Using the data and your economic knowledge, assess the possible impact on the UK economy of greater openness to world markets. (25 marks)

Turn over ▶

Do not answer Question 2 if you have answered Question 1.

OR

**2 THE EUROPEAN UNION CONTEXT**

**Total for this question: 40 marks**

Study Extracts C and D, and then answer all parts of Question 2 which follows.

**Extract C: Real GDP growth (%), 2006-2009, selected economies\***

	2006	2007	2008 (forecast)	2009 (forecast)
UK	2.8	3.0	1.0	-0.1
USA	2.8	2.0	1.6	0.1
Euro area	2.8	2.6	1.3	0.2
Major advanced economies (G7)	2.7	2.2	1.2	0.1
Newly-industrialised Asian economies	5.6	5.6	4.0	3.2

Source: official statistics, accessed on 20 October 2008

\* The G7 is the Group of 7. These are the leading economies of the world and include France, the UK and the USA. The newly-industrialised Asian economies include Hong Kong, Singapore and Korea.

**Extract D: Is an economic tidal wave about to roll over Europe?**

As the storm clouds have gathered across the global economy, there is little reason for optimism when assessing the state of the European Union (EU) economy over the next few years. It is possible that the EU will enter recession in the last quarter of 2008, with unemployment hovering around 7% as economic growth slows or becomes negative. 1

For most of 2007, Europe witnessed robust growth but signs of strain increased towards the end of the year. After that, falling consumer and business confidence, rising oil prices, together with a stronger euro, diminished growth expectations. 5

Inevitably, there are variations across the EU. Spain, for example, has witnessed a dramatic fall in business confidence which will impact on GDP growth, while Germany, by squeezing wages, has gained 40% in labour cost competitiveness against Italy and 30% against Spain since the 1990s. Its current account balance is in stark contrast to the deficits in a number of other EU countries, but economic growth is forecast to be only 1% by 2009. The UK's economic future looks uncertain and recession is a strong possibility. 10

It is difficult to predict what the impact of US economic weakness will be on the EU. Economic links between the US and the EU remain significant but EU trade (including that of the UK) with Asia, the Middle East and the emerging non-EU economies of Europe has increased markedly. Continuing revelations of losses to EU banks from the US housing market downturn have further undermined confidence and tightened credit. 15

2008 has not brought about any revival of optimism across the EU. Further euro appreciation

is of concern (although, for the UK, the pound has shown signs of weakening), as is the continuing instability of the US economy. The world-wide 'credit crunch' has only served to generate greater pessimism.	20
Inflation has also been a major cause for concern. Both the Bank of England and the European Central Bank (ECB) know that, above all else, price stability has to be delivered. Hence interest rates remain relatively high, given UK inflation of over 4% and euro area inflation of 3.5%. High interest rates form part of the explanation for the strong euro which is causing problems for the EU aeronautic, automobile and textile industries in particular. But, even so, many UK exporters would like to see a further weakening of the pound.	25
It is hoped that less pressure on productive capacity, together with slower energy and food price inflation, will help reduce the inflation problem in 2009. There has even been talk of eventual deflation which will bring its own problems.	30
In the later part of 2008, interest rates began to fall, offering some hope to households and businesses. However, there may need to be greater reliance on a fiscal boost to bring recovery. The Stability and Growth Pact (to which the UK informally adheres) limits the fiscal deficit of each member of the euro area to a maximum of 3% of GDP. Given this limitation, one estimate suggests that in 2008 the euro area's fiscal position would only allow for a widening of the deficit by just 0.5% of GDP. So, a relaxation of fiscal rules such as these would certainly be helpful.	35
It is likely, however, that the EU, including the UK, may need to rely on an external economic stimulus to improve macroeconomic performance. This could come from a sharp US recovery or from more rapid economic growth in Asia.	40

Source: news reports, 2008

### Question 2

- 2 (a) Using **Extract C**, identify **two** significant points of comparison in real GDP growth between the economies shown for the period 2006 to 2009. (5 marks)

- (b) **Extract D** (line 3) suggests that it is possible that 'the EU will enter recession'.

Explain the term 'recession' **and** analyse **two** possible causes of a recession. (10 marks)

- (c) **Extract D** (lines 39-40) concludes that 'the EU, including the UK, may need to rely on an external economic stimulus to improve macroeconomic performance'.

Using the data and your economic knowledge, assess the possible effects on UK macroeconomic performance of an external economic stimulus, whether arising from other EU members or from other parts of the world. (25 marks)

**Turn over for the next question**

**Turn over ▶**

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**SECTION B**

Answer **one** question from this section.

Each question carries 40 marks.

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- 3 (a) Explain the concept of the natural rate of unemployment **and** the factors which might determine it. *(15 marks)*

- (b) In May 2008, the Governor of the Bank of England spoke of the need for the UK economy to move away from spending and importing, towards saving and exporting.

Evaluate the consequences for UK unemployment if this movement were to occur.

*(25 marks)*

- 4 (a) Explain how fiscal policy might be used to bring about supply-side improvements to an economy. *(15 marks)*

- (b) The level of UK public sector spending grew from 37% of GDP in 1997 to over 45% in 2008.

To what extent do you regard such an expansion of the public sector as beneficial to the UK economy? *(25 marks)*

- 5 (a) Explain the factors which help determine the exchange rate of a currency. *(15 marks)*

- (b) In a floating exchange rate system, a currency may be subject to frequent fluctuations in its external value.

Discuss the possible economic consequences of such fluctuations for the achievement of a country's macroeconomic objectives. *(25 marks)*

**END OF QUESTIONS**



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