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**Pearson** Centre Number       Candidate Number

**Edexcel GCE**

**Economics**

**Advanced**

**Unit 4: The Global Economy**

Tuesday 10 June 2014 – Afternoon <b>Time: 2 hours</b>	Paper Reference <b>6EC04/01R</b>
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<b>You do not need any other materials.</b>	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.
- 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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**SECTION A****Answer ONE question from this section.****You should spend 60 minutes on this section.**

- \*1** (a) Governments in several countries, including the UK, Spain, Ireland and Hungary, have increased their indirect tax rates in recent years.

Assess the likely economic effects of such tax increases in a country of your choice.

(20)

- (b) Evaluate the view that governments should reduce budget deficits by cutting public expenditure.

(30)

**(Total for Question 1 = 50 marks)**

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- \*2** (a) In the five years between 2007 and 2012 the real effective exchange rate of the Swiss franc increased by 19%, the Chinese yuan by 25% and the Japanese yen by 23%. However, the USA, UK and eurozone experienced a depreciation of their currencies.

Assess factors that influence the exchange rate of a currency.

(20)

- (b) To what extent might a depreciation in the value of a country's currency improve its economic performance?

(30)

**(Total for Question 2 = 50 marks)**

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- \*3** (a) The European Union (EU) is a customs union, comprising 28 member states, which imposes common external tariffs on goods imported into the EU.

Assess the economic impact of common external tariffs.

(20)

- (b) Evaluate the economic effects of a decision by the UK to leave the European Union.

(30)

**(Total for Question 3 = 50 marks)**

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**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**

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**TOTAL FOR SECTION A = 50 MARKS**



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### SECTION B

Answer ONE question from this section.

You should spend 60 minutes on this section.

Question 5 starts on page 28.

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

#### 4 Japan's new Prime Minister brings rising hopes that economy can be revived

Figure 1 Japan's economic growth rate 1999–2012

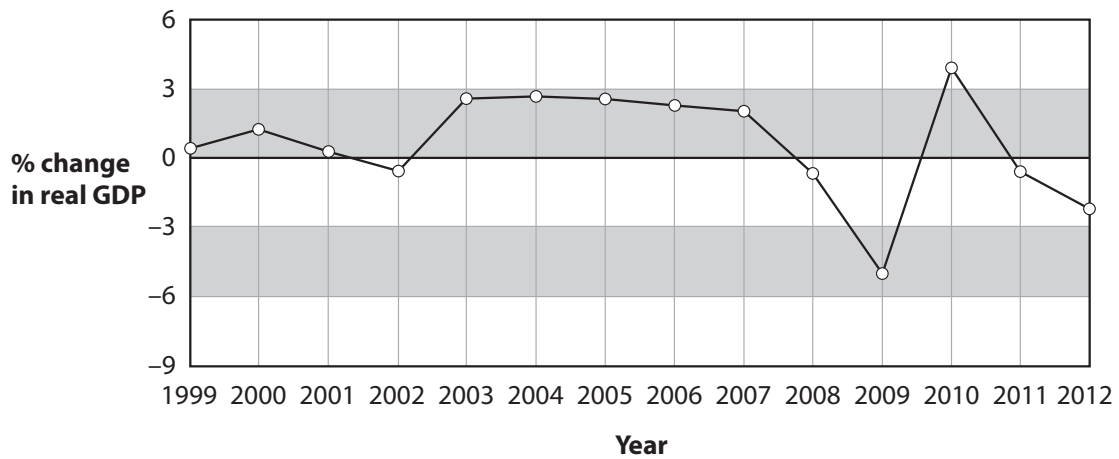
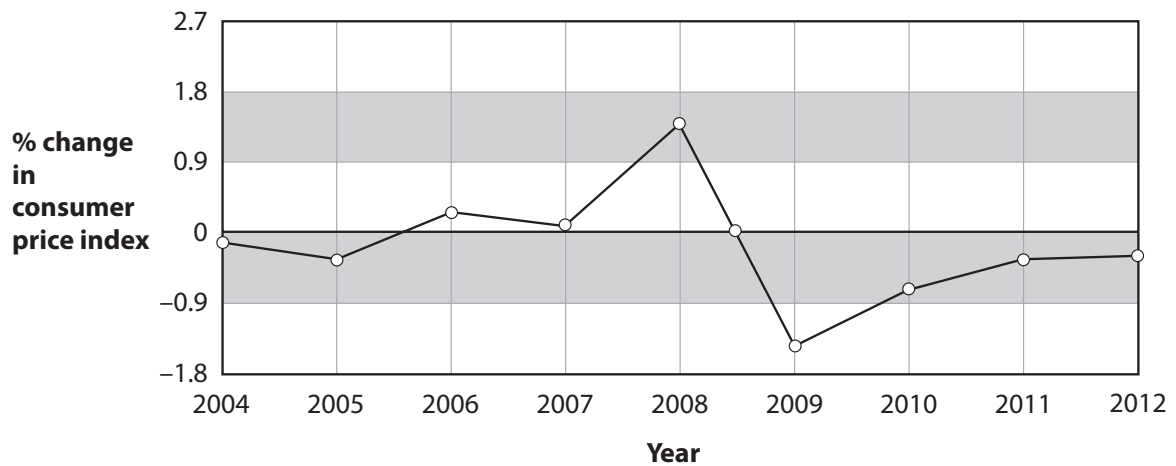
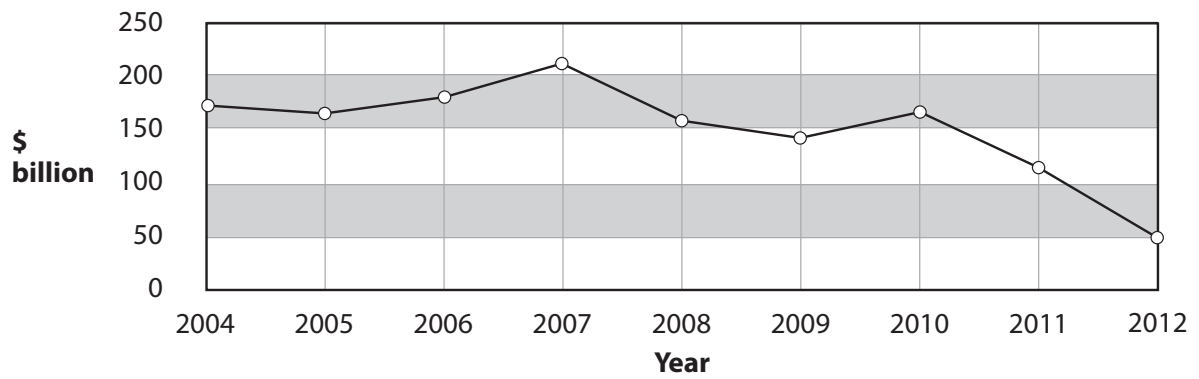


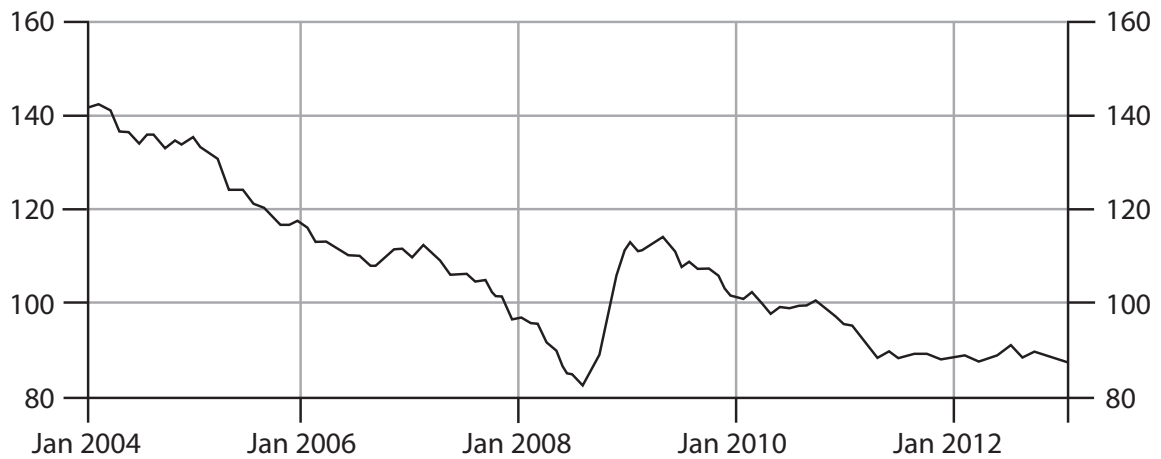
Figure 2 Japan's inflation rate 2004–2012



**Figure 3 Japan's current account balance 2004–2012 (US dollars)**



**Figure 4 Japan's terms of trade 2004–2012 (January 2010 = 100)**



(Source: [www.tradingeconomics.com/japan/terms-of-trade](http://www.tradingeconomics.com/japan/terms-of-trade))



## Extract 1 Japan's new Prime Minister's policies to revive the economy

In his first major speech of 2013, Japan's new Prime Minister, Shinzo Abe, called for a "rocket-like start towards economic recovery". In January 2013, his cabinet agreed on a stimulus package worth ¥10.3 trillion (US\$120 billion). The aim is to add about 2 percentage points to the economy's real growth rate and create more than 600 000 jobs.

Abe has made it clear that he expects government action to be complemented by a more expansionary monetary policy on the part of the Bank of Japan, including raising the country's inflation target from 1% to 2%. 5

While 'Abenomics' is a departure from the previous government's priorities of debt reduction and tax increases to fund welfare spending, Abe's approach has a familiar ring. It marks a return to old-style spending on public works, a policy heavily criticised in the past for funding the construction of huge community centres in rural villages and infamous 'roads to nowhere'. Abe has promised to put an end to such waste and, instead, wants to focus investment on three things: the region ravaged by the March 2011 tsunami; making repairs to ageing infrastructure and earthquake-proofing schools and hospitals. 10 15

The stock and currency markets responded better than perhaps even Abe could have hoped. Japanese share prices have risen dramatically, while the yen is finally depreciating against the US dollar, bringing relief to Japan's exporters.

Voters in last month's general election approved of Abe's focus on growth in the world's third-largest economy, even if it meant setting aside measures to tackle national debt, now more than 230% of its GDP. 20

Robert Dujarric of Temple University in Tokyo believes Abe's plan to pull Japan out of two decades of stagnation and deflation "could work up to a point". "What's missing in his proposals are microeconomic reforms: to deal with structural problems that would make it easier for women to contribute to the economy and for families to have children," he says. 25

Polls show that consumers doubt Abe's ability to turn the economy around. A weaker yen will help exporters. However, the price of imports on which Japan is heavily reliant, especially food and energy, will hit households if incomes fail to keep up with inflation. While doubts remain over job security and wages continue to stagnate – they have failed to rise for nine of the past 12 months – consumers are unlikely to increase spending substantially. Dujarric says that after 20 or more years of stagnation or low growth, it will take a lot to convince consumers that things have changed. 30

(Source for extract and Figures 1, 2 & 3: Justin McCurry; The Observer, Sunday 20 January 2013)





- (a) What does Figure 2 suggest about the change in the real burden of private sector debt since 2009? (5)
- (b) With reference to Figure 4, analyse **two** likely economic effects of the trend in Japan's terms of trade. (8)
- (c) Analyse **two** structural reforms to "make it easier for women to contribute to the economy and for families to have children". (Extract 1, lines 24–25) (10)
- \*(d) Assess the possible implications of the increase in the size of Japan's national debt to 'more than 230% of its GDP'. (Extract 1, line 21) (12)
- \*(e) Evaluate the likely economic effects of Japan's measures to stimulate its economy. (15)



(a) What does Figure 2 suggest about the change in the real burden of private sector debt since 2009?

(5)

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(b) With reference to Figure 4, analyse **two** likely economic effects of the trend in Japan's terms of trade.

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(c) Analyse **two** structural reforms to “make it easier for women to contribute to the economy and for families to have children”. (Extract 1, lines 24–25)

(10)

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\*(d) Assess the possible implications of the increase in the size of Japan's national debt to 'more than 230% of its GDP'. (Extract 1, line 21)

(12)

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\*(e) Evaluate the likely economic effects of Japan's measures to stimulate its economy.

(15)

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**(Total for Question 4 = 50 marks)**



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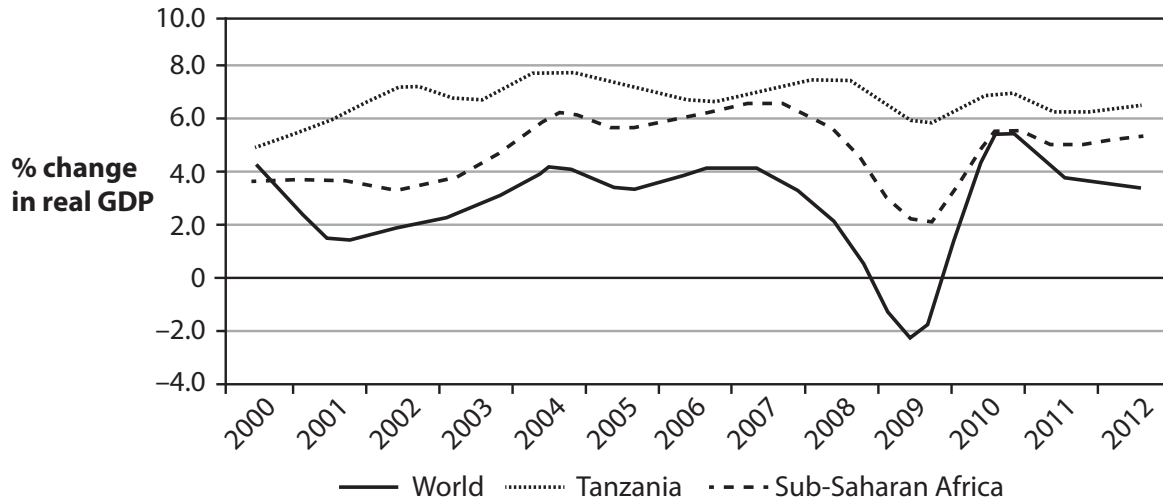
**Question 5 starts on the next page**



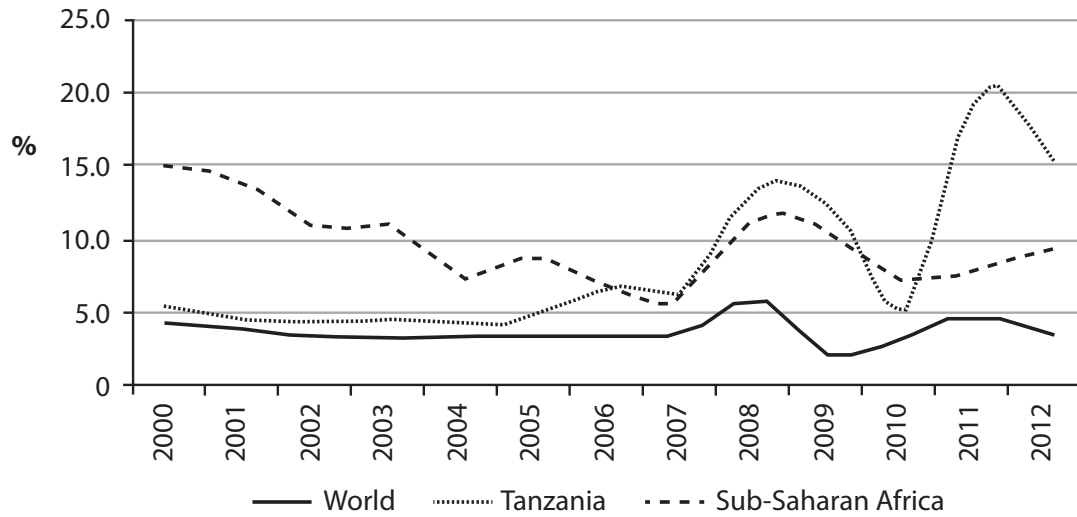
If you answer Question 5 put a cross in this box  .

**5 Tanzania's economy**

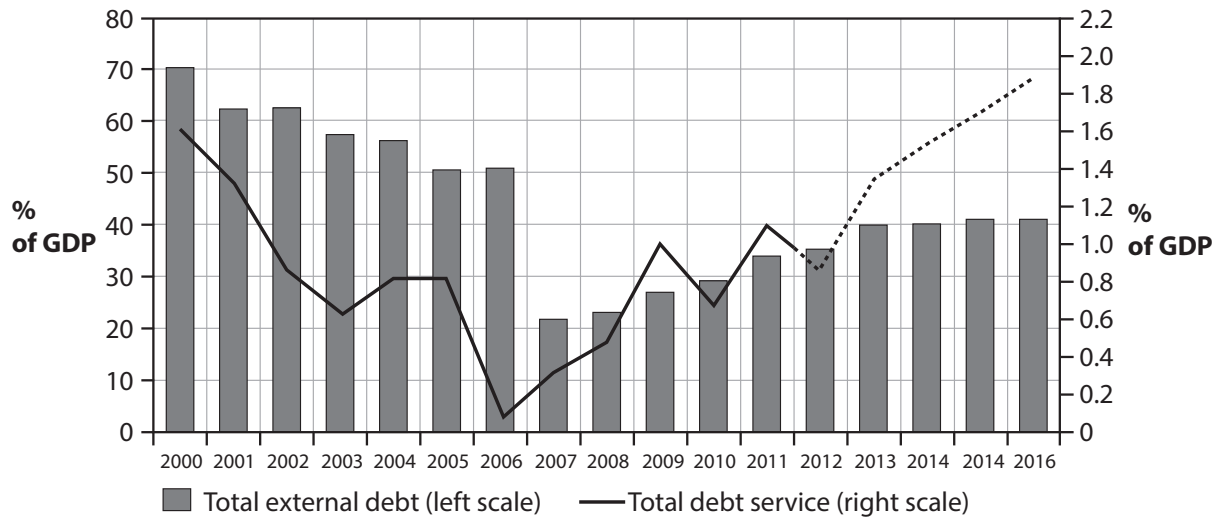
**Figure 1 Economic growth rates in Tanzania, Sub-Saharan Africa and the World 2000–2012**



**Figure 2 Inflation rates in Tanzania, Sub-Saharan Africa and the World 2000–2012**



**Figure 3 Tanzania's total external debt and annual external debt service as a % of GDP (2000–2011; forecast from 2012–2016)**



**Extract 1**

The Tanzanian economy experienced rapid growth from 2000–2010. As a result, the country’s per capita income increased from US\$310 in 2000 to more than US\$540 in 2010. Macroeconomic stability has brought significant dividends in terms of economic growth. Despite this, Tanzania is still a poor country, with approximately one third of its population living below the subsistence level. It is a predominantly rural country with approximately 30 million people, or about 75% of the total population, living in the countryside. Since 2001, the level of absolute poverty in rural areas has remained stagnant at around 37–40% of households. These poor rural households constitute 80% of the country’s poor. Furthermore, the Gini coefficient has risen from 0.34 in 1992 to 0.38 in 2007, with signs that this trend is continuing.

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After a brief dip in 2010/11, Tanzania’s economy has bounced back. Partly driven by the high level of performance of the telecommunications, banking and mining sectors, the quarterly rate of growth in GDP was 7.1% for the period from January to March 2012. This is up from 6.1% for the same period in 2011. However, the agricultural, manufacturing and construction sectors recorded lower rates of growth than the overall economy.

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The rate of growth is largely driven by increased demand from the public sector and not from the private sector or exports. The Government’s contribution to aggregate demand accounted for more than half of economic growth during 2009–11. This compares to the period from 1998 to 2008 when the Government’s contribution accounted for only one third of growth. In the same period, the contribution of the private sector declined significantly. A possible cause of this was crowding out resulting from extensive Government borrowing on the domestic market in 2009/10 and 2010/11.

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Tanzania’s remarkable macroeconomic performance has to be qualified on two counts. First, the increase in GDP appears less impressive when adjusted to take into account the rapid expansion of the population. Secondly, with the exception of the construction industry, economic growth has been concentrated in capital intensive rather than labour intensive sectors. The expansion of the telecommunications, banking, and transportation sectors has had a number of positive impacts on the economy. However, in total, these sectors employ less than 1% of Tanzania’s workforce. By contrast, agricultural (including fisheries) and manufacturing sectors are relatively weak. Indeed, agriculture accounts for more than 25% of GDP, provides 85% of exports, and employs 80% of the work force. Cash crops, including coffee (its largest export), tea, cotton and cashews, account for the majority of export earnings. Geographical conditions, however, limit cultivated crops to only 4% of the land area.

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For now, economic growth has not had a significant impact on reducing poverty rates especially in rural areas. Broadening the growth base will ensure that more Tanzanians benefit from economic growth. Therefore, diversification could involve the development of traditional activities other than crops, such as fishing and livestock; encouraging farmers to explore new high-value products and encouraging non-farm activities including tourism and mining, which offer new opportunities.

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(Source for all figures and text: Tanzania Economic Update: From Growth to Shared Prosperity. October 2012. The World Bank Group Region: Africa Poverty Reduction and Economic Management Issue 2.)



- (a) With reference to Extract 1, explain the difference between absolute poverty and relative poverty. (5)
- (b) With reference to the first paragraph of Extract 1, outline the change in income inequality in Tanzania between 1992 and 2007. Illustrate your answer with a Lorenz curve diagram. (8)
- (c) With reference to Extract 1, examine the importance of agriculture to the Tanzanian economy. (10)
- \*(d) Assess the potential economic benefits of expanding tourism in Tanzania or in a developing country of your choice. (12)
- \*(e) Evaluate factors, other than agricultural dependency, which might act as constraints on economic development in Tanzania. (15)



(a) With reference to Extract 1, explain the difference between absolute poverty and relative poverty.

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(b) With reference to the first paragraph of Extract 1, outline the change in income inequality in Tanzania between 1992 and 2007. Illustrate your answer with a Lorenz curve diagram.

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(c) With reference to Extract 1, examine the importance of agriculture to the Tanzanian economy.

(10)

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\*(d) Assess the potential economic benefits of expanding tourism in Tanzania or in a developing country of your choice.

(12)

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\*(e) Evaluate factors, other than agricultural dependency, which might act as constraints on economic development in Tanzania.

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**(Total for Question 5 = 50 marks)**

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**TOTAL FOR SECTION B = 50 MARKS**  
**TOTAL FOR PAPER = 100 MARKS**





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