Write your name here

Surname	Other names

Edexcel GCE

Centre Number | Candidate Number

Economics

Advanced
Unit 4: The Global Economy

Thursday 23 June 2011 – Afternoon
Time: 2 hours

Paper Reference
6EC04/01

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 100.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed – *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- You are advised to divide your time equally between Section A and Section B.
- Check your answers if you have time at the end.

Turn over ▶

1/1/1/1/1/1/

P 3 8 8 2 0 A 0 1 4 0

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SECTION A

Answer ONE question from this section

You should spend 60 minutes on this section.

***1** (a) Many countries have experienced a substantial rise in their fiscal deficits since 2008. Assess the factors which might explain this trend in the public finances of a country of your choice.

(20)

(b) Evaluate the case for cutting public expenditure rather than raising taxes as a means of reducing fiscal deficits.

(30)

***2** (a) Assess the causes of absolute poverty in a developing country of your choice.

(20)

(b) To what extent is reducing the number of people living in absolute poverty sufficient to achieve economic development?

(30)

***3** (a) Assess the economic effects of the growth of trading blocs on the global economy.

(20)

(b) The UK is a member of the European Union but has not adopted the euro as its currency. To what extent do the benefits of membership of a monetary union such as the Eurozone outweigh the costs?

(30)

Do not use pencil. Use black ink or ball-point pen.
Put a cross in the box indicating the question from Section A that you have chosen (☒).
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** ☒

P 3 8 8 2 0 A 0 3 4 0

Turn over ▶

TOTAL FOR SECTION A: 50 MARKS

SECTION B

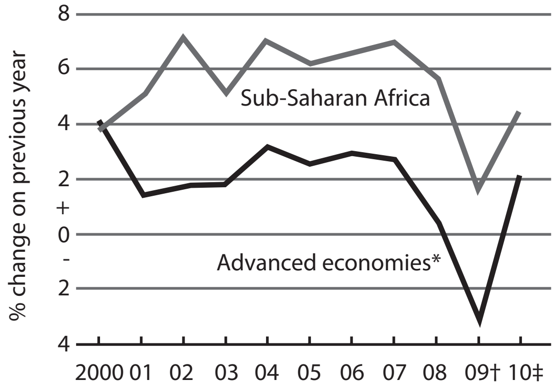
Answer ONE of the questions in this section.

You are advised to spend a maximum of 60 minutes on this section.

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

4 Sub- Saharan Africa and the Global Recession

Figure 1: GDP, % change on previous year



*33 countries †Estimate ‡Forecast Source IMF

Extract 1: The Impact of the World Recession on Sub-Saharan Africa

The global recession was slow to hit Africa. Its banks and stock exchanges were isolated enough from the wider capital markets to suffer few shocks. Foreign investment remained steady. Oil-rich countries such as Angola continued to boom. However, reduced demand for African exports in 2009, together with the shrinking of private investment flows, has hit the continent hard after a long period of unusually strong growth. It is estimated that countries south of the Sahara (Sub-Saharan Africa) on average grew by less than 2% in 2009. In many countries income has started to fall and unemployment to rise.

Therefore, the confidence of Dominique Strauss-Kahn, the IMF's head, who has been touring Africa, struck some as strange. He went out of his way to praise Africa's central banks. He even said Africa's economies were more dynamic than most of Asia's. The main point, he said, was that Africa was recovering from the global crisis faster than expected.

According to the IMF, Sub-Saharan Africa's economy will grow overall by 4.5% in 2010. But this may be distorted by a large boost from oil and gold, as well as from the guaranteed aid which makes up half the budget in some countries. Kenya will struggle to grow by 3% in 2010 and even that depends on an upswing in tourism. Nearly every African country will grow more slowly than the 6% that many development economists consider is the minimum necessary to allow countries with rapidly increasing populations to maintain living standards.

Source (for both figure 1 and extract 1): *The Economist*, 11 March 2010, http://www.economist.com/world/middle-east/displaystory.cfm?story_id=15679939

Extract 2: Emerging Economies and Sub-Saharan Africa

As poor countries emerge from recession and the rich world struggles to recover, the BRIC countries – Brazil, Russia, India and China – see an opportunity to increase their influence. A new study by the Overseas Development Institute (ODI), says the emerging countries, such as the BRIC countries, increasingly affect the growth of poorer countries. China has a huge list of pledges to Africa: it has promised \$10 billion of cheap loans over 3 years; it has also offered debt forgiveness, new hospitals, professional training for 15,000 Africans and a doubling of aid. When Sudan ran into trouble repaying \$34 billion foreign debt, it turned to China, India and regional development funds in the Gulf. India helped to bail out Tanzania's financial institutions.

Trade and foreign direct investment (FDI) from the West are already falling, but the middle-income countries are filling the gap. While total FDI in Africa fell by about a third between 2008 and 2009, the flow from China rose by 80% (admittedly from a low base). Brazil says it has invested \$10 billion in the continent since 2003. Since 2009, the BRIC countries' investments and loans have increased rapidly (see Figure 2).

Aid agencies consider that China and others are "rogue donors" because they give to and support corrupt regimes. Aid from China is usually 'tied' to hospitals, roads and equipment built or sold by Chinese companies. Further, much 'aid' is loans at near-commercial rates of interest. African governments have had their debts to the West mostly forgiven and are accumulating new loans elsewhere.

Trade with the BRIC countries may be a trap. The BRIC countries import raw materials like copper and cotton from poor countries; rich countries tend to buy manufactured goods such as garments. So more trade with the BRIC countries and less with the developed world offers less chance of growth in the secondary sector – the opposite of how China grew richer. Eswar Prasad of Cornell University says that China and India's enormous appetite for raw materials may help poor countries diversify their export markets but not their industry, leaving them more dependent on volatile commodities than before.

Figure 2: Examples of Foreign Direct Investment (FDI) and loans by BRIC countries in Africa since January 2010

COUNTRY	SECTOR	$m	TYPE
BRAZIL			
Angola	Oil	800	FDI
Mozambique	Mining	1 300	FDI
Nigeria	Oil	2 000	FDI
RUSSIA			
Angola	Construction	500	FDI
Nigeria	Gas	2 500	FDI
INDIA			
Chad	Textiles	25	Loan
Malawi	Development Projects	50	Loan
Zambia	Hydro Power	50	Loan
CHINA			
Liberia	Mining	2 600	FDI
Tanzania	ICT	180	Loan
Zambia	Development	1 000	Loan

Source (for both Extract 2 and Figure 2): *The Economist*, 20 March 2010

(a) With reference to lines 18–19 of Extract 1, explain why many development economists consider that a growth rate of 6% is the minimum desirable in most African economies.

(5)

(b) With reference to Figure 1 and Extract 1, analyse why the growth rate of the Sub-Saharan African economies was higher than that of Advanced Economies between 2000 and 2010.

(8)

(c) With reference to Figure 2 and Extract 2, assess the benefits of foreign direct investment in primary sector industries of countries in Sub-Saharan Africa.

(10)

*(d) With reference to Extract 2, evaluate the benefits to African countries of increased trade with the BRIC economies.

(12)

*(e) With reference to Extract 2, to what extent might aid from the 'BRIC' economies promote development in Sub-Saharan Africa?

(15)

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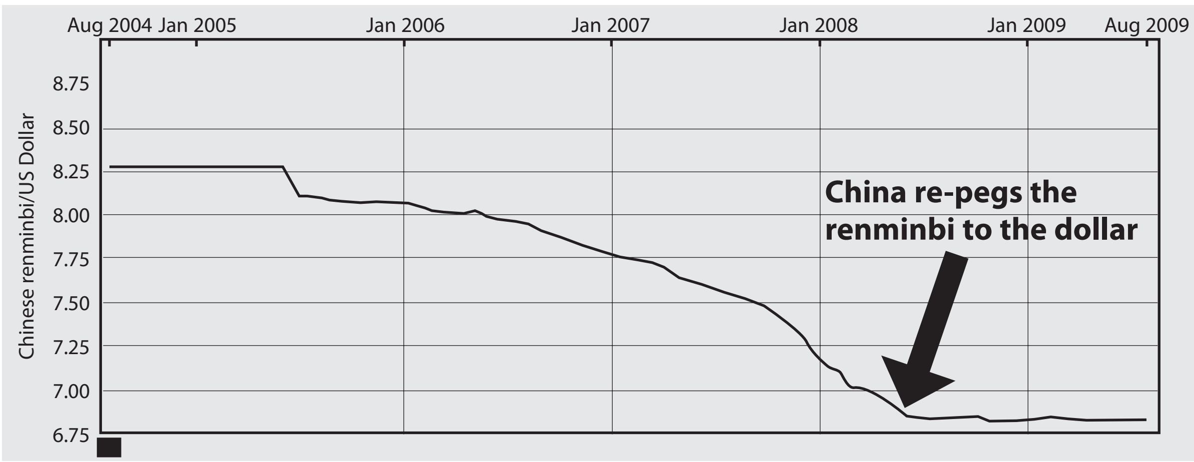
(Total for Question 4 = 50 marks)

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

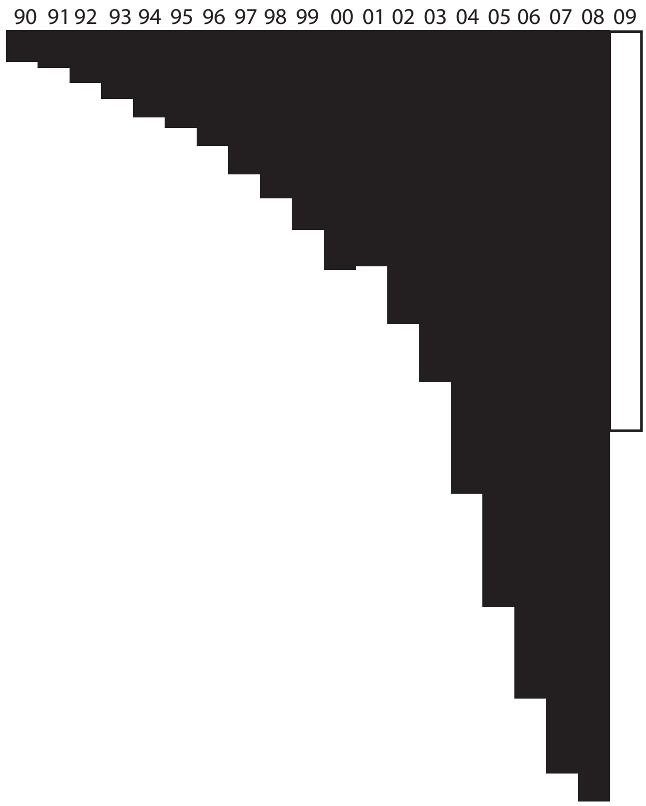
5 Trade Imbalances

Figure 1: Value of Chinese renminbi against the US Dollar



Source: http://www.marketskeptics.com/2010/04/cracks-appearing-in-us-financial-system.html

Figure 2: US trade deficits with China since 1990



1990: $10 billion.
1991: $13 billion.
1992: $18 billion.
1993: $23 billion.
1994: $30 billion.
1995: $34 billion.
1996: $40 billion.
1997: $50 billion.
1998: $57 billion.
1999: $69 billion.
2000: $84 billion.
2001: $83 billion.
2002: $103 billion.
2003: $124 billion.
2004: $162 billion.
2005: $202 billion.
2006: $234 billion.
2007: $259 billion.
2008: $268 billion.
2009 (until August): $144 billion.

TOTAL: $2,009 billion

Source: http://www.census.gov/foreign-trade/balance/c5700.html

Extract 1 US trade disputes

President Obama has promised that two million of the jobs which America needs to create in the next five years are to come from doubling US exports. The US is to have a National Export Initiative which will include an export promotion cabinet and a policy of getting tough with trading partners who "have not played by the same set of rules" as the US. A major problem is the undervaluation of China's currency, the renminbi, against the dollar.

President Obama will also have to settle several trade disputes, especially the one with Mexico. Mexico imported $129 billion in American exports in 2009. In response to trade union pressure, the US Congress cancelled a trial programme that allowed Mexican trucks to travel more freely into the US. In retaliation, Mexico imposed $2.4 billion in tariffs on a variety of American goods, resulting in a loss of $2.6 billion in US exports and 25 000 jobs.

Additionally, in 2009, Brazil persuaded the World Trade Organisation (WTO) that American government subsidies and loan guarantees to cotton growers violated WTO rules. This ruling allows Brazil to impose $560m in retaliatory tariffs on cotton goods, beauty products and cars. More importantly, Brazil is free to impose other penalties, most notably ignoring US patents in the media, pharmaceutical and technology industries. This retaliation by Brazil could result in thousands of American workers losing their jobs.

Source: *The Sunday Times*, 14 March 2010 and the *Financial Times*, 12 March 2010.

Extract 2 The Chinese currency

The undervaluation of China's currency, the renminbi, against the dollar has been a source of tension between the US and China for some time. The Chinese government has kept the renminbi at 6.83 per dollar since mid-2008 to protect its exporters from the global recession and a contraction in world trade. China has accumulated a record $2.4 trillion of reserves and $889 billion of US government debt, partly as a result of its exchange rate policy. Global growth would be about 1.5% higher if China stopped undervaluing its currency and running trade surpluses, according to Paul Krugman, a leading economist. If China did not start to appreciate the renminbi over the next few weeks, there was a good chance that the US would label China a 'currency manipulator'. That could allow the US to impose new tariffs on Chinese products.

Stephen Roach, Chairman of Morgan Stanley Asia said Paul Krugman's call for a stronger renminbi is "very bad" advice because the US trade deficit is due to a low level of savings in the US. Boosting Chinese spending and increasing savings in the US is a better way of reducing trade imbalances, according to Roach.

Source: http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aaDhEg_mZprU

(a) With reference to Extract 1, explain the role of the World Trade Organisation (WTO)

(5)

(b) With reference to Figures 1 and 2 and to Extract 2, analyse the effects of an undervaluation of the Chinese currency, the renminbi, for the US economy.

(8)

(c) To what extent might a higher level of savings in the USA be sufficient to eliminate trade imbalances between China and the USA?

(10)

*(d) To what extent are large trade imbalances a cause for concern?

(12)

*(e) With reference to Extract 1, assess the impact of tariffs, such as those imposed by Mexico and Brazil, on US consumers and producers. Illustrate your answer with an appropriate diagram.

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(Total for Question 5 = 50 marks)

TOTAL FOR SECTION B: 50 MARKS
TOTAL FOR PAPER: 100 MARKS

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