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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>6EC04/01</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.
- 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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**SECTION A****Answer ONE question from this section.****You should spend 60 minutes on this section.**

- \*1** (a) The budget deficits of many countries including France, Greece, Ireland and the UK fell between 2009 and 2013.

Assess the likely causes of such a decrease in the budget deficit of a country of your choice.

(20)

- (b) In 2012, France announced its intention to increase its top rate of income tax from 46.7% to 75%.

Evaluate the likely economic effects of such an increase in the marginal rate of income tax.

(30)

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

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- \*2** (a) In the early 1970s, the USA, Germany and Japan accounted for over one-third of world trade but, by the 1990s, global trade had become more diversified. By 2012, China was the world's second largest trading country after the USA.

Assess the factors that may cause changes in a country's pattern of trade with other countries.

(20)

- (b) In 2012, EU agricultural subsidies amounted to €76 billion (\$94 billion) and US agricultural subsidies were €138 billion (\$172 billion).

Evaluate the economic effects of such agricultural subsidies on the global economy.

(30)

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

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- \*3** (a) Assess the view that economic development is dependent on economic growth. Refer to examples of developing countries in your answer.

(20)

- (b) Discuss the view that savings gaps in developing countries are the most significant constraint on economic growth.

(30)

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

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Indicate which question you are answering by marking a cross . 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**

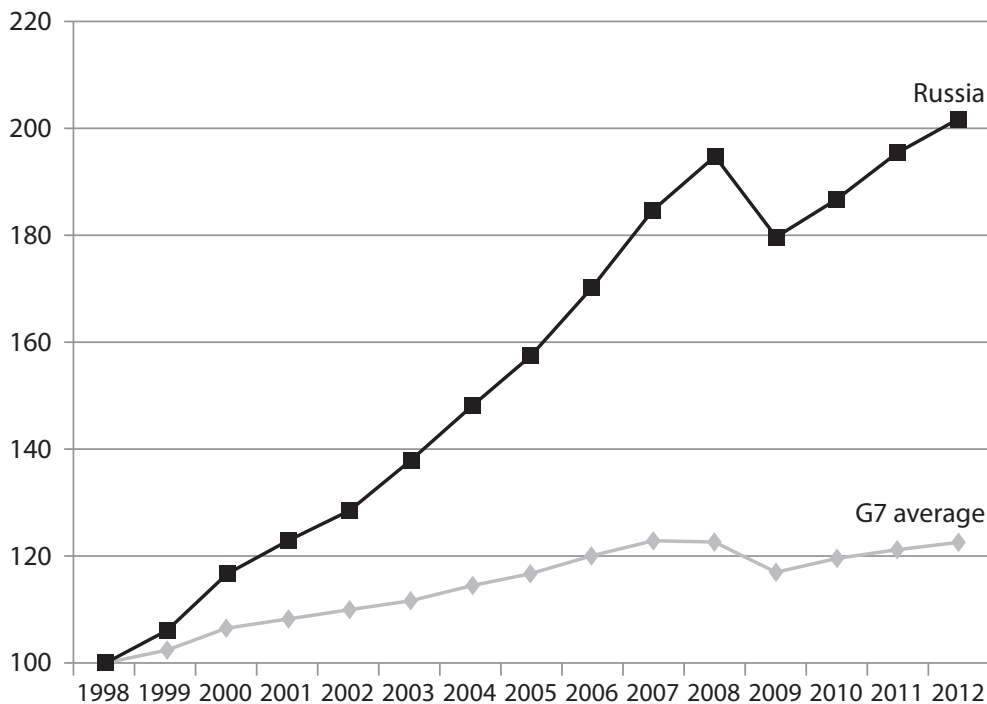
**Answer ONE question from this section.**

**You should spend 60 minutes on this section.**

**If you answer Question 4 put a cross in the box .**

**4 The Russian economy and membership of the World Trade Organisation (WTO)**

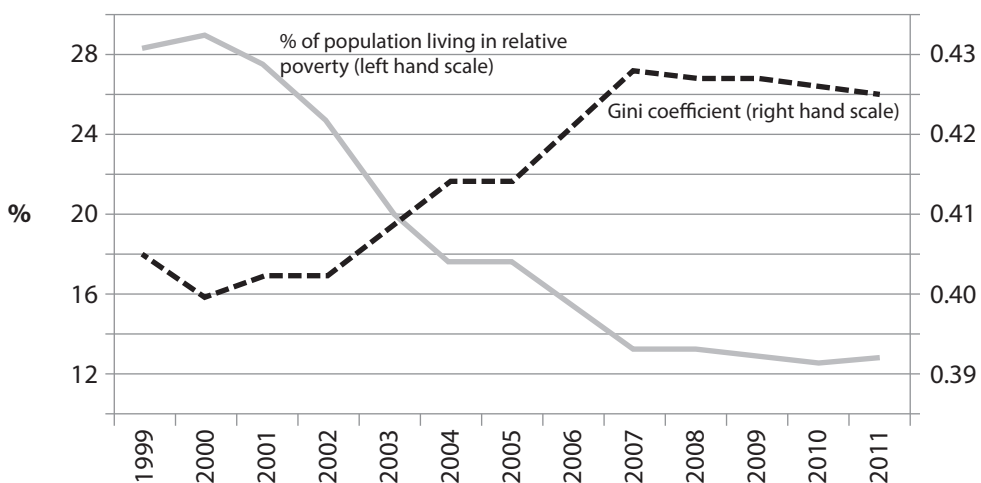
**Figure 1 Index of real GDP in the G7\* and Russia 1998-2012 (1998 = 100)**



\* the USA, UK, France, Germany, Italy, Canada, and Japan

(Source: © Forbes.com LLC)

**Figure 2 Relative poverty\* and inequality in Russia**

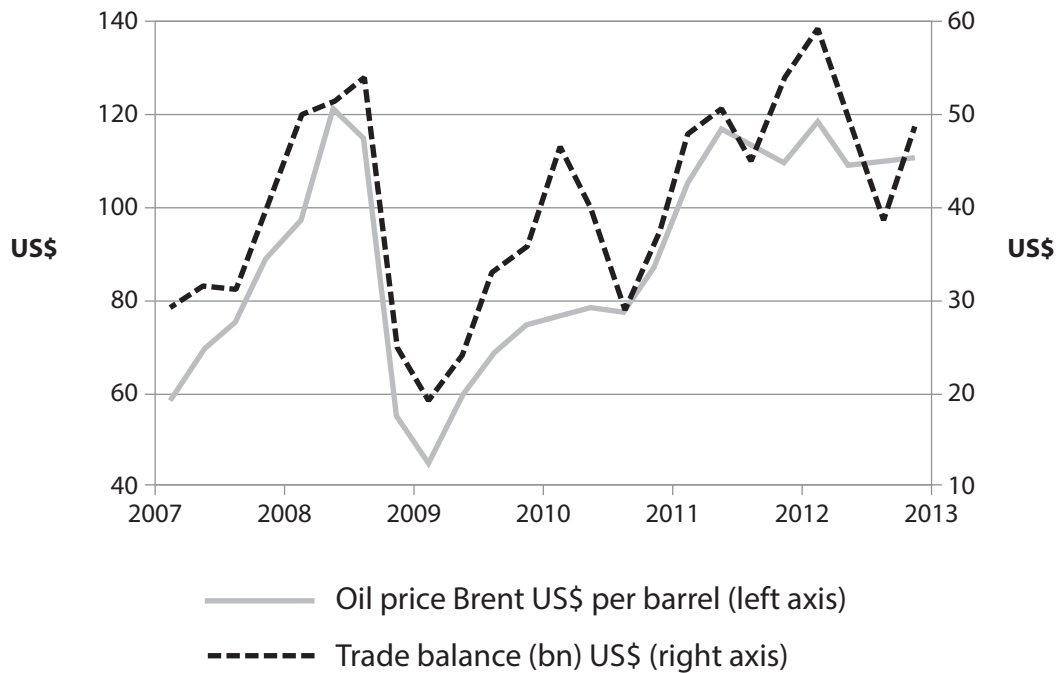


\*a level of income set at 60% or less of median household income

(Source: © The World Bank Group, 2012)



**Figure 3 Oil price and Russia's trade balance**



(Source: © The World Bank Group, 2013)

**Extract 1 Russia needs a plan for modernising its economy**

Between 2000 and 2008 personal incomes in Russia doubled. The unemployment rate fell from around 12% to 7% in the same period. Russia acquired \$500 billion of foreign currency reserves and the decline in population was halted.

Russia's economy is still not performing badly. Thanks to the high oil price, economic growth is likely to stay at 4% or a little less for the next few years – respectable by West European standards. The problem is that Russia's rulers do not appear to have a plan for modernising the economy, which is alarmingly unbalanced. Oil and gas provide half the government's revenue and almost 70% of export earnings. Output of oil and gas is static and few new fields are coming on stream. Even if the oil price stays high, Russia is heading for current account and budget deficits in the years ahead.

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10

(Source: © Centre for European Reform)



**Extract 2 Russia’s entry to World Trade Organisation (WTO) ends 19 years of negotiations**

Russia’s entry into the WTO in August 2012 had been a long time in coming. Negotiations began soon after the breakup of the Soviet Union and the collapse of communism and have been rumbling on for the past 19 years.

Russia’s membership of the WTO means that the last major economic power has joined the global trading system. The WTO will force Russia to lower its average tariffs from 9.5% to 6% by 2015. WTO membership will also make the government curb subsidies to some industries, including farming. Russia is hoping entry will provide the sort of boost enjoyed by China after it was admitted to the WTO in 2001. However, that looks unlikely for three reasons. The economic climate is much less favourable than it was in 2001, when the global economy was about to embark on its strongest period of growth since the late 1960s and early 1970s. China’s economy was much better equipped to reap the benefits of WTO membership, with a strong manufacturing base contrasting with Russia’s over-reliance on oil and gas. Finally, China gained from being the first former communist giant to join the WTO.

There are still, of course, potential benefits to Russia from WTO membership. The government is hoping for a surge in foreign direct investment that will help make Russian industry more efficient. Russia’s exporters will gain approximately \$1.5 billion to \$2 billion (£950 million to £1.3 billion) a year from the dismantling of foreign trade barriers. Lower tariffs on imported goods should lead to cheaper goods in the shops, boosting the spending power of consumers.

But WTO membership comes at a price. Dismantling protective barriers means that large sections of Russian industry may struggle to compete. Already, there are doubts about the ability of the automobile sector to survive in a more open trading system.

(Source: © Guardian News and Media Ltd, 2012)





- (a) With reference to Figure 1, comment on the performance of the Russian economy in the period shown. (5)
- (b) With reference to Figure 2, describe what has happened to income inequality in Russia. Illustrate your answer with a Lorenz curve diagram. (8)
- (c) With reference to the information provided, examine possible reasons why the proportion of the population in relative poverty in Russia has declined despite the Gini coefficient increasing over the same period. (10)
- \*(d) Assess the implications for the Russian economy of its dependence on oil and gas. (12)
- \*(e) Evaluate the likely benefits for Russia of its decision to join the WTO. (15)



(a) With reference to Figure 1, comment on the performance of the Russian economy in the period shown.

(5)

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(b) With reference to Figure 2, describe what has happened to income inequality in Russia. Illustrate your answer with a Lorenz curve diagram.

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(c) With reference to the information provided, examine possible reasons why the proportion of the population in relative poverty in Russia has declined despite the Gini coefficient increasing over the same period.

(10)

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\*(d) Assess the implications for the Russian economy of its dependence on oil and gas.

(12)

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\*(e) Evaluate the likely benefits for Russia of its decision to join the WTO.

(15)

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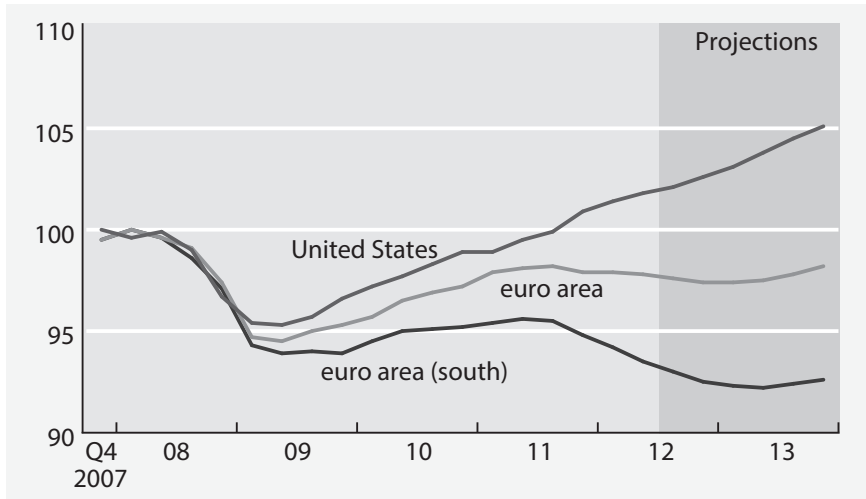
**(Total for Question 4 = 50 marks)**



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

### 5 Competitiveness

**Figure 1 Changes in Real GDP in the United States, the euro area and in the euro area (south)\* (2007 = 100)**



\*euro area (south) comprises Greece, Italy, Portugal and Spain

(Source: © IMF, 2012)



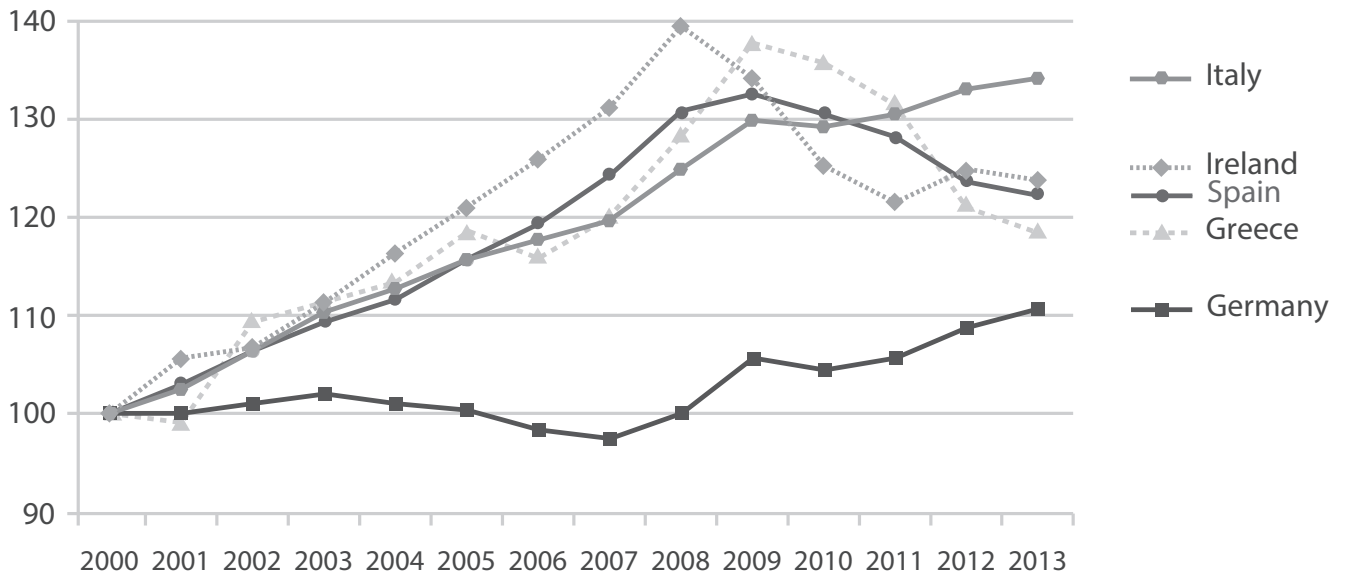
**Figure 2 International competitiveness based on the Global Competitiveness Index 2012–2013****Rankings of selected countries**

Country	Ranking (out of 144)
Singapore	2
United States	7
Hong Kong SAR	9
Taiwan	13
South Korea	19
Malaysia	25
Ireland	27
China	29
Spain	36
Italy	42
Portugal	49
Greece	96

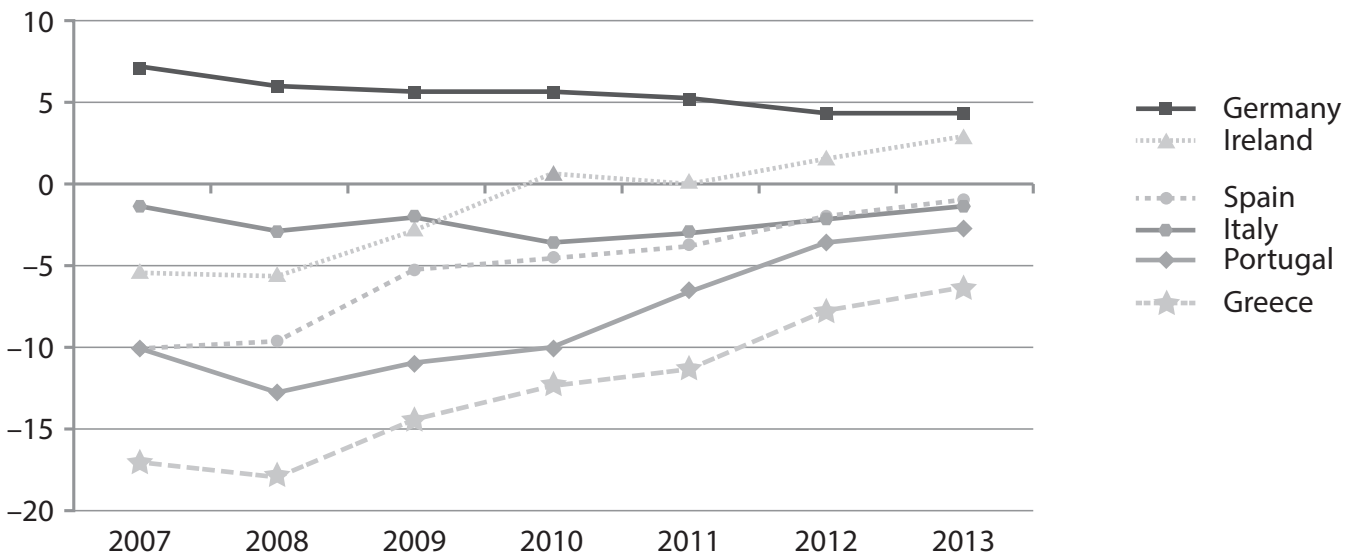
(Source: World Economic Forum, 2013)



**Figure 3 Unit labour costs in selected euro area countries (2000 = 100)**



**Figure 4 Current account balances in selected euro area countries (percentage of GDP)**



(Source: © Bruegel 2013)



### Extract 1 Stimulating growth in the euro area

The ongoing euro area crisis underlines the importance of reforms but also the increasing complexity of achieving them. Without an independent exchange rate, structural reforms must take the lead when it comes to increasing competitiveness.

Lack of growth in some parts of the euro area arose from both imbalances in trade and capital flows that built up after the adoption of the common currency. Further, this lack of growth resulted from weaknesses caused by poor competitiveness, particularly in the labour market, reinforced by higher price increases and higher labour costs in euro area (south) countries since the beginning of the monetary union. Problems in the labour market were caused by restrictions in hiring and firing workers, high minimum wages and centralised wage bargaining. Meanwhile, product markets were hampered by a lack of contestability. 5 10

Research shows that product market reforms, such as reducing barriers to competition and improving the business environment, can lift growth substantially. Labour market reforms, in addition to raising growth and employment in the long term, can restore countries' lost competitiveness by giving employers more flexibility in hiring and firing workers and keeping wage growth under control. However, such reforms are unlikely to deliver a sufficient boost to short-run activity during the current economic slump when aggregate demand is weak. 15

(Source: Adapted from IMF Finance and Development, December 2012)

- (a) With reference to Figure 2 and your own knowledge, explain what is meant by *international competitiveness*. (5)
- (b) With reference to Figure 1, comment on the projected GDP in the euro area (south) in 2012–13 compared with 2007. Illustrate your answer with an appropriate diagram. (8)
- (c) With reference to Figure 3 and your own knowledge, examine factors influencing a country's unit labour costs. (10)
- \* (d) Assess the likely reasons for the reductions in current account imbalances as shown in Figure 4. (12)
- \* (e) To what extent might labour market reforms be successful in stimulating economic growth and reducing unemployment in euro area (south) economies? (15)



(a) With reference to Figure 2 and your own knowledge, explain what is meant by *international competitiveness*.

(5)

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(b) With reference to Figure 1, comment on the projected GDP in the euro area (south) in 2012–13 compared with 2007. Illustrate your answer with an appropriate diagram.

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(c) With reference to Figure 3 and your own knowledge, examine factors influencing a country's unit labour costs.

(10)

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\*(d) Assess the likely reasons for the reductions in current account imbalances as shown in Figure 4.

(12)

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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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