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

Sample assessment material for first teaching
September 2018
Time: 2 hours

Paper Reference
WEC14/01

You must have:
Source booklet (enclosed), calculator.

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 **ALL** questions in Section A and Section B.
- Answer **two** questions in Section C.
- 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.*
- **Candidates may use any calculator permitted by Pearson regulations.**

Advice

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

Turn over ▶

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SECTION A

Answer ALL questions in this section. Write your answers in the spaces provided.

Questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.
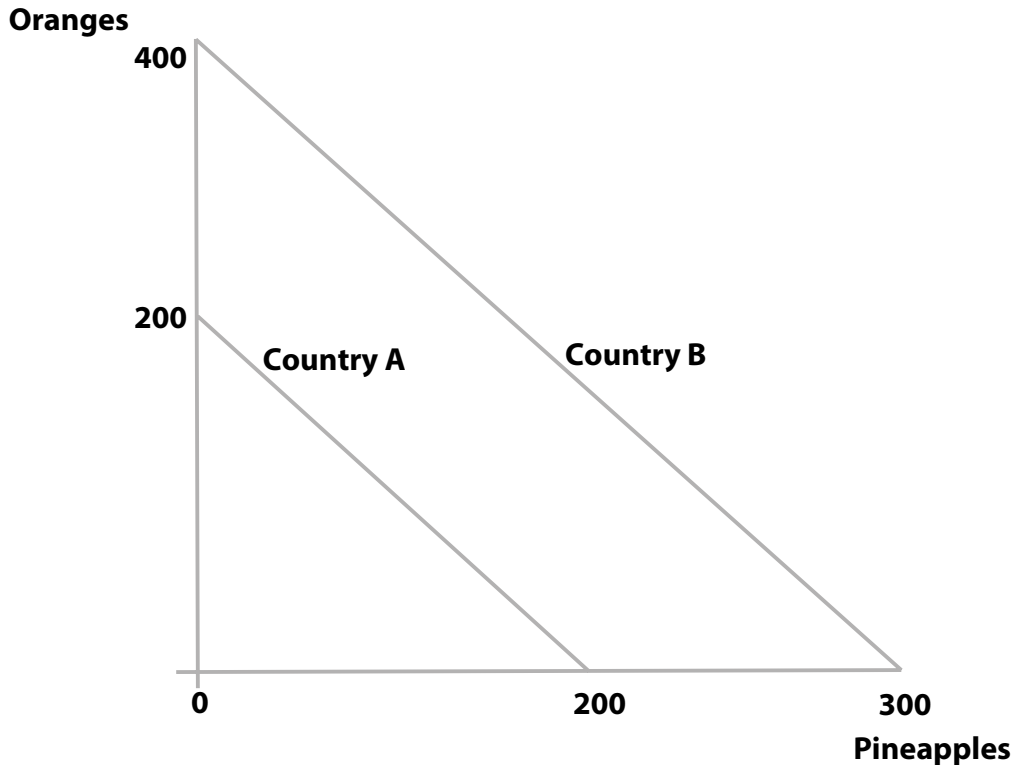
1 The diagram illustrates the production possibility frontiers of Country A and Country B for two products: oranges and pineapples. Given these frontiers, which **one** of the following statements is true?

☒ **A** Country A will export oranges to Country B.

☒ **B** Country B will not trade oranges and pineapples with Country A.

☒ **C** Country B has a comparative advantage in the production of oranges.

☒ **D** Country A has an absolute advantage in the production of pineapples.

(Total for Question 1 = 1 mark)

2 **Share of net wealth held by each income quintile in Canada, 1999 and 2012.**
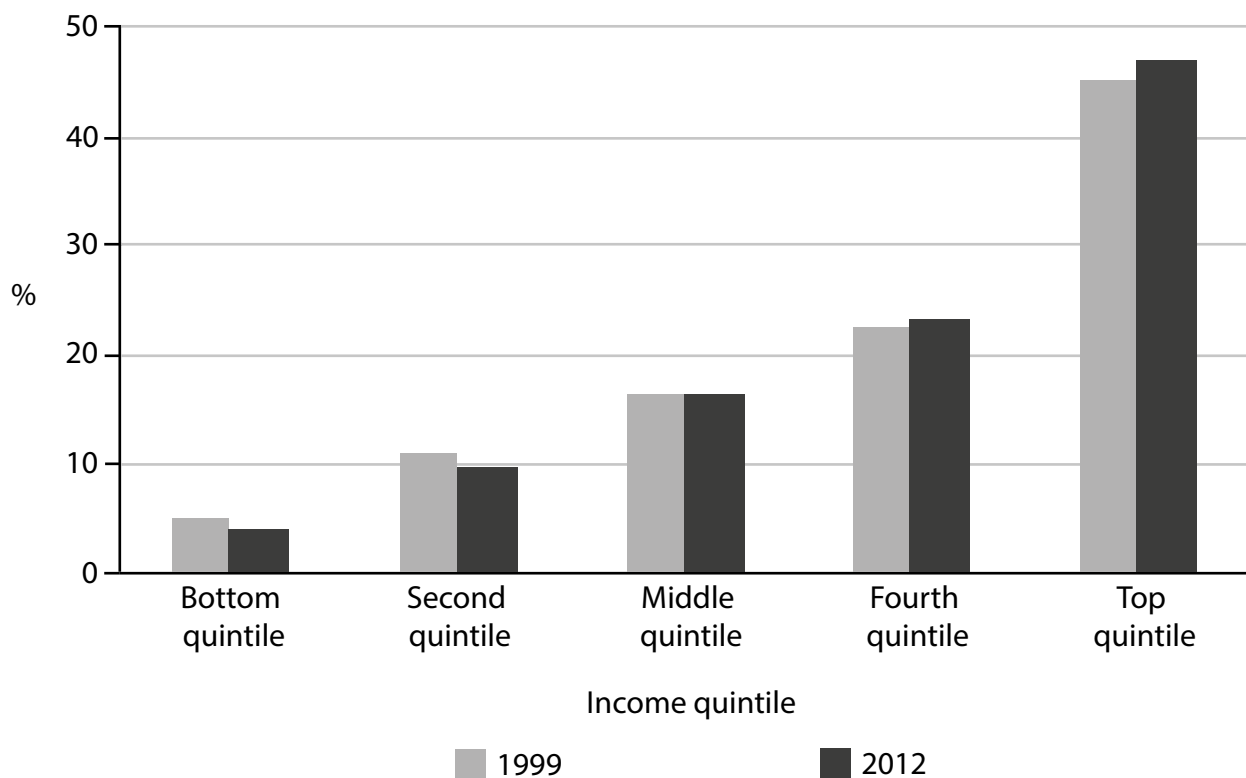
(Source: Statistics Canada, Survey of Financial Security 1999 and 2012)

Which **one** of the following can be deduced from this chart?

☒ **A** Wealth was more evenly distributed in 2012 than in 1999.

☒ **B** Income was less evenly distributed in 2012 than in 1999.

☒ **C** The value of assets held by Canadians increased between 1999 and 2012.

☒ **D** Wealth was less evenly distributed in 2012 than in 1999.

(Total for Question 2 = 1 mark)

3 Tanzania's export price index increased from 100 in 2013 to 128.9 in the second quarter of 2016. Over the same period, the country's import price index rose from 100 to 117.1.

What was Tanzania's terms of trade index in the second quarter of 2016?

☒ **A** 11.8

☒ **B** 90.8

☒ **C** 110.1

☒ **D** 111.8

(Total for Question 3 = 1 mark)

4 In 2016-17, Australia had a progressive income tax structure with four marginal tax rates: 19%, 32.5%, 37% and 45%. Assuming pre-tax incomes increase significantly during this financial year, after-tax incomes will:

☒ **A** increase proportionately less than pre-tax incomes

☒ **B** increase proportionately more than pre-tax incomes

☒ **C** increase by the same proportion as pre-tax incomes

☒ **D** decrease proportionately less than pre-tax incomes

(Total for Question 4 = 1 mark)

5 The European Central Bank (ECB) requires commercial banks to hold reserve asset deposits with their national central bank.

If the ECB requires commercial banks to increase these deposits, then which **one** of the following is likely to occur?

☒ **A** Bank lending to businesses and consumers will rise.

☒ **B** Bank profits will increase.

☒ **C** Bank lending to businesses and consumers will fall.

☒ **D** Banks will have to borrow more from central banks.

(Total for Question 5 = 1 mark)

6 The graph shows the demand and supply conditions for soya beans in India in 2015 and 2016. The Government guarantees a minimum support price of P_1 and operates a buffer stock scheme.
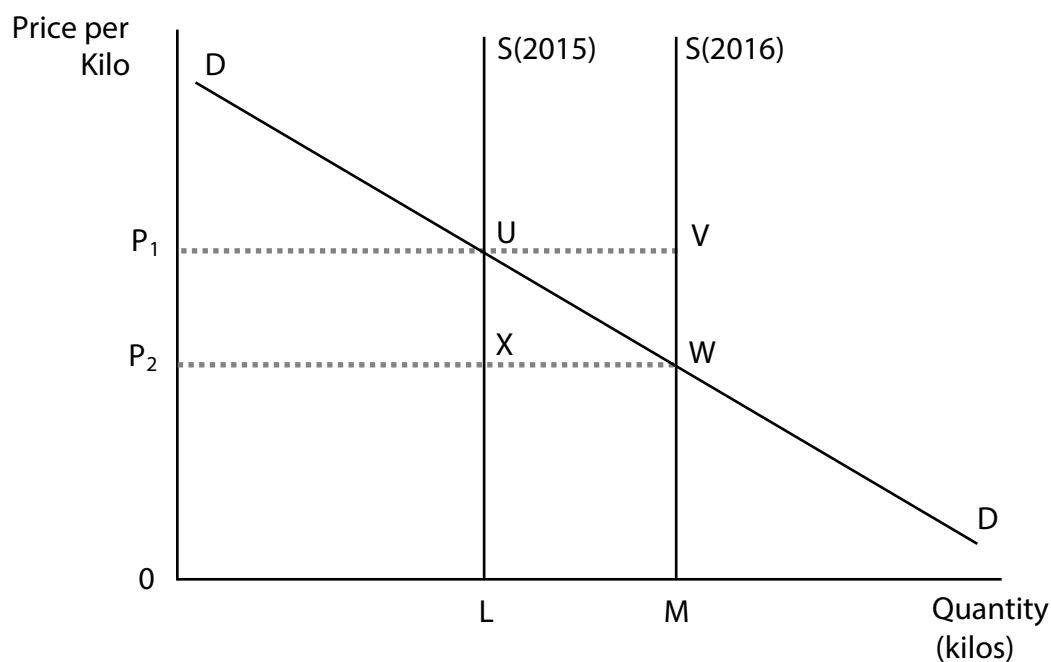
When output rose to S(2016) then government expenditure on surplus production was:

☒ **A** LUVM

☒ **B** P_2P_1VW

☒ **C** XUVW

☒ **D** UVW

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source booklet before answering Question 7. Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 2 and Extract A, calculate the change in real earnings in 2015. You are advised to show your working.

(2)

(b) Explain what is meant by the phrase 'worsening terms of trade' (Extract A, line 15).

(4)

(c) With reference to the information provided, examine the likely impact of a fall in foreign direct investment on Russia's balance of payments accounts.

(8)

(d) With reference to Extract A, analyse the likely effect of the recession on income inequality in Russia. Illustrate your answer with a Lorenz curve diagram.

(6)

(e) With reference to the information provided, discuss the problems of the dependence on oil and natural gas for the Russian economy.

(14)

7 (a) With reference to Figure 2 and Extract A, calculate the change in real earnings in 2015. You are advised to show your working.

(2)

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(b) Explain what is meant by the phrase 'worsening terms of trade' (Extract A, line 15).

(4)

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(c) With reference to the information provided, examine the likely impact of a fall in foreign direct investment on Russia's balance of payments accounts.

(8)

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(6)

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(e) With reference to the information provided, discuss the problems of the dependence on oil and natural gas for the Russian economy.

(14)

(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS

SECTION C

Answer TWO questions from this section.

8 In 2016, the volume of world trade grew more slowly than world real GDP for the first time in 15 years.

Evaluate factors that might have caused this slow growth in world trade.

(Total for Question 8 = 20 marks)

9 In the three months after the UK's vote to leave the European Union in June 2016, the value of the pound sterling depreciated by over 15% against the US dollar and the euro.

To what extent is the exchange rate of a country's currency the most important factor influencing its international competitiveness?

(Total for Question 9 = 20 marks)

10 Central banks in the eurozone, Japan, Switzerland and Sweden set negative base interest rates in 2016.

Evaluate the use of monetary policy to stimulate an economy in a period of weak global economic growth.

(Total for Question 10 = 20 marks)

Write the answer to your FIRST chosen question here

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 8** ☒   **Question 9** ☒   **Question 10** ☒

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Write the answer to your SECOND chosen question here

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 8** ☒ **Question 9** ☒ **Question 10** ☒

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

Pearson Edexcel
International Advanced Level

Economics
International Advanced Level
Unit 4: Developments in the global economy

| Sample assessment material for first teaching September 2018 **Source booklet** | Paper Reference **WEC14/01** |

Do not return this Source booklet with the question paper.

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Sources for use with Section B.

The Russian economy

Figure 1 – Real GDP growth rate, 2006–2016
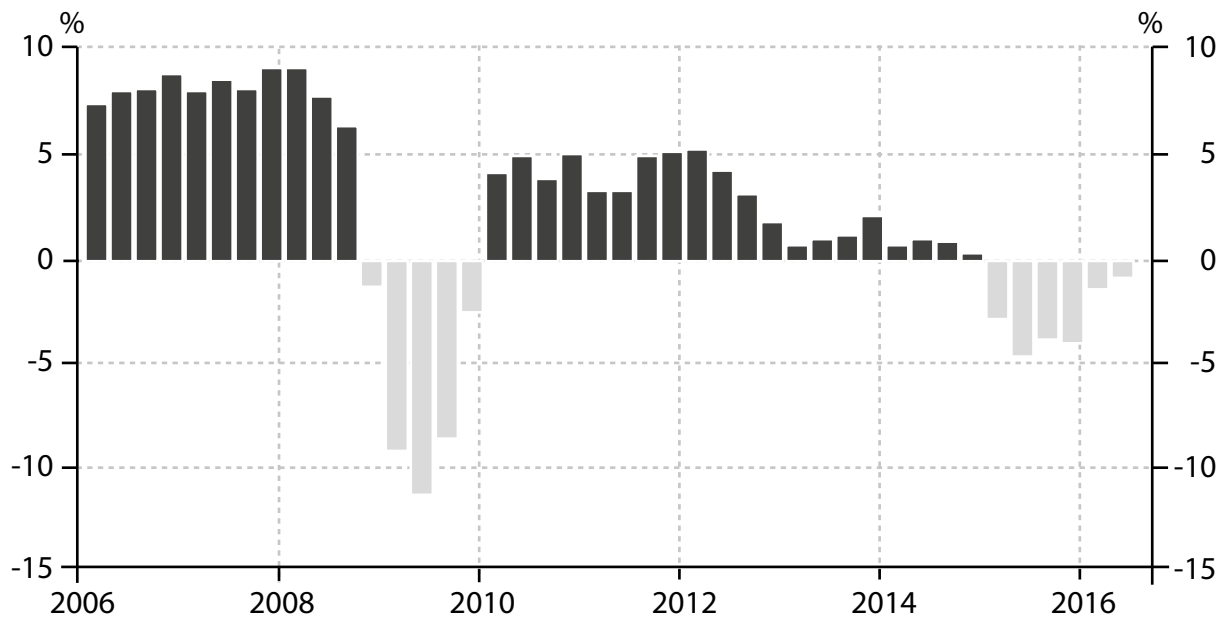
Figure 2 – Annual inflation rate as measured by the Consumer Price Index, 2007–2016
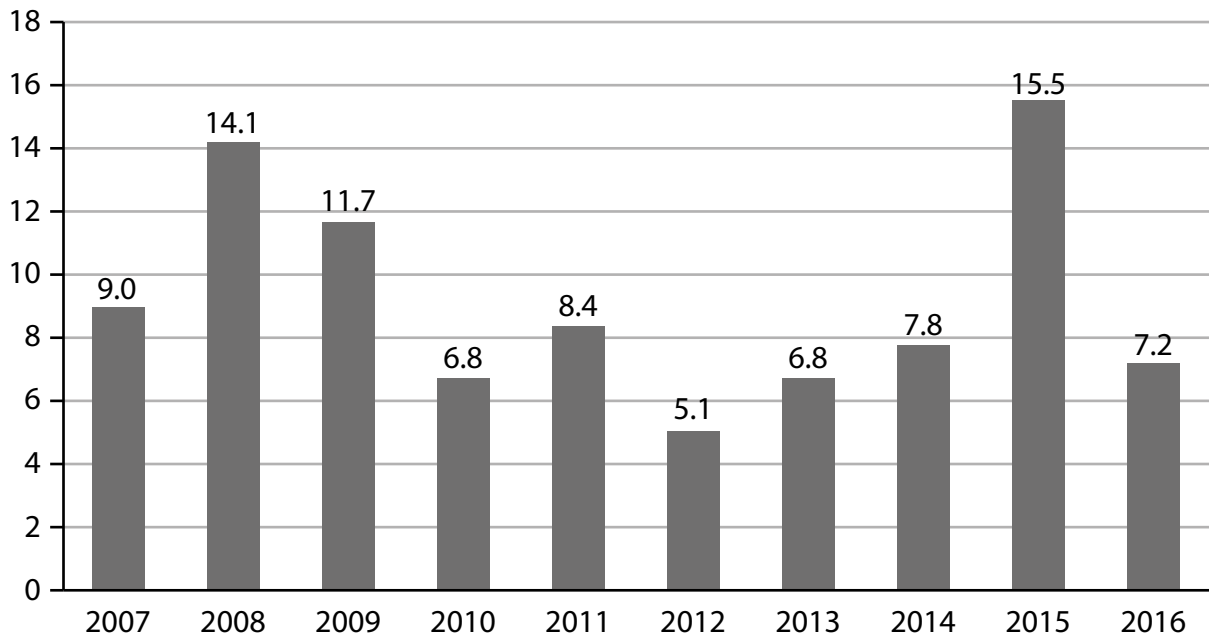
Extract A – Recession and depreciation of the rouble

In 2015 and the first half of 2016, the Russian economy has been in a deep and painful recession although the pace of economic decline is slowing. Real GDP fell by 1.2% in the first quarter of 2016, following a 3.7% fall in 2015. Russia has suffered from a combination of low oil prices and economic sanctions. The low oil prices have resulted in reduced   5
export earnings. Further, the sanctions imposed on Russia over its role in the crisis in Ukraine have severely reduced foreign direct investment (FDI) into the country. Sanctions have also made it harder for Russian firms to obtain finance from Europe and America.

The Russian currency, the rouble, depreciated sharply against the dollar in 2015 and by a further 5.8% in the first eight months of 2016. This caused an increase in the rate of   10
inflation in 2015, while nominal earnings only rose by 6.8%. A Russian ban on most food imports from Europe and America pushed prices even higher. As a result of this, millions of Russians have fallen into poverty since 2014.

The rouble depreciation benefited the tradable sectors of the economy, such as agriculture, chemicals, leather, and rubber production. Worsening terms of trade in the   15
first half of 2016 resulted in a reduction in the current account surplus to 3.0% of GDP (from 7.1% of GDP in the same period in 2015).

Extract B – Dependence on oil and natural gas

Russia is the world's largest producer of crude oil and the second-largest producer of natural gas. They contribute more than 40% of Russia's tax revenues.

Russia's economic growth is very dependent on energy exports, making up 70% of its export earnings. Russia and Europe are interdependent in terms of energy. The European   5
Union obtains around 30% of its oil and gas from Russia. Russia is dependent on Europe as the biggest market for its oil and natural gas.

The Russian Government offered special tax incentives to energy companies prepared to invest in regions such as the Arctic Ocean that are difficult to exploit. Despite sanctions announced in March 2014, the transnational energy company Total agreed to develop   10
energy resources in partnership with Lukoil, Russia's largest oil company. However, Total stopped its involvement in September 2014, when additional sanctions were announced. Indeed, virtually all involvement in Russian energy projects by European and American companies has ceased following the sanctions.