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

Monday 27 January 2014 – 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 from 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 ▶

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5/3/3/6/1/1

P 4 4 5 3 5 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) To what extent has the growth of trading blocs contributed to globalisation?

(15)

(b) Evaluate the view that trading blocs have been a major constraint on economic development in developing economies.

(25)

2 (a) Examine the causes of income inequality within a country of your choice.

(15)

(b) Evaluate policies which might be used to reduce income inequality.

(25)

3 (a) Assess the view that a structural fiscal deficit is a more serious issue for a country than a cyclical fiscal deficit.

(15)

(b) Evaluate the economic effects of government policies aimed at reducing a fiscal deficit.

(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.

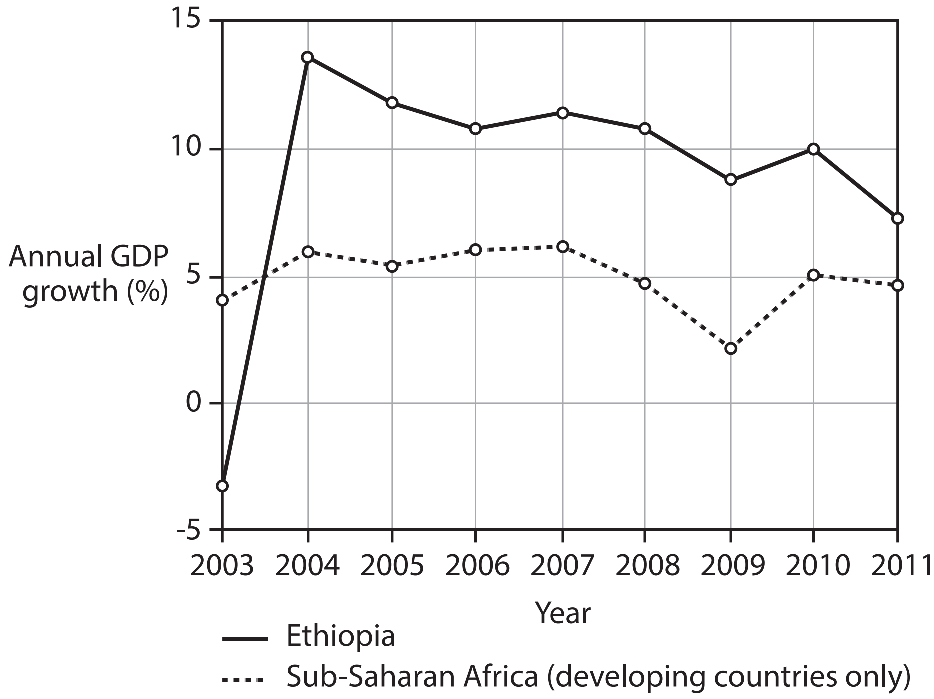
If you answer Question 4 put a cross in this box ☒ .

Question 5 starts on page 26.

You should spend 60 minutes on this section.

4 Ethiopia's economy

Figure 1 Annual GDP growth in Ethiopia and Sub-Saharan Africa (%)



(Source: http://www.worldbank.org/en/country/ethiopia/overview)

Figure 2 Ethiopia's Human Development Index (HDI), 2000–2012

	Life expectancy at birth (years)	Expected years of schooling	GNI per capita (2005 PPP$)	HDI value
2000	51.7	4.4	519	0.275
2005	55.2	6.7	630	0.316
2010	58.7	8.7	928	0.392
2012	59.7	8.7	1 017	0.396

(Source: http://hdrstats.undp.org/images/explanations/ETH.pdf)

Extract 1 Economic overview of Ethiopia

Ethiopia is the second-most populous country in Sub-Saharan Africa with a population of about 85 million (United Nations, 2011). One of the world's oldest civilisations, Ethiopia is also one of the world's poorest countries. The country's per capita income is substantially lower than the regional average. The government aims to reach middle income status over the next decade.

The economy has experienced strong and broad-based growth, averaging 9.9% per year over the period 2005 – 2012 compared to the regional average of 5.4%. Expansion of the service and the agricultural sectors accounts for most of this growth, while the manufacturing sector performance has been weaker. Private consumption and public investment explain demand side growth with the latter having an increasingly important role in recent years.

Ethiopia's economy continues with its state-led Growth and Transformation Plan (GTP). The five-year economic plan has achieved high single-digit growth rates through government-led infrastructure expansion and commercial agriculture development. In 2013 Ethiopia plans to continue construction of its Grand Renaissance Dam on the Nile. This is the controversial multi-billion dollar project to develop electricity for domestic consumption and export industries.

A positive impact of economic growth has been poverty reduction in both urban and rural areas. In 2010, 29.6% of Ethiopians lived in extreme poverty, a fall of 9.1 percentage points compared with 2005. (Extreme poverty is measured by the national poverty line of US$0.60 per day.) Using the GTP, the target is to reduce this further to 22.2% by 2015. Ethiopia is also on track to achieve the Millennium Development Goals (MDGs) related to gender equality in education, child mortality, HIV/AIDS, and malaria. Good progress has been achieved in universal primary education, although the MDG target may not be met.

Ethiopia's economy is based on agriculture, which accounts for 46% of GDP, 85% of total employment and 70% of export earnings. Coffee has been a major export crop. In 2012 the sector grew by 5% mainly because of a record 23.5 million tonnes of grain production. The increase in agricultural production came as a result of favourable weather conditions for cereal growing, better access to government services for smallholders and improved yields. There has also been an expansion in the use of land for crop cultivation. Yield per hectare increased from 1.7 million tonnes in 2011 to 1.9 million tonnes in 2012. Ethiopia's agriculture remains vulnerable to environmental and climatic shocks, especially unreliable rainfall.

Despite improvements in agricultural yields, productivity is still very low. The rising price of agricultural inputs such as chemical fertiliser does not help to increase productivity. Soil erosion in the densely populated highlands, because of over-cultivation and over-grazing of land, continues to hold back sustained agricultural output growth. Ethiopia's population is growing more rapidly than the total land under cultivation. Hence, in 2012 close to 4 million people were dependent on emergency food aid and another 7.7 million people had a very insecure supply of food. In spite of these challenges, agriculture's potential remains enormous. Ethiopia has only cultivated 15% of its arable land potential so far and productivity is among the lowest in sub-Saharan Africa.

(Source: adapted from: http://www.africaneconomicoutlook.org/en/countries/east-africa/ethiopia/
http://www.worldbank.org/en/country/ethiopia/overview
http://www.indexmundi.com/ethiopia/economy_profile.html)

(a) With reference to Figure 1, comment on Ethiopia's economic growth since 2004.

(4)

(b) With reference to the information provided, analyse **two** reasons why Ethiopia's HDI value is relatively low.

(8)

(c) Assess the role of agriculture in promoting economic development in Ethiopia.

(12)

(d) Evaluate government-led strategies, apart from the development of primary product industries, to promote economic development in countries such as Ethiopia.

(16)

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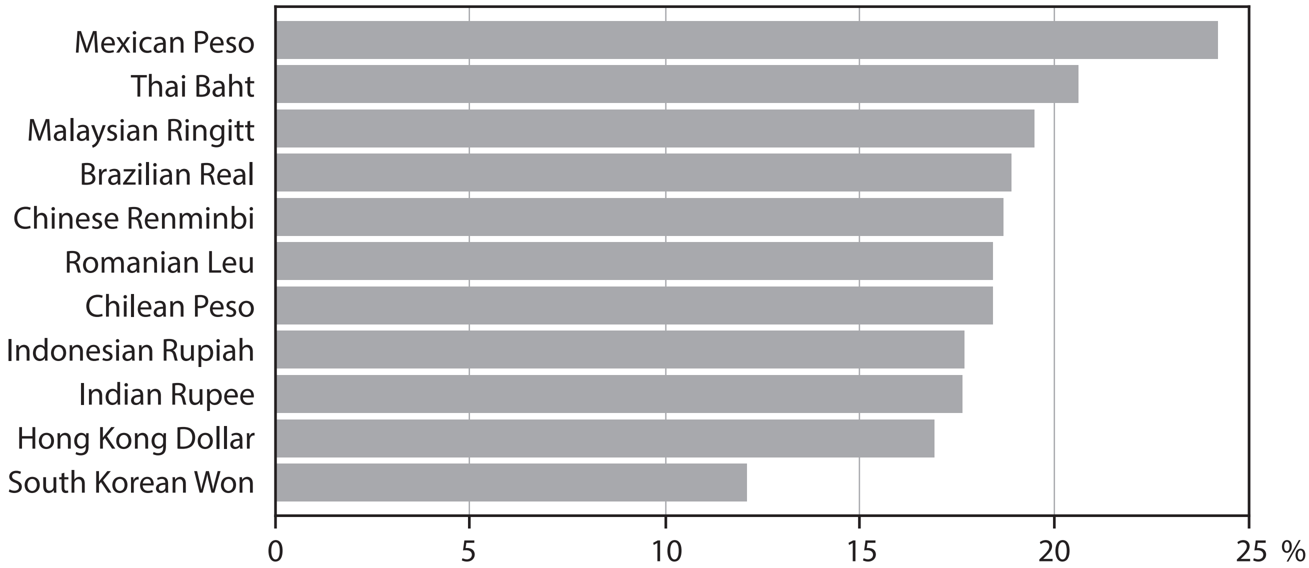
(16)

(Total for Question 4 = 40 marks)

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

5 Currency Wars

Figure 1 Selected currencies: appreciation against the Japanese yen (May 2012–May 2013)



(Source: http://www.bloomberg.com)

Extract 1 Start a currency war and we will all be hurt

Following the 2008 financial crisis, the feared mass outbreak of protectionism never happened. It was fortunate that it did not because world trade slowed even without trade barriers being erected. In fact 2012 was one of those rare years when world trade grew more slowly than world GDP. Normally world trade grows roughly twice as fast as world GDP.

However, the existence of currency wars has begun to attract attention. Much of the focus so far has been on Japan whose Prime Minister unveiled a 10.3 trillion yen stimulus to boost the Japanese economy. He also signalled what many saw as an explicit attempt to drive the yen lower by urging the Bank of Japan to adopt a looser monetary policy and a higher inflation target. South Korea, Japan's big competitor in electronics, cars and other products, has seen its currency, the won, rise significantly against the yen since summer 2012. While describing it as "smoothing operations", the Governor of the Bank of Korea confirmed that it has been intervening to restrain the won's rise. A battle between two of Asia's most formidable exporters does not yet amount to a full-blown currency war, but there is a danger that it is heading in that direction.

There are only three big currencies in the world – the dollar, the euro and the yen – with sterling coming in fourth. Until recently, European officials were relaxed about the euro's appreciation since summer 2012. However, they have become concerned recently partly because the euro's 14% appreciation against the yen has damaged German exports to Japan. With domestic demand depressed across the eurozone, exports have been seen as the escape route from its problems. But a sharp slowdown in German economic growth to 0.7% in 2012 suggests growth from higher exports is unlikely.

Every country, it seems, wants a weak currency. The USA, despite its currency quarrels with China, has quietly been pursuing a weak dollar policy since the financial crisis began with repeated bouts of quantitative easing (QE). The dollar's average value is 12% lower than it was before the crisis and 31% down on its level in 2002.

The UK is also affected by these currency fluctuations. In January 2013, the pound sterling dropped below €1.20 for the first time in nearly 10 months. This was mainly the result of the euro's strength but also because of worries over the loss of the UK's AAA sovereign debt rating; weak economic data; and the UK's future in the EU. However, a depreciation in sterling does not necessarily offer a solution to the UK's problems. For example, the response of the UK's trade to sterling's 25% fall over the course of 2007-8 has been disappointing as the current account deficit was more than £50bn in 2012. Further, sterling's fall was a big factor in the weakness of consumer spending. In contrast, some countries - such as Japan where the continuing danger is deflation, not inflation – are better placed to benefit from a lower exchange rate.

(Source: The Sunday Times 20 January 2013: 'Start a currency war and we will all be hurt' David Smith)

Extract 2 Economic self-interest won't aid recovery

In an economically integrated world, supply chains for goods and vital commodities are international rather than national. There is increased recognition that specialisation leaves national and regional economies vulnerable to changes in cost structures, currency values, transportation costs and natural disasters. Protectionism is a traditional way to deal with these pressures, reasserting sovereign control. As one nation adopts such policies, it compels other countries to pursue similar strategies to protect their own interests.

(a) With reference to Figure 1, explain the meaning of a currency appreciation.

(4)

(b) With reference to Extract 1 and your own knowledge, analyse **two** ways by which the monetary authorities of a country might influence the value of its currency.

(8)

(c) 'Every country, it seems, wants a weak currency.' (Extract 1, line 23)
Evaluate the consequences to a country's economy of pursuing such an objective.

(12)

(d) Discuss the economic effects of an increase in protectionism on the global economy.

(16)

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(16)

(Total for Question 5 = 40 marks)

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