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Pearson Centre Number Candidate Number

Edexcel GCE

Economics

Advanced

Unit 4: The Global Economy

Friday 19 June 2015 – 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.
- 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** Some developing economies such as Uganda, Nigeria and Indonesia are experiencing rapid increases in their populations whereas Germany, Italy and Japan are experiencing falling populations.

(a) Assess the economic impact of rapid population increases on developing economies.

(20)

(b) Evaluate policies which a government in a developed economy might pursue to increase the size and productivity of its working population.

(30)

(Total for Question 1 = 50 marks)

***2** (a) The national debt of countries in the European Union (EU) increased on average from 62.2% to 85.2% of GDP between 2008 and 2012.

To what extent might the rise in the national debt of an EU country be a cause for concern?

(20)

(b) Between 2008 and 2013, the average VAT (sales tax) rate in the European Union increased by 2 percentage points. Many EU countries also made significant cuts in welfare payments.

Evaluate the economic impact of increases in indirect taxes and cuts in welfare payments as measures to improve public finances.

(30)

(Total for Question 2 = 50 marks)

***3** The Trans-Pacific Partnership (TPP), a giant new trading bloc of 12 countries, including the USA, Canada, Australia, Japan, Peru, Malaysia and Vietnam is likely to be established in 2015.

(a) Examine the potential benefits of membership of such a trading bloc.

(20)

(b) In the light of your answer to part (a), evaluate the economic effects of a decision by the UK government to exit the European Union.

(30)

(Total for Question 3 = 50 marks)



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TOTAL FOR SECTION A = 50 MARKS



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 India's Economy

Figure 1 GDP growth 2003–2012

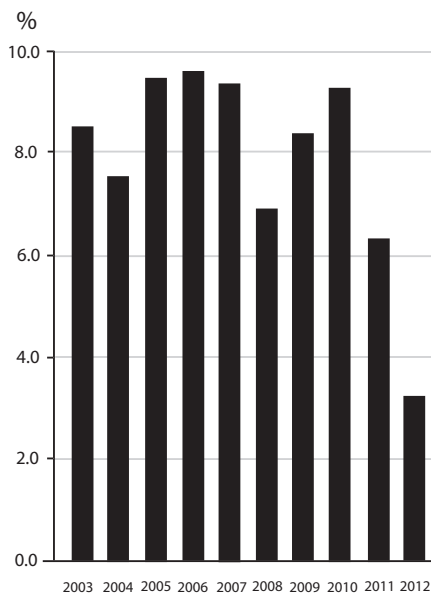


Figure 2 Net investment as a proportion of GDP, 2003–2012

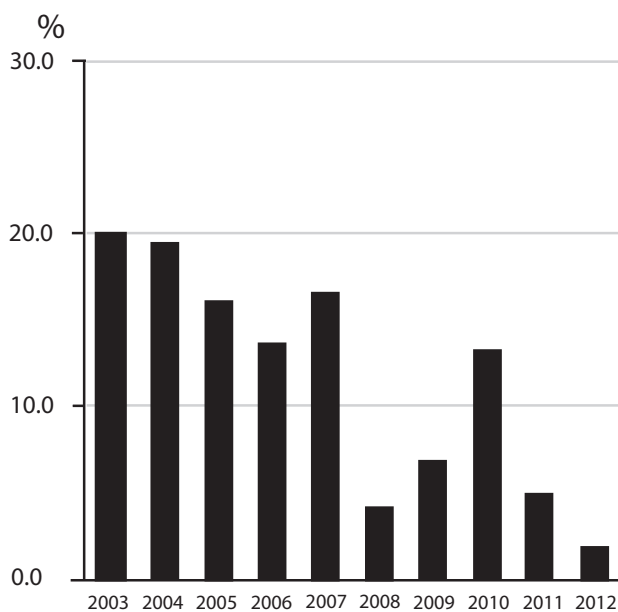
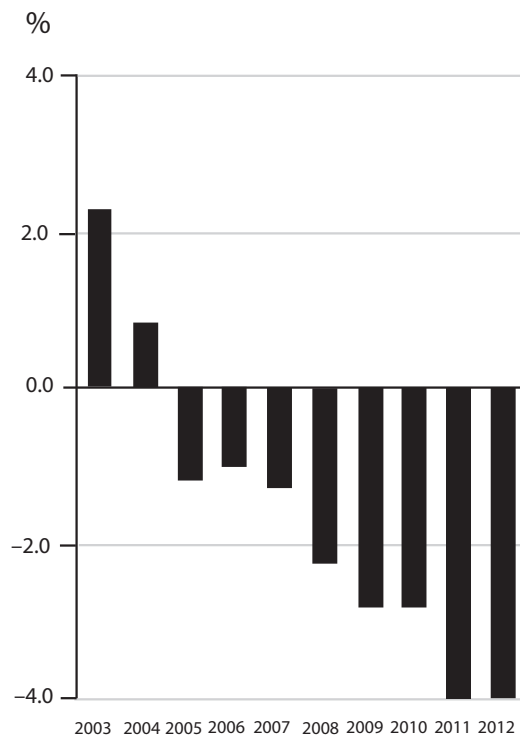


Figure 3 Current account of the balance of payments (% of GDP) 2003–2012



Source: (Figures 1–3 www.focus-economics.com/en/economy/reports/economic.../India)

Figure 4 Indian rupee against the US dollar, August 2012 to August 2013



Extract 1 Why India’s economy is still in trouble

The currencies of several developing economies fell rapidly between May and August 2013 following the announcement that the USA’s Federal Reserve Bank is to run down its programme of quantitative easing. Among them was India’s rupee, which fell more than 20% to a record low, causing observers to declare a crisis. Although the rupee regained a little value after August 2013, this did nothing to fix the underlying problems plaguing India’s economy. 5

India’s rapid growth since the early 1990s has obscured the fact that India has very low literacy rates and poor nutritional standards. While the rupee’s rapid depreciation is perhaps the most visible sign of the country’s problems, there are other alarming indicators: India’s GDP only grew 3.2% in 2012 compared with 7.8% in China. Some scholars, such as the Harvard economist Amartya Sen, have urged India’s government to invest more in programmes to improve health care and alleviate poverty. Equally important is the need for the country to provide work for the hundreds of millions of poor, unskilled people who were left behind during the growth surge of 1990–2009. The most promising way to accomplish that is to re-engineer the 1991 economic development programme to emphasise more sustainable growth. 10 15

However, the government’s reforms of the early 1990s did not go nearly far enough. First of all, its economy is still suffering from restrictive regulations. For example, labour laws make layoffs difficult, discouraging many foreign manufacturers from opening factories. The government has also failed to complete reforms allowing foreign investors to take profits out of the country. Further, crucial measures such as competitive tendering have not been implemented. 20

The country has also neglected to use policies to stimulate domestic manufacturing, instead focusing on the service sector. The service economy grew by almost 10% in the 1990s, but India’s already undersized manufacturing sector grew by only 5.7%. A country like India, with a huge and unskilled population, needs a manufacturing base to employ its people and pay for its imports. But India manufactures too little and imports too much. The contribution of India’s manufacturing to GDP is only around 15% whereas manufacturing contributes about 40% to GDP in China. 25

India also failed to deal with problems such as corruption and a poor energy grid. Frequently, scarce electricity is diverted to the offices and workshops of bribe-payers or the politically connected. Misplaced government intervention has, for instance, provided subsidies to fertiliser producers instead of improving farmers’ ability to buy the fertiliser. 30

(Source: <http://www.newyorker.com/online/blogs/currency/2013/09/why-indias-economy-is-still-in-trouble.html>)



Extract 2 India's economic slowdown forces middle classes to put dreams on hold

A decade of rapid growth propelled tens of millions of Indians from poverty into a middle class that now numbers over 200 million, an extraordinary social transformation in a nation of 1.2 billion. Economic reforms and a boom in India's IT and business-services industries fuelled expansive growth of the economy – 8% on average per year from 2003 to 2012.

5

But these days, the optimism that once inspired slogans such as “India Rising” is fading. The economy is expected to grow by only 4%–5% in 2013, not enough to create the salaried jobs needed for the country's growing workforce nor to enable millions of people to escape poverty in the next few years.

Following the fall in the value of the rupee, prices for staple products such as fuel and onions have increased rapidly. Further, a sharp increase in inflation, high interest rates and infrastructure problems have caused the economy to slow down. Many of the country's new consumers say that the rising costs of fuel and food, combined with the weak rupee, have forced them to put off major purchases such as homes and cars and to cancel holidays.

10

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(Source: Annie Gowen in Ghaziabad for the Washington Post Guardian Weekly, Tuesday 12 November 2013 <http://www.theguardian.com/world/2013/nov/12/india-delhi-economic-slowdown-middle-class>)

- (a) With reference to the information provided, outline **two** reasons which might explain the change in net investment as a proportion of India's GDP between 2010 and 2012. (5)
- (b) With reference to Extract 1, analyse **two** reasons why India's economy is 'still in trouble'. (8)
- (c) Examine the case for the Indian government using policies to 'stimulate domestic manufacturing' (Extract 1, line 23) as a means of promoting economic development. (10)
- * (d) Assess the possible effects of the fall in the external value of the rupee on the Indian economy. (12)
- * (e) With reference to the information provided, evaluate supply-side policies that the Indian government should pursue to improve the performance of its economy. (15)



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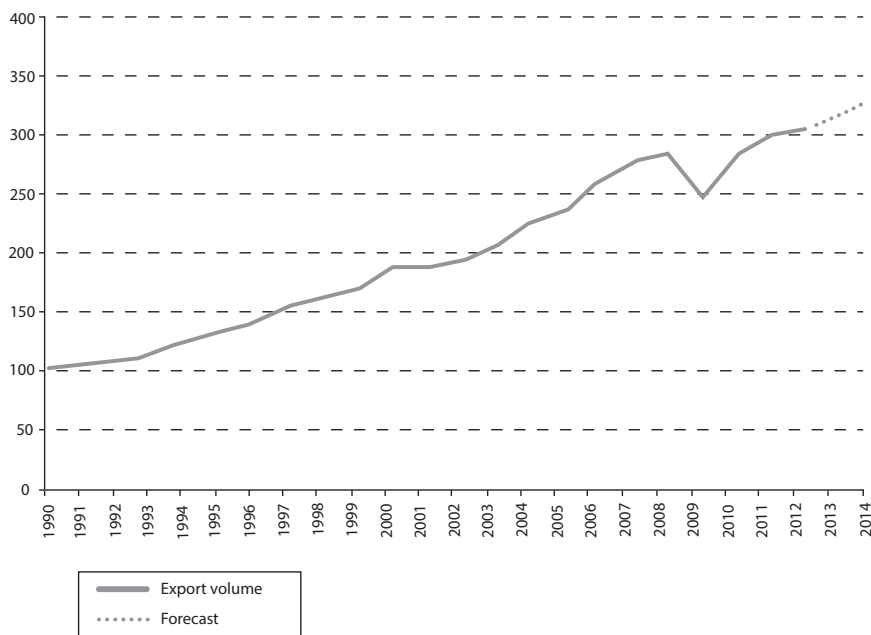
(Total for Question 4 = 50 marks)



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

5 Globalisation

Figure 1 Volume of world exports of goods, 1990-2014. (Indices, 1990 =100)



(Source: WTO: 2013 PRESS RELEASES; PRESS/688; 10 April 2013 'Trade to remain subdued in 2013 after sluggish growth in 2012 as European economies continue to struggle' http://www.wto.org/english/news_e/pres13_e/pr688_e.htm)

Extract 1 Poverty decreases sharply in developing world

The United Nations Development Report published in 2013 says higher economic growth in at least 40 developing countries has helped lift hundreds of millions of people from absolute poverty, and pushed billions more into a new global middle class.

Helen Clark, a UN administrator, called such progress an “incredible success of emerging markets”, praising governments for accompanying faster rates of economic growth with practical policies to help the poor. “These countries opened up to foreign direct investment and prioritised infrastructure but also invested in their people,” she said. They targeted education and health, and put welfare programmes in place.

Underpinning the improvements in the Human Development Index (HDI) was rapid growth in countries such as China, India and Brazil, with China and India having doubled economic output per head in less than 20 years. But the report stressed that growth and improvements in HDI spread far beyond the four BRIC countries of Brazil, Russia, India and China, and included at least 40 countries that had accompanied greater economic dynamism with effective poverty-reduction policies.

Partly as a result, the report found that worldwide absolute poverty has plunged from 43% in 1990 to just 22% in 2008, including more than 500 million people being lifted out of poverty in China alone.

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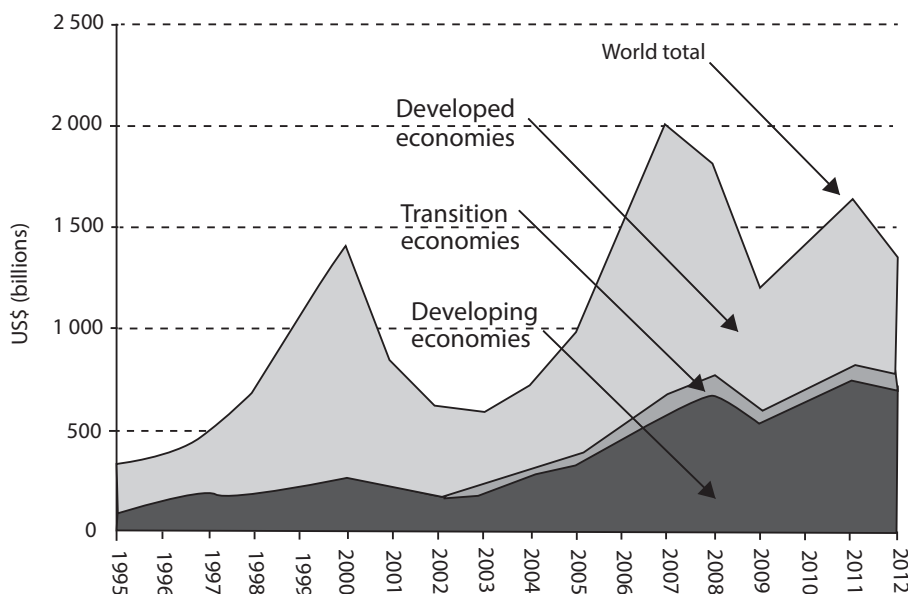
Underpinning this poverty reduction was developing countries' increasing share of global trade, which grew from 25% to 47% between 1980 and 2010. The report found that trade between developing countries was the biggest factor in that expansion, increasing from less than 10% of total global trade to more than 30%.

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By Adam Thomson in Mexico City, March 14, 2013

(Source: <http://www.ft.com/cms/s/0/6d7a1c52-8cc5-11e2-8ee0-00144feabdc0.html#axzz2l0iwqz1p>)

Figure 2 Foreign direct investment (FDI) inflows, global and by group of economies, 1995–2012 (billions of US dollars)



(Source: UNCTAD Global Investment Report 2013 http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

Figure 3 Percentage share in world FDI flows 2010–2012

'Transition economies' refers to former centrally planned economies

	FDI inflows %			FDI outflows %		
	2010	2011	2012	2010	2011	2012
Developed economies	49.4	49.7	41.5	68.4	70.5	65.4
Developing economies	45.2	44.5	52.0	27.5	25.2	30.6
Transition economies	5.3	5.8	6.5	4.1	4.3	4.0

(Source: UNCTAD Global Investment Report 2013 http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)



Extract 2 Trends in FDI flows

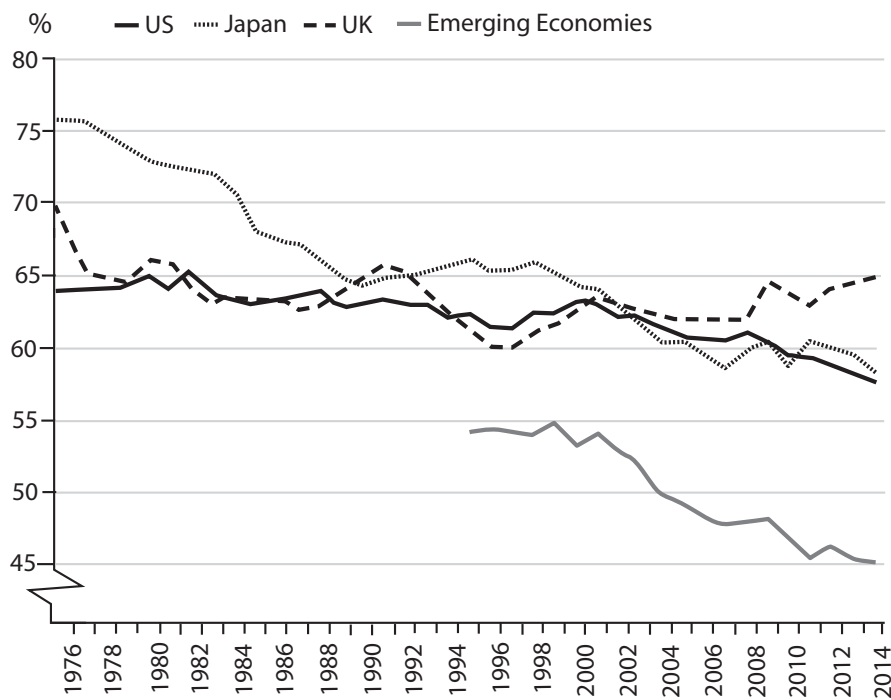
FDI flows to developing economies recorded their second highest level in 2012. They accounted for a record 52% of global FDI inflows, exceeding flows to developed economies for the first time ever. The global rankings of the largest recipients of FDI also reflect changing patterns of investment flows: nine of the twenty largest recipients were developing countries.

5

FDI inflows to developed economies declined by 32% to \$561 billion – a level last seen in 2004. The European Union alone accounted for almost two thirds of the global FDI decline.

(Source: UNCTAD Global Investment Report 2013
http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

Figure 4 Share of wages as a proportion of GDP 1976–2013



(Source: <http://blogs.rftdata.co.uk/gavyndavies/files/2013/06/ftblog478.png>)



Extract 3 Changes in the distribution of national income

Between 1999 and 2011 average labour productivity in developed economies increased more than twice as much as average wages. For example, in the USA, real hourly labour productivity in the non-farm business sector has increased by about 85% since 1980, while real hourly earnings increased by only around 35%.

The global trend has resulted in a change in the distribution of national income. In many countries, the share of wages as a proportion of GDP is falling and the share of profits is rising. Even in China, a country where wages roughly tripled over the last decade, GDP increased at a faster rate than the total wage bill causing the labour share to decrease. 5

The drop in the labour share is due to technological progress, trade globalisation, entry of labour-abundant economies into the global economy, decreasing trade union density (the proportion of paid workers who are trade union members) and an increased pressure on firms to increase profits enhanced by the rise of private equity funds, hedge funds and institutional investors. 10

(Source: Global wage report 2012–13 www.ilo.org/wage12http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_194843.pdf)

- (a) With reference to Figure 1, outline **two** reasons for the trend in world exports over the period shown. (5)
- (b) With reference to Figure 3, analyse **two** possible reasons why, in 2012, FDI flows to developing countries were 'exceeding flows to developed economies for the first time ever'. (Extract 2, lines 2–3) (8)
- (c) With reference to the data and your own knowledge, examine ways by which a country might try to attract investment from a transnational company (TNC). (10)
- *(d) Assess the factors, apart from FDI, which have contributed to a reduction in absolute poverty in developing countries. Refer to Extract 1 in your answer. (12)
- *(e) 'Globalisation is solely responsible for the trend in the share of wages as a proportion of GDP'

To what extent do you agree with this statement? Use the information provided and your own knowledge in your answer. (15)



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(c) With reference to the data and your own knowledge, examine ways by which a country might try to attract investment from a transnational company (TNC).

(10)

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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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