



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

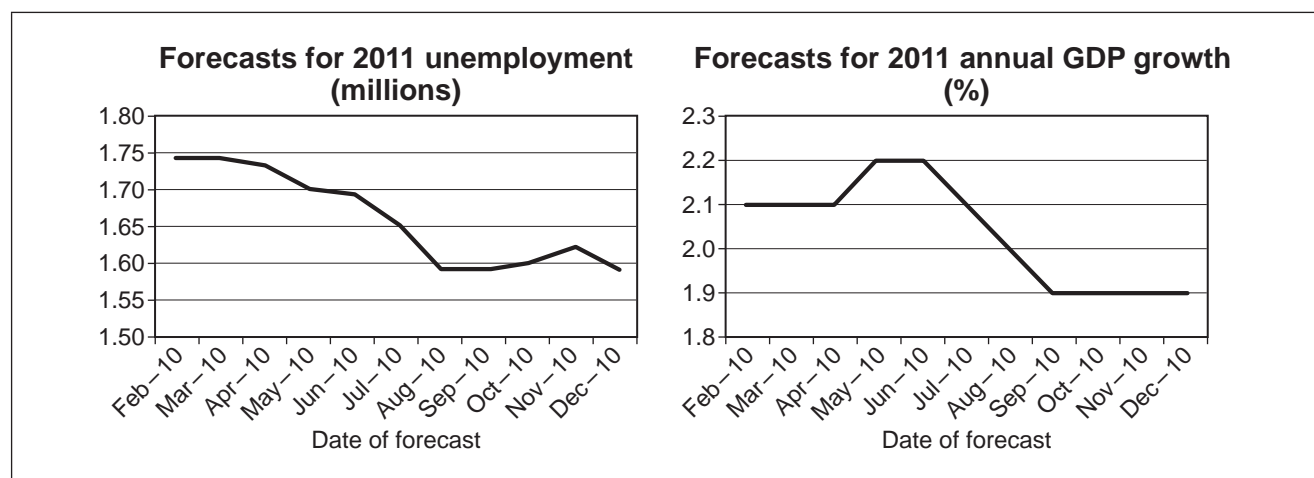
Total for this Context: 40 marks

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

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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 ►

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 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 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 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 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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