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Edexcel GCE

Economics

Advanced

Unit 4: The Global Economy

Wednesday 20 June 2012 – Morning Time: 2 hours	Paper Reference 6EC04/01
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You do not need any other materials.	Total Marks
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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 ►

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PEARSON

SECTION A**Answer ONE question from this section.****You should spend 60 minutes on this section.**

- *1** (a) Between January 2005 and January 2011, The Economist's commodity price index increased from 100 to 230. Evaluate the likely economic effects of such a rise in commodity prices on the global economy. (20)
- (b) Assess macroeconomic policies which might be used to respond to rising commodity prices during a period of slow economic growth. (30)
- *2** (a) Assess the significance of **three** factors which might limit economic development in developing countries. (20)
- (b) Discuss debt cancellation and trade liberalisation as alternative means of promoting economic development in developing countries. (30)
- *3** (a) Assess the view that the main cause of globalisation is the increased significance of transnational companies. (20)
- (b) To what extent do the costs of globalisation outweigh the benefits? (30)



Do not use pencil. Use black ink or ballpoint 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**

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TOTAL FOR SECTION A = 50 MARKS



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SECTION B

Answer either Question 4 or Question 5.

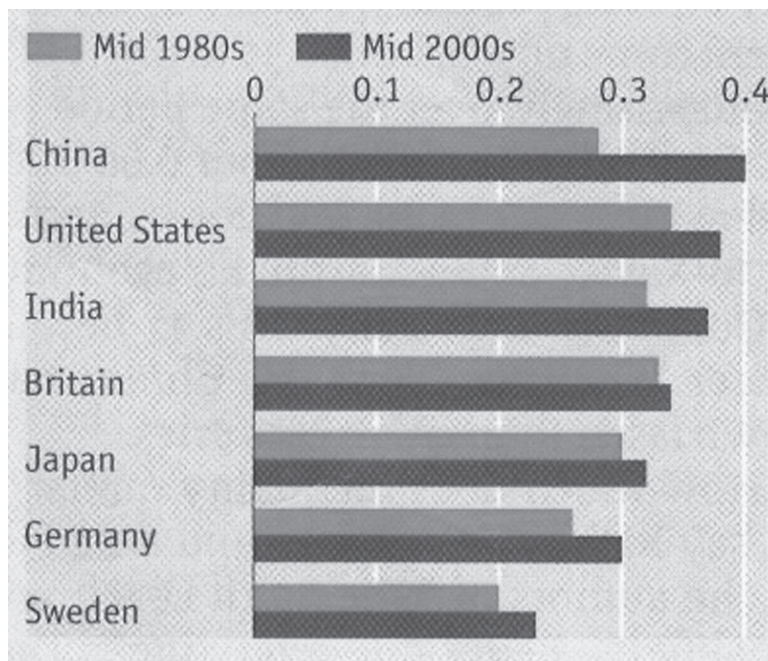
You should spend 60 minutes on this section.

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

Question 5 starts on page 28.

4 Inequality

Figure 1 Inequality within selected countries as measured by the Gini Coefficient



(Source: © *The Economist Newspaper* Special report on global leaders, 22 January 2011 page 8)

Extract 1 Changes in income inequality

Globally, the income gap *between* the rich and poor countries has been narrowing as some poorer countries are achieving faster rates of economic growth. However, the gap between the rich and the poor has increased *within* many emerging economies (notably India and China) as well as *within* many rich countries. This is true not only in the United States, but also in countries with a reputation for being more focused on equality, such as Sweden. 5

In China increased inequality has been associated with the drive towards capitalism, helping to enrich the growing entrepreneurial class. The continued industrialisation of regions bordering the sea has helped to increase incomes of urban workers. Consequently relative poverty is increasing. Poverty is becoming increasingly difficult to address, as the rural poor are now concentrated in remote regions with difficult natural conditions. 10

However, at the same time, China's rapid economic development in the past two decades has generated the most rapid decline in absolute poverty ever witnessed. It has already achieved the goal of halving the number of people in extreme poverty by 2015, set by the UN as one of eight Millennium Development Goals. 15



In the United States, income inequality began to widen in the 1980s largely because the poor fell behind those in the middle income group. More recently, the shift has been overwhelmingly due to a rise in the share of income going to the very top – the highest 1% of earners and above – particularly those working in the financial sector.

20

Analysis by *The Economist* suggests that the gap between poorer and richer regions of a country increased during the recession of 2008–09 in some developed economies. In Britain, the income gap between richer and poorer regions is likely to widen further as government spending cuts fall disproportionately on less prosperous parts of the country. GDP per head in the poorest quarter of Britain's regions is now lower than the richest region of China.

25

Extract 2 Attempts to reduce inequality

The European Union's "structural funds", more than a third of the EU's budget, are designed to shift cash from the richer to the poorer regions of the single market. The United States Government has invested federal dollars into deprived regions such as West Virginia.

Unfortunately, the regional development strategies have a poor record. Despite massive transfers, the gap in participation rates between Italy's richer north and its poorer south is still huge: only 40% of people in Calabria have a job compared with 65–70% in Lombardy and Bolzano. Even policies that, in principle, should be helpful, such as improving infrastructure, provide no simple solutions. West Virginia now has an extensive road network, but is still poor.

5

The best ways to combat inequality are as follows. First, governments should invest in and remove barriers to education, and refocus government spending on those that need it most. Oddly, the urgency of these kinds of reform is greatest in rich countries, where prospects for the less-skilled are poor and falling. Second, governments should eliminate subsidies for uncompetitive industries. In the emerging economies the policies should be aimed at eliminating monopolies and reducing trade barriers. Third, governments should make it easier for people to move from declining regions to prospering regions.

10

15

(Source for Extract 1 and Extract 2: © *The Economist Newspaper*, 22 January 2011 page 11 and 12 March 2011 pages 14–15)



- (a) With reference to Extract 1, explain the difference between absolute and relative poverty. (5)
- (b) With reference to Figure 1, explain how income inequality is measured. Illustrate your answer with a Lorenz curve diagram. (8)
- (c) To what extent is income inequality an essential ingredient of capitalism? (10)
- * (d) With reference to the information provided and your own knowledge, assess the likely reasons for the change in inequality *within* countries. (12)
- * (e) Evaluate policies which a government could employ to reduce inequality within its country. (15)



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(c) To what extent is income inequality an essential ingredient of capitalism?

(10)

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* (d) With reference to the information provided and your own knowledge, assess the likely reasons for the change in inequality *within* countries.

(12)

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* (e) Evaluate policies which a government could employ to reduce inequality within its country.

(15)

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(Total for Question 4 = 50 marks)



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

5 Crisis in the Eurozone

Figure 1: Budget deficits as a percentage of GDP of selected Eurozone countries (2010)

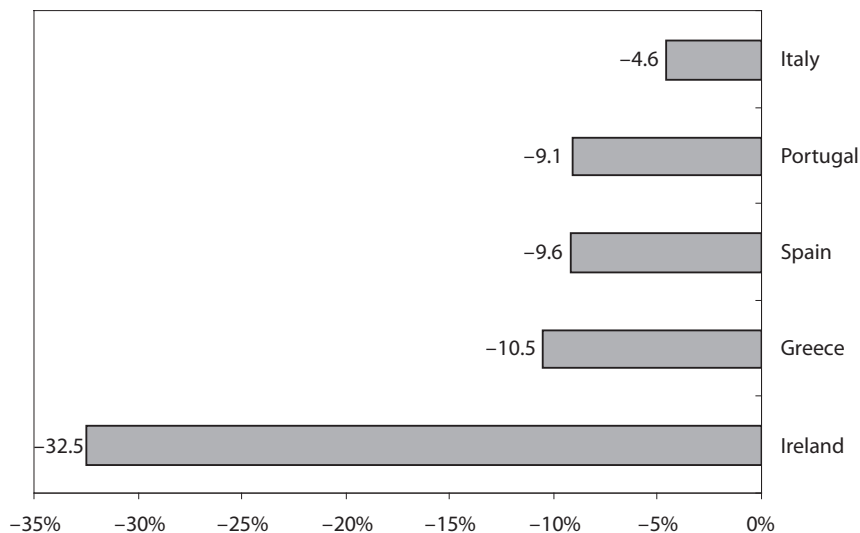
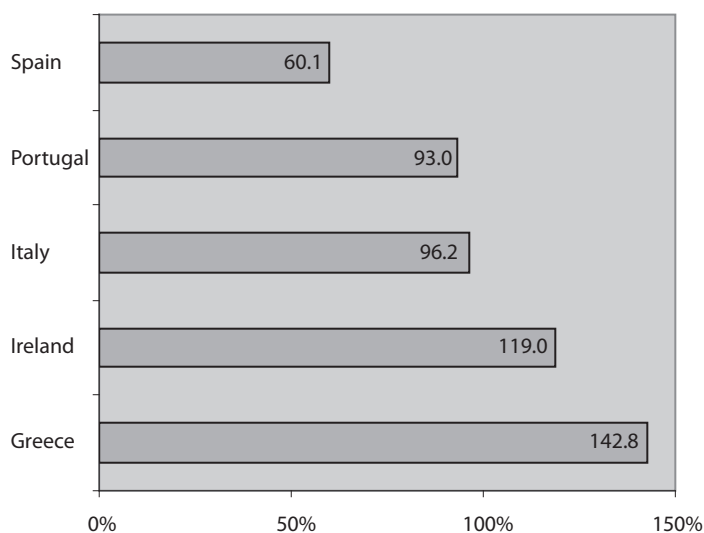


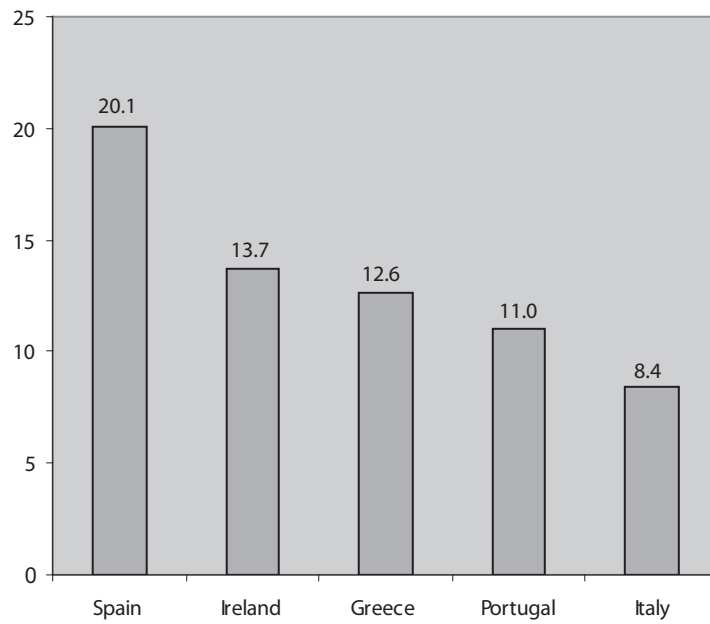
Figure 2: National debts as a percentage of GDP of selected Eurozone countries (2010)



(Source for Figures 1 & 2: Eurostat © European Union http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-26042011-AP/EN/2-26042011-AP-EN.PDF)

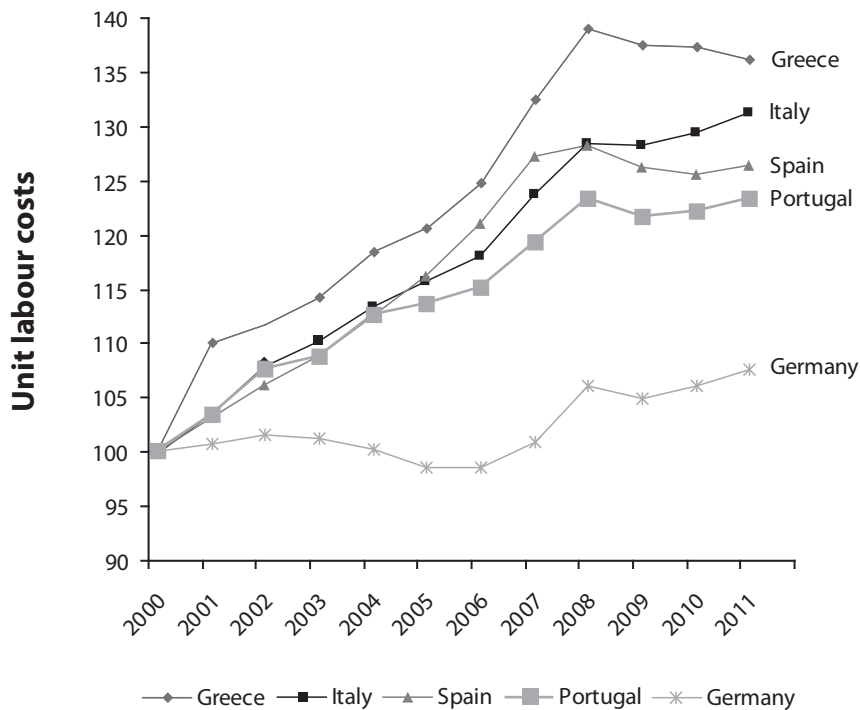


Figure 3: Unemployment in selected Eurozone countries, per cent (2010)



(Source: Eurostat © European Union http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics#A_detailed_look_at_2010)

Figure 4: Unit Labour Costs in selected Eurozone countries (2000 = 100)



(Source: Eurostat © European Union http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nama_aux_ulc&lang=en)



Extract 1: Differences in performance in Eurozone economies

The fear that Greece's debt crisis might be the first of similar problems elsewhere in the Eurozone has been borne out. In November 2010, Ireland joined Greece in being forced to apply for funds from the European Union (EU) rescue scheme and the International Monetary Fund (IMF). A few months later in April 2011, Portugal became the next country to seek substantial financial support.

5

Although economic growth picked up in most EU countries in 2010, there were marked differences in performance. Germany's economy is booming, with Gross Domestic Product (GDP) increasing 3.5% but the Irish economy contracted by 1.6% in the final quarter of 2010 and is forecast to grow by less than 1% in 2011. The outlook for Greece is worse: GDP fell by 3.9% in 2010. It is notable that GDP in countries outside the Euro such as Britain, Poland and especially Sweden grew at a rate faster than the Eurozone average in the first nine months of 2010.

10

In many countries unemployment has not risen by as much as might be expected given the depth of the financial crisis of 2008-9. Germany now has lower unemployment than before the crisis, thanks in part to short-time working and flexible time arrangements in its manufacturing sector. The worst affected countries include Ireland and Spain, where a collapse in construction activity has caused a sharp rise in unemployment.

15

Weak growth and high unemployment could cause serious problems for countries that already have high levels of national debt. That explains why Greece was first to lose the confidence of the markets with a national debt to GDP ratio of 127% and a budget deficit of 15.5% of GDP in 2009. Both Ireland and Spain had low national debt to GDP ratios before 2008, but a combination of recession and a collapse in their housing markets resulted in a massive fall in tax revenues.

20

(Source: © *The Economist* Newspaper, 6 April 2011)



- (a) With reference to Figures 1 and 2, explain the difference between a budget deficit and the national debt of a country. (5)
- (b) With reference to Extract 1, explain why 'weak growth and high unemployment could cause serious problems for countries that already have high levels of national debt' (Extract 1, lines 19–20). (8)
- (c) Assess possible reasons why the GDP of European Union countries outside the Eurozone grew at a faster rate than the Eurozone average in the first nine months of 2010. (10)
- * (d) Examine policies which might improve the competitiveness of the goods and services produced by Greece, Italy and Portugal. (12)
- * (e) Discuss the view that governments of countries with large budget deficits should take measures to reduce them as quickly as possible. (15)



(a) With reference to Figures 1 and 2, explain the difference between a budget deficit and the national debt of a country.

(5)

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(b) With reference to Extract 1, explain why 'weak growth and high unemployment could cause serious problems for countries that already have high levels of national debt' (Extract 1, lines 19–20).

(8)

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* (d) Examine policies which might improve the competitiveness of the goods and services produced by Greece, Italy and Portugal.

(12)

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