



**AS**  
**ECONOMICS**  
**Unit 2**  
**Economics in Action**  
**SPECIMEN PAPER**  
**2 hours**

### **ADDITIONAL MATERIALS**

In addition to this examination paper, you will need:

- a calculator;
- a WJEC 20 page answer booklet (pink), which has been specifically designed for this examination paper. No other style of answer booklet should be used.

### **INSTRUCTIONS TO CANDIDATES**

Answer all the questions  
Use black ink or black ball-point pen.  
Do not use pencil or gel pen.  
Do not use correction fluid.

### **INFORMATION FOR CANDIDATES**

The number of marks is given in brackets at the end of each question or part-question.

You are reminded for the need for good English and orderly, clear presentation in your answers.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

## 1. The Welsh tiger economy

A tiger economy is a term used to describe an economy of a country which undergoes rapid growth, generally above 6% per annum, usually accompanied by an increase in the standard of living. The term was initially used for South Korea, Singapore, Hong Kong and Taiwan (the Four Asian Tigers) after the Second World War. In the 1990s, it was also applied to the Republic of Ireland (the 'Celtic Tiger') and Dubai.

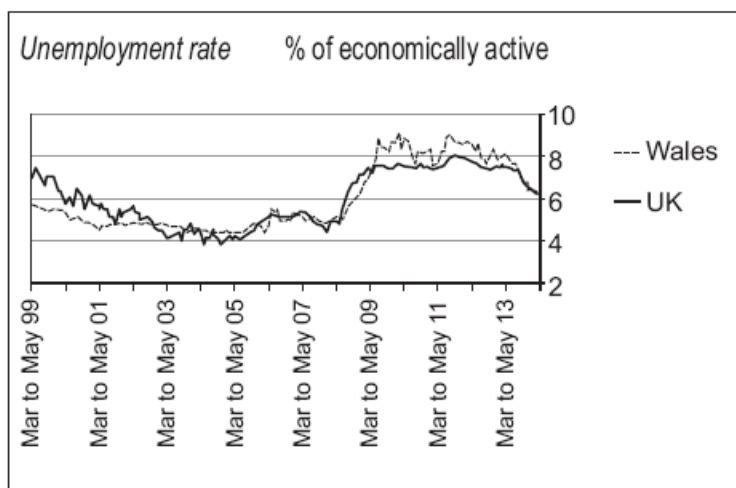


Figure 1

Figure 2

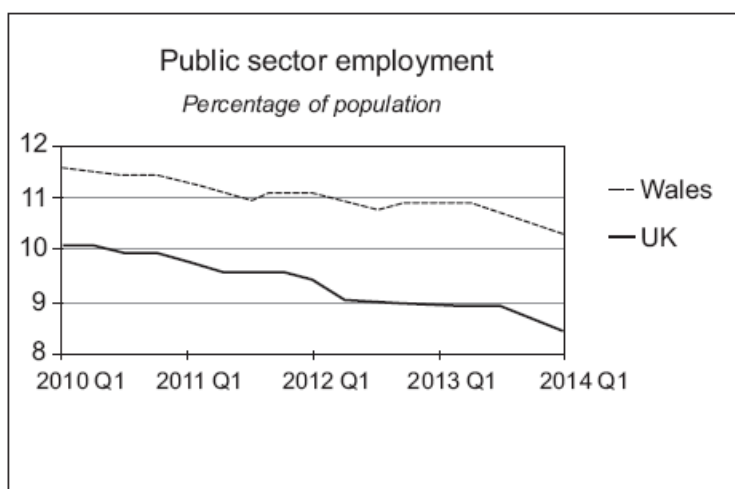
Top Welsh export destinations 2013	
United States	£3.09 billion
Ireland	£1.77 billion
Germany	£1.54 billion
France	£0.68 billion
China	£0.30 billion

Figure 3

Top five Welsh exporting industries 2013	
Power generating machinery	£4.2 billion
Petroleum, petroleum products and related materials	£3.8 billion
Iron and steel	£1.3 billion
Electric machinery	£0.7 billion
Organic chemicals	£0.37
The total value of international exports from Wales in 2013 was estimated at £14.8 billion.	

In April 2014, an article in *The Economist* asked the question: What would Wales need to do to become a tiger economy? At the time of the article's publication, the economy was showing some very encouraging signs; The Office for National Statistics, for example, showed that Welsh exports were up by 11% at the end of 2013 (whereas those of the rest of Britain rose by just 0.4%). In the labour market, there was a similar trend; the jobless total in Wales had fallen by 12,000 over the first three months of 2014 and, as a result, the unemployment rate in Wales had dropped to 6.7% which was lower than the rest of the UK. However, a figure of 6.7% still suggests an economy that has not yet escaped the problems associated with unemployment; also one in four jobs in Wales is in the public sector and this illustrates a country with structural labour market problems. Average earnings in Wales are 12%

below that of the UK as a whole.



Barry Johnston, lecturer in energy and engineering at Glyndwr University, said Wales had strengths in energy and water. He said: “Wales has a long history of being an exporter of natural resources to England. While most coal is now being left in the ground, another fossil fuel, shale gas and coal bed gas may be exploited soon. Wales also has one of Europe’s highest resources of wind and tidal energy in Europe and it exports water, in abundance, to England”. The conclusion of this article is that despite such resources, only an independent Welsh Government could develop and deliver policies to facilitate and incentivise such economic development. There is a clear suggestion that UK Government policies in Westminster have been consistently opposed to Wales’ needs and aspirations.

One obvious criticism of the independent Wales argument is that Wales does need the rest of the UK economically. According to Dr Rhys ap Gwilym, lecturer in economics at Bangor Business School, the Welsh public sector budget deficit at the moment is in the order of 20% of GDP (compared to around 5% for the UK as a whole), and it clearly wouldn’t be sustainable if a Welsh Government had to borrow on financial markets to fund this deficit on its own.

Underperformance in Welsh schools, which do poorly on measures of literacy and numeracy is a cause for concern. In last year’s global education rankings of Maths scores in 65 countries, England came 26th and Wales 43rd—a wider gap than in previous years.

One of the main ways in which the Welsh Government has been trying to achieve economic growth has been through the supply-side. The Welsh Government started its Jobs Growth Wales programme in April 2012 to get 16-24 year olds into work by creating job opportunities for a six month period paid at, or above, national minimum wage. Since then it has also offered non-repayable grants to firms that provide training for employees.

More recently, first minister Carwyn Jones has been supporting industries in which Wales can claim to be internationally competitive and champion them abroad. He has led delegations to Turkey, China, India and the USA to promote Welsh goods and services. He has argued since that Welsh ministers should do what they can to entice individual firms to Wales and he points to the example of Amazon’s decision to build a new distribution centre in Wales. The government clinched the deal by offering the retail giant a 30-acre site near Swansea with planning permission and good infrastructure links.

Source: adapted Wrexham Daily Post March 2014

- (a) (i) Explain the term ‘unemployment rate’. [2]
- (ii) Explain two problems that might be caused by unemployment. [4]
- (b) (i) Using the data in figure 2, calculate what percentage of Wales’ total international exports in 2013 were generated by petroleum, petroleum products and related materials. [2]
- (ii) Using an aggregate demand and supply diagram, explain how an increase in exports can lead to a decrease in unemployment. [4]
- (c) Evaluate the current performance of the Welsh economy. [8]
- (d) To what extent are the supply-side policies identified in the data likely to make Wales a tiger economy? [10]
- (e) Discuss the view that encouraging multi-national corporations to set up their business in Wales will benefit the Welsh economy. [10]

## 2. Floods hit West Country

During the winter months of 2014, a combination of heavy rain, bitter storms, and coastal surges caused great damage to the UK mainland. Met Office figures show that December and January combined were the wettest since records began in 1910. Unprecedented levels of flooding were seen up and down the country.

In the village of Moorland on the Somerset Levels, which was arguably the worst affected area, it was not uncommon to see the water submerging the first floor of many houses. Even when the storms had subsided, doubts over the structural safety of the buildings and the risk of water-borne infections kept many people out of their own homes. Questions on the time-scale of returning owners to their property remained unanswered, whilst the one certainty was that the price of the houses had dropped sharply as a result.

The Royal Institute of British Architects estimates that 1.5% of the UK is at risk from direct flooding from the sea and about 7% of the country is likely to flood at least once a century from rivers. It says about 1.7m homes are at risk from river or coastal flooding in England alone.

Yet despite these figures, the government were strongly criticised during this period for being unprepared. Critics pointed out that less than £1bn is spent on flood protection and management each year and the government's own official advisers, the Committee on Climate Change (CCC) had previously warned that cuts to annual flood management spending had left a £500m shortfall and would lead to £3bn of damage in the longer term. "Sometimes it takes a crisis like this to wake people up" noted Lord John Krebs, who led the CCC's work in this area. The CCC advises the UK Government on reducing greenhouse gas emissions.

Many climate scientists warn that extreme events such as floods and severe storms are likely to become more common as rising CO<sub>2</sub> emissions contribute to climate change and that it is reducing CO<sub>2</sub> emissions that need to take priority ahead of economic considerations.

Further up the coast between Devon and Cornwall, a key rail link between the South-West and the rest of the country (the Dawlish section of the Exeter to Plymouth line) was swept away during the storms. In 2013 the line was cut off for ten days at Exeter, and this was thought to have cost the Devon & Cornwall economies £175m.

Cornwall is one of the poorest areas of the UK with an economy worth about £7.54bn which makes up only 0.6% of the UK's overall GDP. It's heavily dependent on the agriculture and tourism industries which were both hit hard by the recession. Between 2008 and 2011 the number of registered businesses fell by 4.1%.

A quarter of Cornwall's households are "at risk of poverty" according to a study, which places it among the 5% worst areas in the UK for this measure of deprivation. The local council's most recent economic assessment stated that average workplace earnings were £17,390, about 79% of the UK average.

It isn't just the immediate cost, as David Parlby, chief executive of Plymouth chamber of commerce and industry commented "If businesses around the UK are thinking the South-West gets cut off virtually completely for significant periods, they aren't going to want to do business here".

- (a) Using supply and demand diagrams, explain:
- (i) why house prices are likely to fall sharply in flood affected areas? [4]
  - (ii) what might happen to the price and quantity of household flood defence devices being sold in the UK? [4]
- (b) Assuming that £1bn is spent on flood defences, what is the average spend per household at risk of coastal or river flooding in England? [2]
- (c) Given the increasing frequency of flooding in the UK, discuss with reference to the data, whether the government should increase its expenditure on flood defence systems. [10]
- (d) Assess whether transport links are the most important economic factor in ensuring the economic prosperity of regional areas like Cornwall. [10]
- (e) Evaluate ways in which the UK Government may reduce CO<sub>2</sub> emissions in the future. [10]