



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

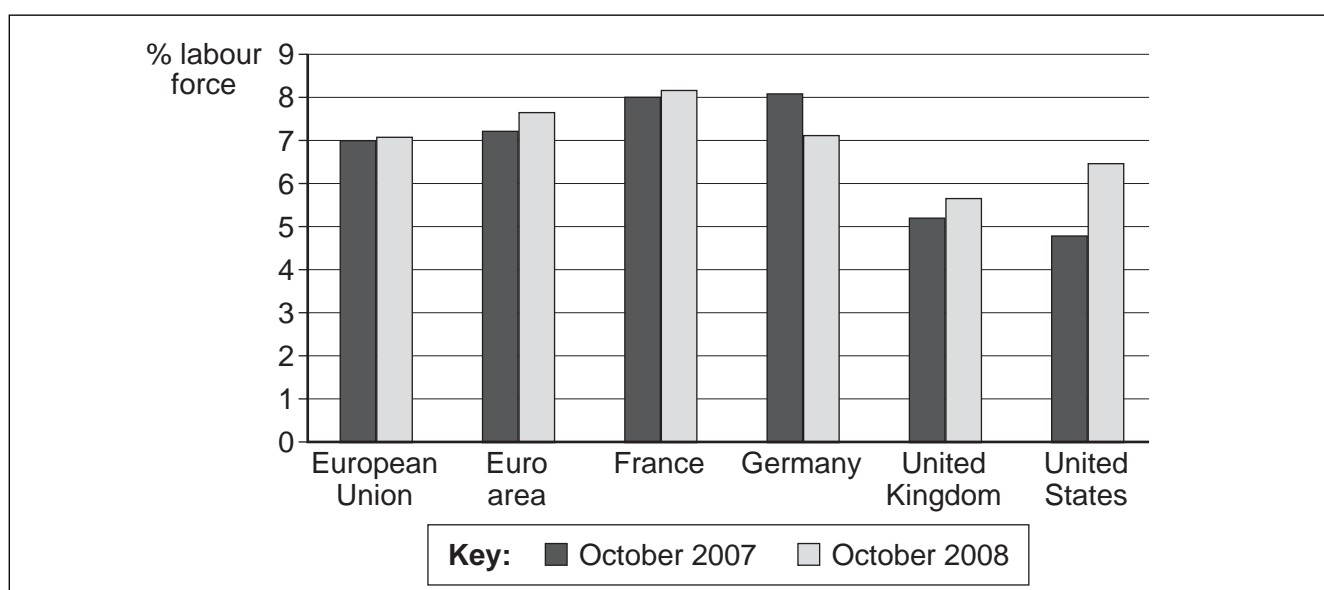
CONTEXT 1

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.

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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 30
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.	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

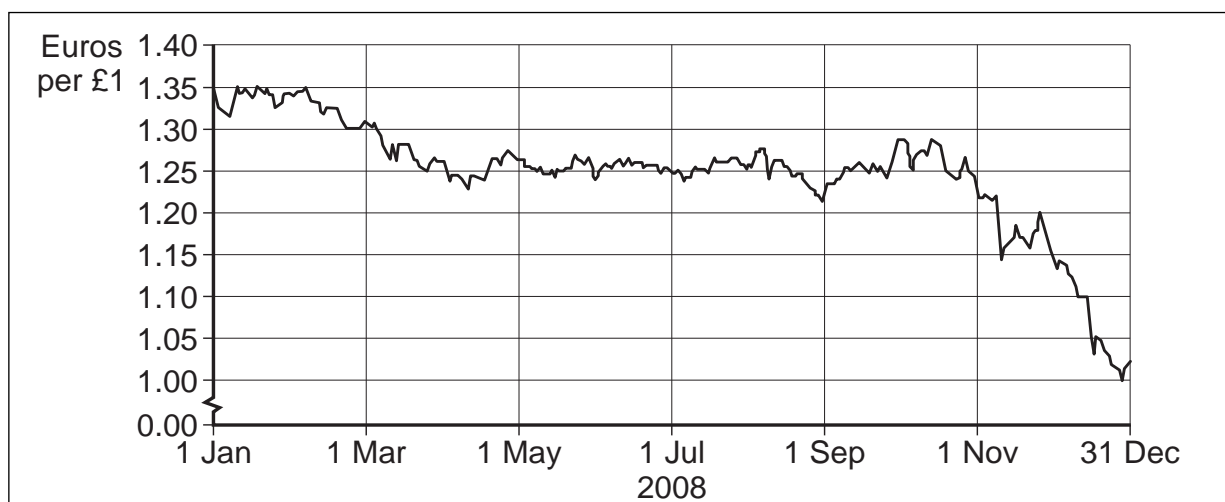
CONTEXT 2

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 ▶

SECTION B

Answer **one** essay from this section.

Each essay carries 40 marks.

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

0 8 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 Explain the main economic determinants of a country's demand for imports. (15 marks)

1 0 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 Explain possible economic reasons for changes in the level **and** distribution of government expenditure. (15 marks)

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

END OF QUESTIONS

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