Write your name here

Surname	Other names

Pearson Edexcel
International
Advanced Level

Centre Number

Candidate Number

Economics

International Advanced Level
Unit 4: Developments in the Global Economy

Friday 23 January 2015 – Morning
Time: 2 hours

Paper Reference
WEC04/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **one** question in Section A and **one** question from Section B.
- Answer the questions in the spaces provided – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

P45052RA

1/2/2/2/2/2/2/1/1

P 4 5 0 5 2 R A 0 1 3 6

PEARSON

Section A: Answer ONE question from this section.

You should spend 60 minutes on this section.

You should include diagrams in your responses where appropriate.

1 (a) Evaluate the macroeconomic policies that a government could implement in response to a recession in one of the country's main trading partners.

(15)

(b) To what extent does a country engaging in more international trade lead to a higher rate of economic growth in that country?

(25)

2 (a) Assess the importance of international institutions **and** non governmental organisations (NGOs) in promoting economic growth in developing countries.

(15)

(b) Discuss the factors that constrain the economic development of a developing country or countries of your choice.

(25)

3 In 2012, China recorded an annual **surplus** in its current account of the balance of payments equal to 2.3% of its GDP, while the USA had an annual **deficit** in its current account of the balance of payments equivalent to 3% of its GDP.

(a) Discuss the likely causes of a country running a surplus on its current account of the balance of payments.

(15)

(b) With reference to China and the USA, or other countries of your choice, assess the significance to the global economy of large current account imbalances.

(25)

Do not use pencil. Use black ink or ball point pen.

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen Question Number: **Question 1** ☒ **Question 2** ☒ **Question 3** ☒

TOTAL FOR SECTION A = 40 MARKS

Section B: Answer either Question 4 or Question 5.

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

Question 5 starts on page 26.

You should spend 60 minutes on this section.

4 Global trade and foreign direct investment (FDI) flows

Figure 1 Growth in global exports of goods and global gross domestic product (GDP) (annual average percentage change)

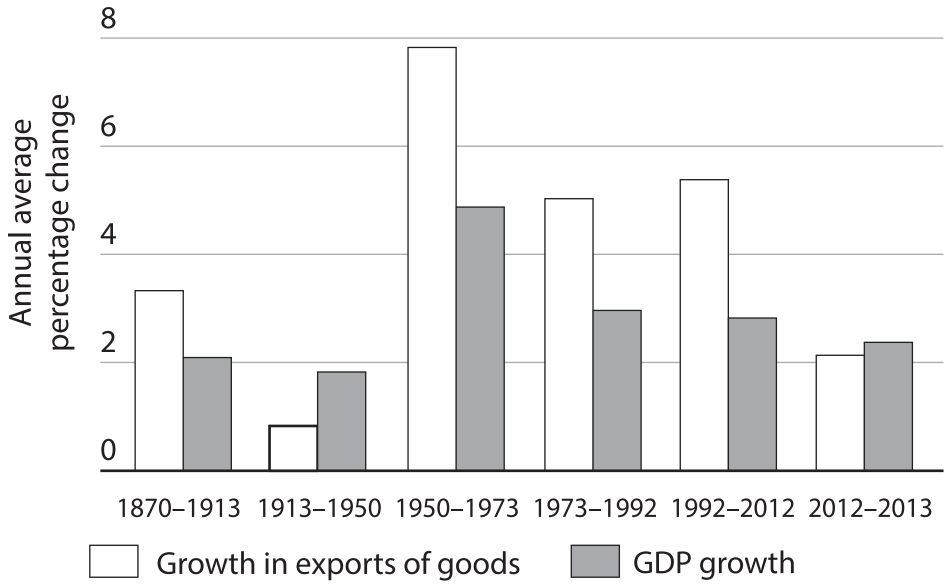
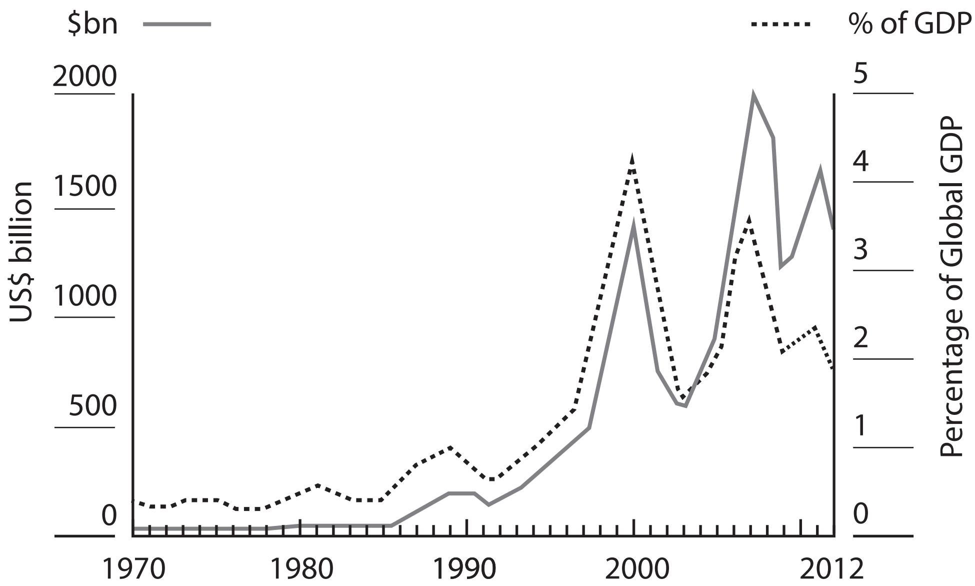


Figure 2 Global FDI inflows, 1970–2012



Extract 1 Trade and the global economy

In 2013, global trade is expected, for a second year in a row, to grow at close to or even less than the rate of growth of global economic output. This is highly unusual.

For the past three decades, trade has regularly grown at twice the rate of world GDP. Even allowing for the impact of the 2008 global financial crisis and the double-digit reduction in world trade that followed in 2009, trade in goods and services expanded almost 7% a year, on average, between 1980 and 2011. Over that same period the global economy expanded at an average annual rate of 3.4%.

Since then, the rates of growth have been far lower. In 2013, trade is expected to grow just 2.5%, compared with GDP growth of 2.9%. In 2012, trade expanded only 2%. Forecasts for 2014 suggest trade growth will be 4.5% against global GDP growth of 3.6%.

For trade and GDP growth to be so similar is rare, but for it to happen in two consecutive years is unusual. It has not happened since the early 1980s. Since the 1800s, the only extended period in which trade grew less than global GDP was 1913–1950, in what some have called the era of "deglobalisation".

However, many argue that, in our globalised world where transnational companies are dependent on international supply chains, trade can only increase and return to previous growth rates.

In late 2013, HSBC predicted that global trade would grow by an average of 8% per year up until 2030, due in large part to increased infrastructure spending in developing markets such as India. Additionally, Maersk, the world's biggest container shipping line by market share, predicted that worldwide demand for shipping containers would grow by between 4% and 6% in 2014 and 2015 because of increased international trade.

Regional trade negotiations also strengthen the argument that trade can return to its former growth rates. Before the end of 2013, the USA wanted to conclude negotiations about a free trade area with Japan and 10 other countries that make up almost a third of global GDP. The EU and the USA were discussing their own, potentially even bigger trade agreement. Trade ministers from the World Trade Organisation's (WTO) 159 member nations also signed a deal in December 2013 to reduce regulations and restrictions at borders around the world, which may help to re-energise the long-stalled Doha Round, and lead to freer trade.

Patrick Low, a Senior Fellow at the Fung Global Institute in Hong Kong, thinks that the slow growth in global trade during 2012 and 2013 has mainly been caused by the recession in the eurozone. He also believes that when things return to normal in the global economy, trade will again resume its past growth trend.

Some economists, however, suspect that world trade has permanently slowed. George Magnus, Senior Economic Adviser for UBS, argues that the 2008 financial crisis has contributed to financial deglobalisation. FDI around the world has been falling and it is not hard to find signs that foreign investors are becoming increasingly cautious of doing business in places such as China.

(Source: adapted from "Trade: Into Uncharted Waters", The Financial Times, 24 October 2013, http://www.ft.com/cms/s/0/4dc2ab0e-3805-11e3-8668-00144feab7de.html)

(a) With reference to Extract 1, explain **one** role of the WTO.

(4)

(b) With reference to the information provided, analyse the evidence that supports the view that the process of globalisation has been reversed since 2012.

(8)

(c) Discuss the likely effects of falling "FDI around the world" (Extract 1, line 39) on the global economy.

(12)

(d) Evaluate the view that "trade can only increase and return to previous growth rates". (Extract 1, lines 17–18)

(16)

(a) With reference to Extract 1, explain **one** role of the WTO.

(4)

(b) With reference to the information provided, analyse the evidence that supports the view that the process of globalisation has been reversed since 2012.

(8)

(c) Discuss the likely effects of falling "FDI around the world" (Extract 1, line 39) on the global economy.

(12)

(d) Evaluate the view that "trade can only increase and return to previous growth rates". (Extract 1, lines 17–18)

(16)

(Total for Question 4 = 40 marks)

BLANK PAGE

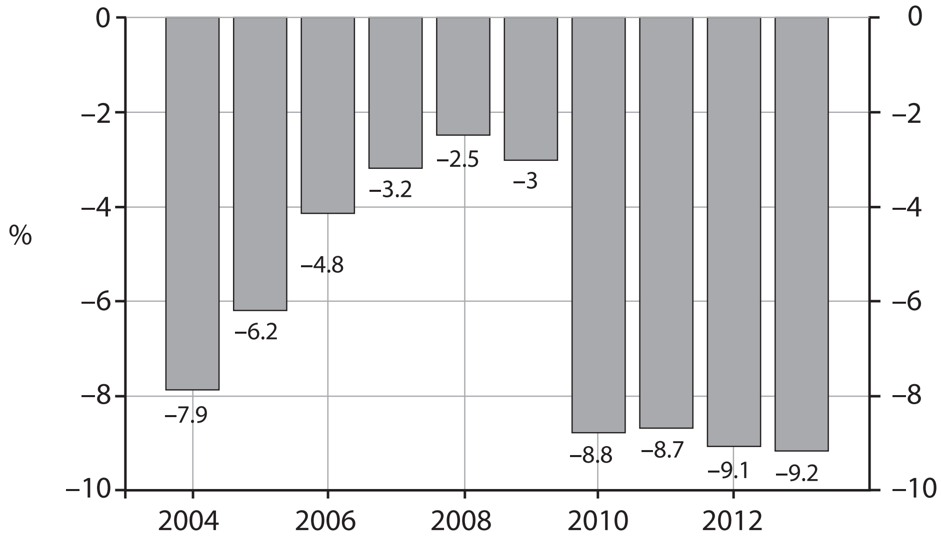
Turn over

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

5 The Japanese economy

Figure 1 Japan's annual CPI inflation rate, January 2011 – November 2013

Figure 2 Japan's fiscal budget balance, 2004 – 2013 (percentage of GDP)



(Source: www.tradingeconomics.com/Ministry of Internal Affairs & Communications)

Extract 1 The Japanese Government's macroeconomic objectives

Japan has three macroeconomic policy objectives:

- to end the prolonged period of deflation, and achieve the 2% CPI inflation target as soon as possible;
- to maintain fiscal sustainability by halving the fiscal deficit between 2010 and 2015, and achieving a fiscal surplus by 2020;
- to raise potential growth.

(Source: 'Macroeconomic Development and Policies of Japan', Hideyuki Ibaragi, Asian Development Bank Institute, 25 April 2013, http://www.adbi.org/files/2013.04.25.cpp.sess1.2.ibaragi.macroeconomic.dev.policies.japan. pdf)

Extract 2 VAT rate rise in Japan

In April 2014, the rate of consumption tax (VAT) in Japan will rise from 5% to 8%. In 2015 it will rise again to 10% – a little higher than the sales tax in New York City, but still far lower than most European countries.

Relative to the size of its economy, Japan has more public debt than any other developed country. Tax revenues cover only half of the government's spending. Changing expectations, along with the rapidly growing medical and pension costs that come with an ageing population make things worse every year. Welfare-related payments are expected to account for 31% of the government's expenditure in 2013, twice the proportion of 1990.

Given the fiscal situation, raising what is one of the rich world's lowest consumption tax rates might seem to be an obvious move, but many people in Japan are worried about the effect of reducing Japanese consumers' purchasing power. They fear that such a tax rise would damage economic growth because consumer spending has been the main cause of recent increases in Japan's real GDP. Consumer spending has contributed more to recent growth than foreign demand or business investment in spite of the export-boosting effects of a weakened yen.

The government has three strategies for reducing the effect of the consumption tax rise on domestic aggregate demand. The first is public infrastructure spending. The 2020 Tokyo Olympics will provide a justification for many projects and infrastructure upgrades. A sizeable public spending package was started in 2013. Another will be required in 2014 just to avoid an economic downturn.

The second strategy is encouraging private investment through cuts in corporation tax. This shifts the tax burden from companies to households. It is also not clear that companies need to expand capacity given Japan's comparatively high level of capital expenditure.

The third strategy is the Bank of Japan's current expansionary monetary policy. The new governor of the Bank, Haruhiko Kuroda, has introduced a programme of quantitative easing that aims to double Japanese money supply in two years through asset purchases. This should keep the currency weak. The governor has further hinted that he might increase the amount of monetary stimulus if economic growth slows too much.

The Japanese Government is raising taxes while simultaneously creating inflation. Reversing a more than 15-year fall in consumer prices is a central goal of their economic policy. But ensuring that workers' wages rise at the same rate as their grocery and energy bills is a challenging enough task without higher taxes.

(Source: adapted from 'Japan VAT hike to test Shinzo Abe's political popularity', The Financial Times, 30 September 2013, http://www.ft.com/cms/s/0/dc021cde-29d6-11e3-9bc6-00144feab7de.html#axzz2mybkm59O and 'Abe's tax rise puts more QE on menu', The Financial Times, 30 September 2013, http://www.ft.com/cms/s/0/7cda74be-25e8-11e3-8ef6-00144feab7de.html?siteedition=uk#axzz2mybkm59O)

(a) Using examples from Extract 2, explain what is meant by **government capital expenditure** and **government transfer payments**.

(4)

(b) Analyse possible reasons for the recent changes in the pattern of public expenditure in Japan.

(8)

(c) Discuss the likely effects of the planned rise in the consumption tax (VAT) rate on the Japanese economy.

(12)

(d) With reference to the information provided and your own knowledge, to what extent is **monetary** policy likely to achieve the Japanese government's macroeconomic objectives?

(16)

(a) Using examples from Extract 2, explain what is meant by **government capital expenditure** and **government transfer payments**.

(4)

(b) Analyse possible reasons for the recent changes in the pattern of public expenditure in Japan.

(8)

(c) Discuss the likely effects of the planned rise in the consumption tax (VAT) rate on the Japanese economy.

(12)

(d) With reference to the information provided and your own knowledge, to what extent is **monetary** policy likely to achieve the Japanese government's macroeconomic objectives?

(16)

(Total for Question 5 = 40 marks)

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