Please check the examination details below before entering your candidate information

Candidate surname: StemUp Model Solution

Other names:

Centre Number | Candidate Number

Pearson Edexcel International Advanced Level

Friday 17 January 2025

Afternoon (Time: 2 hours)

Paper reference **WEC14/01**

Economics

International Advanced Level
UNIT 4: Developments in the global economy

You must have:
Source Booklet (enclosed)

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 **ALL** questions in Section A and Section B.
- Answer **TWO** questions in Section C.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

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SECTION A

Answer ALL questions in this section.

Questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

1 According to its HDI score of 0.39, Chad is one of the least developed countries in the world.

Which **one** of the following strategies could promote economic development in Chad?

- ☐ **A** Reducing investment in infrastructure
- ☐ **B** Restricting foreign direct investment inflows
- ☒ **C** Removing restrictions on free trade
- ☐ **D** Limiting joint ventures between domestic firms and TNCs

(Total for Question 1 = 1 mark)

2 The exchange rate of the United Arab Emirates (UAE) currency, the dirham, is fixed against the US dollar. Assume that the UAE Government instructed the country's central bank to reduce the exchange rate of the dirham against the dollar.

Which **one** of the following would best describe the impact of this policy?

- ☐ **A** The exchange rate would appreciate
- ☒ **B** The exchange rate would be devalued
- ☐ **C** The exchange rate would depreciate
- ☐ **D** The exchange rate would be revalued

(Total for Question 2 = 1 mark)

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3 Ireland specialises in services while Japan specialises in manufacturing.

Ceteris paribus, if each country specialises and trades in the sector in which it has a comparative advantage, which **one** of the following is likely to occur?

- ☒ **A** A fall in the volume of exports and imports
- ☒ **B** A fall in the standard of living
- ☒ **C** An increase in world output
- ☒ **D** An increase in absolute poverty

(Total for Question 3 = 1 mark)

4 The table shows global GDP per capita in 2002, 2012 and 2022.

Year	GDP per capita ($)
2002	5 537
2012	10 576
2022	12 647

If 2022 is the base year, what will be the index number for 2002?

- ☒ **A** 43.78
- ☒ **B** 83.62
- ☒ **C** 119.58
- ☒ **D** 228.41

(Total for Question 4 = 1 mark)

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5 The East African Community (EAC) is a trading bloc that implements a common external tariff on non-member countries outside the bloc.

Which **one** of the following can be deduced from this information?

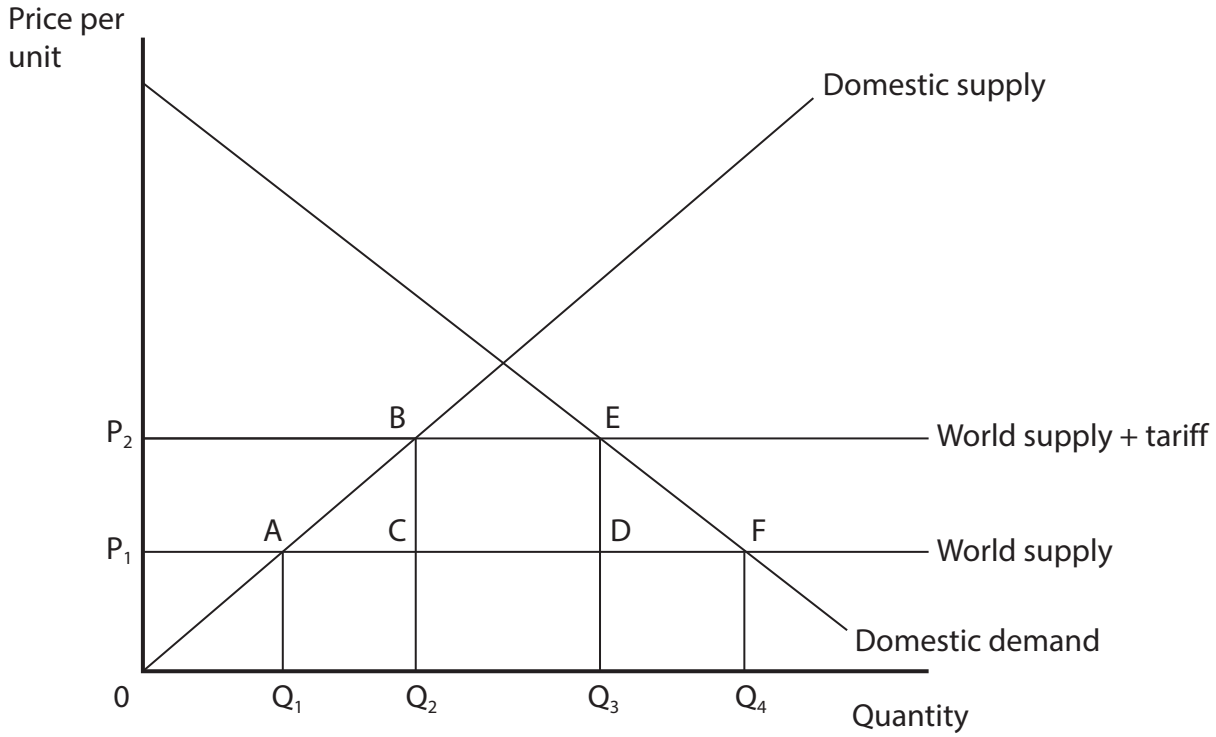
- ☒ **A** The EAC is a common market where member countries can benefit from the free movement of labour
- ☒ **B** The EAC is a trading bloc where member countries follow rules set by the World Bank
- ☒ **C** The EAC is an economic and monetary union where member countries share the same currency
- ☒ **D** The EAC is a customs union where member countries can benefit from trade creation

(Total for Question 5 = 1 mark)

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6 The diagram illustrates the imposition of a tariff on steel.



Which **one** of the following statements is true?

- ☒ **A** Imports of steel decreased from Q_1–Q_4 to Q_2–Q_3
- ☒ **B** Government tax revenue is area A B E F
- ☒ **C** Producer surplus increased by the area P_1 P_2 E F
- ☒ **D** Consumer surplus decreased by the area P_1 P_2 B A

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

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SECTION B

Study Figures 1 and 2 and Extract A in the Source Booklet before answering Question 7.
Write your answers in the spaces provided on the following pages.

7 (a) In 2022, the Gross Domestic Product (GDP) of Ghana was $72.84 billion.

With reference to Figure 1, calculate the value of Ghana's national debt. You are advised to show your working.

(2)

(b) With reference to Figure 2 and the third paragraph of Extract A, explain what is meant by the 'rate of inflation'.

(4)

(c) With reference to the fourth paragraph of Extract A and your own knowledge, analyse **two** roles of the IMF.

(6)

(d) With reference to Figure 1 and Extract A, examine **two** disadvantages of an increase in Ghana's national debt.

(8)

(e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the introduction of an additional marginal rate of income tax of 35% on the economy of Ghana.

(14)

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(a) In 2022, the Gross Domestic Product (GDP) of Ghana was $72.84 billion.

With reference to Figure 1, calculate the value of Ghana's national debt. You are advised to show your working.

(2)

National debt in 2022 = 88.8% of GDP (Figure 1)

National debt = 88.8% × $72.84 billion

= 0.888 × $72.84 billion

= $64.68 billion

(b) With reference to Figure 2 and the third paragraph of Extract A, explain what is meant by the 'rate of inflation'.

(4)

The rate of inflation is the percentage increase in the average price level of goods and services in an economy over a period of time, usually a year. Here it is measured by the annual percentage change in the consumer price index (CPI), a weighted average of the prices of a typical basket of goods and services.

Figure 2 shows that Ghana's rate of inflation rose from around 14% in January 2022 to around 54% by the end of 2022, an increase of about 40 percentage points, so prices were rising much faster.

Extract A explains that this was partly caused by rising global food and energy prices, since Ghana is a net importer of both, and by the depreciation of the cedi against the US dollar, which raised the price of imports in cedi (cost push inflation).

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(c) With reference to the fourth paragraph of Extract A and your own knowledge, analyse **two** roles of the IMF.

(6)

Role 1: providing loans and temporary financial assistance to member countries with balance of payments or debt problems. In 2023 the IMF agreed a bailout of $3 billion for Ghana after it defaulted on its debts in December 2022, when debt servicing costs had reached 70% of government revenue. This lending gives Ghana foreign currency to pay for essential imports such as food and energy and to meet debt repayments, so it eases the balance of payments adjustment and prevents a sudden, deep fall in spending, output and living standards.

Role 2: promoting financial and exchange rate stability. The IMF deal was expected "to reduce exchange rate fluctuations" and "to restore business confidence in Ghana". With IMF funds and reserves behind it, investors are less likely to sell cedi, so the currency becomes more stable. This lowers the risk faced by traders and foreign investors, which encourages trade and FDI, and reduces the imported (cost push) inflation caused by the falling cedi.

The IMF also attaches conditions to its loans and gives policy advice: the bailout required Ghana to "take measures to reduce its debt", such as broadening the tax base to include more of the informal sector. These structural reforms aim to make the public finances sustainable, so that Ghana can repay the loan and does not need another bailout.

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(d) With reference to Figure 1 and Extract A, examine **two** disadvantages of an increase in Ghana's national debt.

(8)

Figure 1 shows that Ghana's national debt rose from 34.6% of GDP in 2010 to 88.8% of GDP in 2022, an increase of 54.2 percentage points. Extract A explains that the Government borrowed to finance transport infrastructure and, in 2020, to prevent a recession during the global health crisis.

Disadvantage 1: higher debt servicing costs. The larger the debt, the more interest the Government must pay. Extract A states that debt servicing costs rose to 70% of government revenue, so only 30% of revenue was left for public services. This is an opportunity cost: the Government may have to cut spending on services such as free education and healthcare, or raise taxes, which reduces human capital, productivity and long run economic growth, so future generations bear the burden of the debt.

However, much of the borrowing financed ports, roads, railways and airports. This investment increases productive capacity and shifts LRAS to the right, so GDP and future tax revenue may grow, reducing the debt as a percentage of GDP in the long run.

Disadvantage 2: loss of confidence and higher borrowing costs. Ghana defaulted on its debts in December 2022, so its credit rating falls and lenders see it as risky. Lenders demand higher interest rates on new government borrowing, which can push up interest rates throughout the economy and crowd out private investment. Falling confidence also reduces FDI and leads investors to sell cedi, so the currency depreciates further, making imported food and energy dearer and adding to cost push inflation.

However, the impact may be short term: the $3 billion IMF bailout was expected to restore

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business confidence and reduce exchange rate fluctuations. Also, much of the rise in debt in 2020 was cyclical, to avoid a recession, rather than a permanent structural deficit, and inflation of around 54% (Figure 2) reduces the real value of any debt that is owed in cedi.

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(e) With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of the introduction of an additional marginal rate of income tax of 35% on the economy of Ghana.

(14)

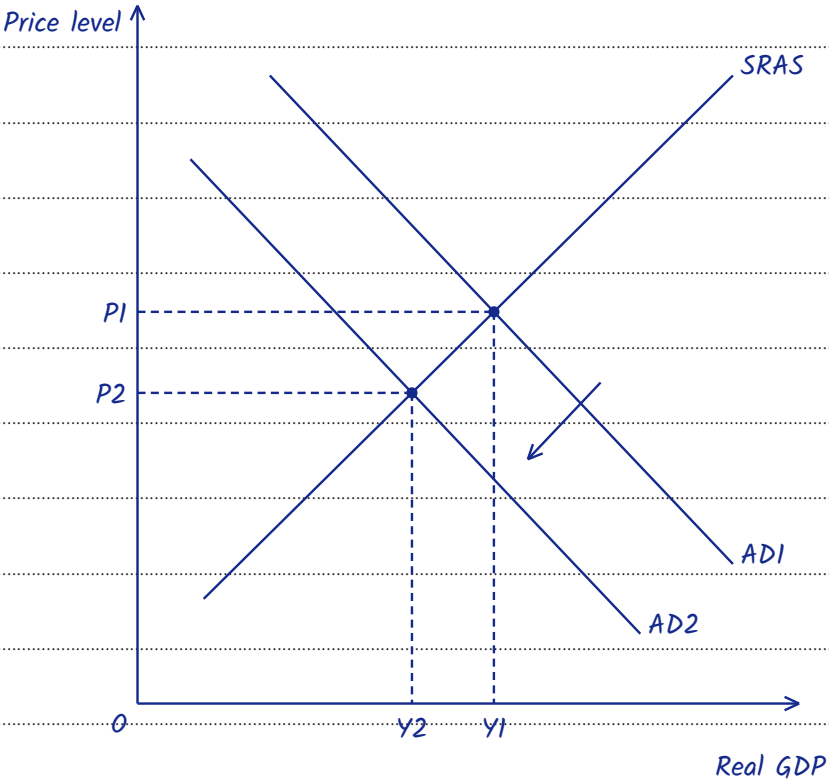
Income tax is a direct tax on the income of individuals. An additional marginal rate of 35% means that 35% of each extra unit of income above a high threshold is paid in tax, so it applies only to the highest income earners and makes Ghana's tax system more progressive.

Government finances. The tax should raise extra revenue at a time when Ghana urgently needs it. In 2023 Ghana's tax-to-GDP ratio was only 13.4%, below the African average of 16% and the Government's target of 20%, while debt servicing costs took 70% of revenue. Higher revenue reduces the budget deficit, slows the growth of national debt (88.8% of GDP in 2022) and helps meet the IMF's condition to reduce debt.

Aggregate demand, growth and inflation. The tax reduces the disposable income of high earners, so consumption falls. As consumption is a component of AD (C + I + G + X − M), AD shifts left from AD1 to AD2 in the diagram. Through the negative multiplier, real GDP falls from Y1 to Y2 and the price level falls from P1 to P2. Lower demand pull pressure would help to reduce inflation of around 5.4% (Figure 2), but slower growth may raise unemployment.

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Trade balance and income distribution. High income earners have a high marginal propensity to import, for example imported cars and foreign travel, so imports fall and the trade balance improves, which also reduces the supply of cedi and supports the exchange rate. If the revenue is spent on public services or benefits for low income households, income becomes more equally distributed.

Supply side effects. A 35% marginal rate may reduce the incentive for skilled workers to work longer hours, seek promotion or start businesses. It may also cause a "brain drain" of professionals and deter senior managers of TNCs, reducing FDI. This would slow the growth of LRAS and long run growth.

Evaluation. The overall macroeconomic effects are likely to be small. The IMF noted that the tax applies to "a very small proportion of the population", and at least 80% of the economy is informal, so most income is outside the tax system and the extra revenue will do little to raise the 13.4% tax-to-GDP ratio. Broadening the tax base would raise far more revenue. The effect

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on AD also depends on the marginal propensity to consume: the rich have a low MPC, so they may pay the tax mainly out of savings, and AD falls very little. The effect on inflation is limited because Ghana's inflation is mainly cost push, caused by global food and energy prices and the weak cedi, not excess demand.

Revenue may even fall if the rate is beyond the optimal point on the Laffer curve, since high earners can avoid or evade tax, or move abroad, especially where tax collection is weak. Finally, the effect depends on how the revenue is used: with "significant corruption in the public sector", it may not be spent on infrastructure or education, and if it is spent, the rise in G offsets the fall in C.

Overall, the tax is likely to improve equity and raise a modest amount of revenue, with only a small fall in AD and growth. Its main value may be in showing the IMF and investors that Ghana is serious about reducing its debt, but taxing the informal sector is needed for a significant effect.

(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS

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SECTION C

Answer TWO questions from this section.

8 Between 2004 and 2020, income inequality, as measured by the Gini coefficient, increased from 0.25 to 0.28 in Denmark and from 0.26 to 0.29 in Sweden.

Evaluate government policies, **apart from** changes in income tax rates, that could be used to reduce income inequality in a developed country of your choice.

(Total for Question 8 = 20 marks)

9 Between 2000 and 2022, Canada's productivity decreased by 9%.

Evaluate the likely effects of a decrease in productivity on a country of your choice.

(Total for Question 9 = 20 marks)

10 Between quarter 2 (Q2) 2020 and quarter 2 (Q2) 2022, global commodity prices increased by an average of 150%, with oil prices increasing by 239%.

Evaluate the possible causes of the increase in global commodity prices. Refer to examples of commodities in your answer.

(Total for Question 10 = 20 marks)

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Write the answer to your FIRST chosen question here.

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Write the answer to your SECOND chosen question on page 22.

Chosen question number: **Question 8** ☒ **Question 9** ☐ **Question 10** ☐

Income inequality is the unequal distribution of income between households in an economy. It is shown by the Lorenz curve and measured by the Gini coefficient, from 0 (perfect equality) to 1 (perfect inequality). In the UK the Gini coefficient for disposable income is around 0.33, much higher than in Denmark or Sweden, so I will evaluate policies, other than income tax rates, that the UK Government could use.

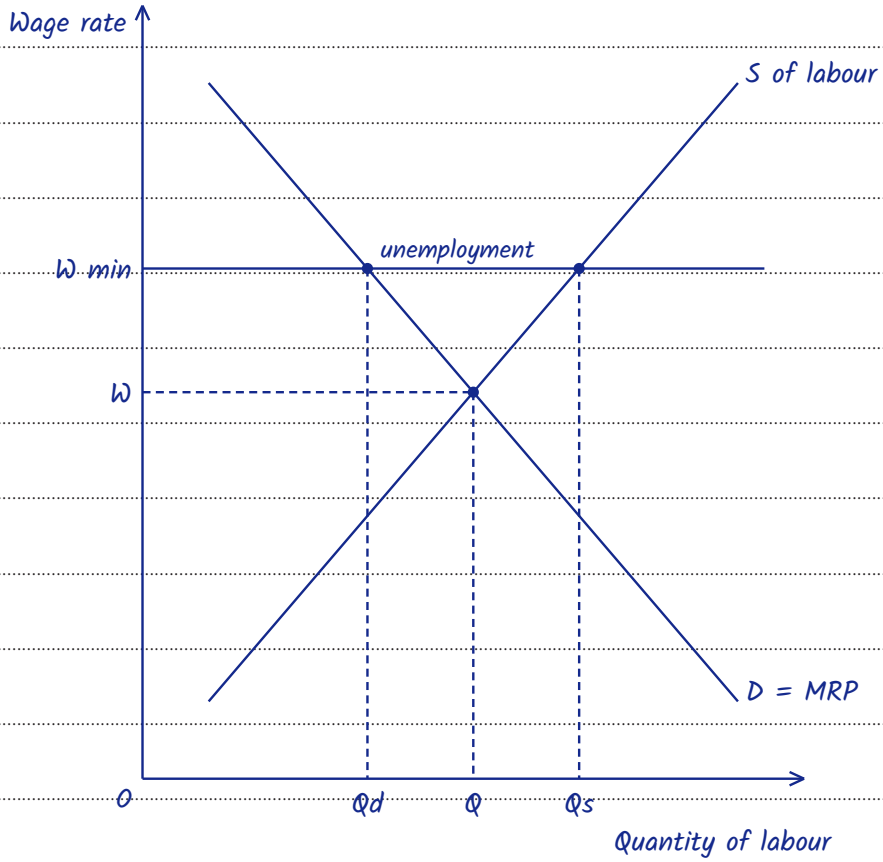
National minimum wage. The UK National Living Wage for workers aged 21 and over rose to £11.44 an hour in April 2024 and £12.21 in April 2025. Raising the minimum wage increases the income of the lowest paid workers, for example in retail, care and hospitality, so the wage differential between unskilled and skilled workers narrows and the Lorenz curve moves closer to the line of equality. Where employers have monopsony power, a minimum wage can raise both wages and employment.

However, if the minimum wage W min is set above the equilibrium wage W in a competitive labour market, as in the diagram, the demand for labour falls to Qd while the supply rises to Qs, causing unemployment of Qs – Qd. Workers who lose their jobs become worse off, which could increase inequality. It also does nothing for pensioners, students or the unemployed. Evidence from the Low Pay Commission suggests UK job losses have been small, but the risk rises the higher the minimum wage is relative to median earnings.

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Means-tested benefits. The Government can increase means-tested benefits such as Universal Credit, housing support and free school meals. Because they are targeted at households on low incomes, they raise the disposable income of the poorest without paying benefits to the rich, so inequality falls at a lower cost than universal benefits.

However, means testing has high administrative costs and many eligible households do not claim. As benefits are withdrawn when earnings rise, workers face a high effective marginal tax rate, creating a poverty trap and reducing the incentive to work. If benefits do not rise with inflation, as happened in the UK when benefits were frozen between 2016 and 2020, their real value falls.

Education and training. Spending on education, apprenticeships and adult skills increases the human capital of low skilled workers, so their marginal revenue product and wages rise. Over time this reduces the gap between skilled and unskilled wages, and it tackles a cause of

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inequality rather than just the symptoms. It also raises productivity, so LRAS shifts right and economic growth increases.

However, there are long time lags before the benefits appear, and the effect depends on the quality and relevance of courses. Children from richer families often gain most from education spending, and the opportunity cost of the government spending may be high when the UK national debt is close to 100% of GDP.

Reducing regressive taxes and providing public services. VAT at 20% takes a larger percentage of the income of poor households, who spend most of their income, so cutting VAT or zero rating more necessities reduces inequality. Free public services such as the NHS, education and social housing are worth more as a share of income to poor households. Other measures include stronger trade unions and laws against discrimination, such as gender pay gap reporting.

However, cutting VAT reduces government revenue, which could mean less spending on the services that most help the poor, and the rich also benefit from lower prices. Stronger trade unions may make the labour market less flexible and deter FDI, so fewer jobs are created.

Overall evaluation. The effectiveness of each policy depends on the cause of inequality. In the UK much inequality comes from low pay and low skills in some regions and high house prices, while the top 1% gain mostly from wealth and unearned income, which none of these policies directly affects. In the short run, means-tested benefits are the quickest and most targeted way to raise the incomes of the poorest, while the minimum wage helps the working poor at little cost to the Government. In the long run, education and training are the most significant because they raise earning power permanently.

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In conclusion, no single policy is enough: a combination is needed, with a minimum wage set carefully to avoid unemployment, targeted benefits designed to avoid the poverty trap, and long term investment in skills. The best mix depends on the Government's budget constraints and how much it is prepared to trade off efficiency and incentives for greater equity.

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Write the answer to your SECOND chosen question here.

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 8** ☐ **Question 9** ☐ **Question 10** ☒

Commodities are raw materials and primary products that are traded on world markets, such as crude oil, natural gas, copper, wheat and coffee. Their prices are set by global demand and supply, and because both demand and supply are price inelastic in the short run, small shifts cause large price changes.

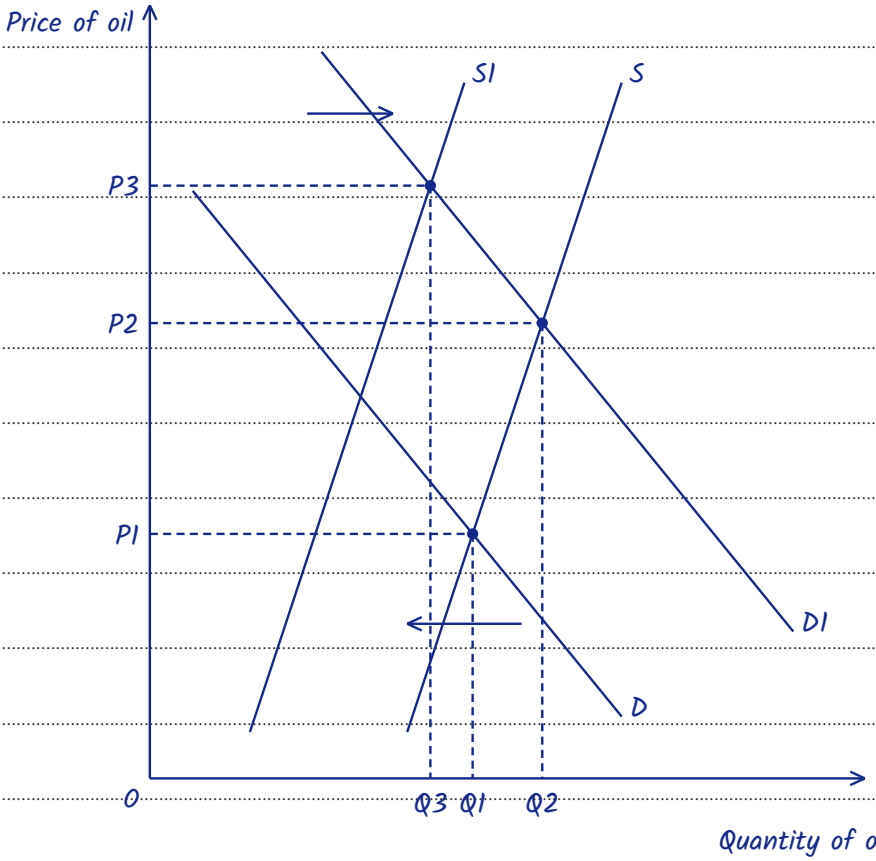
Recovery of global demand after the pandemic. In Q2 2020 lockdowns cut industrial production and travel, so demand for oil collapsed and the price of Brent crude fell below $20 a barrel in April 2020. As economies reopened in 2021, supported by large fiscal stimulus and very low interest rates, real GDP recovered quickly, especially in China, the largest buyer of many commodities. Demand for oil for transport, and for copper and iron ore for construction and manufacturing, increased, so the demand curve shifted right from D to D1, raising the price from P1 to P2 (see the diagram).

Supply restrictions by OPEC+. In 2020 OPEC and its allies, including Russia, agreed to cut oil output by about 9.7 million barrels a day and only increased output slowly as demand recovered. Acting like a cartel, they restricted supply to raise prices. Underinvestment in new oil fields and mines after years of low prices, and greater environmental pressure on fossil fuel investment, also limited supply.

The war in Ukraine. Russia's invasion of Ukraine in February 2022 was a major supply shock. Russia is one of the largest exporters of oil and gas, and Russia and Ukraine together supplied around a quarter of world wheat exports. Sanctions on Russian exports and the blockade of

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Ukrainian ports shifted supply to the left from S to S1, so prices rose further to P3; Brent crude rose above $120 a barrel in mid 2022 and wheat prices reached record highs. Higher gas prices raised the cost of fertiliser, which raised the costs of producing agricultural commodities.



In the diagram, supply is very price inelastic because it takes years to develop new oil fields, and demand is inelastic because there are few substitutes for oil in transport. The increase in demand and the fall in supply together cause a large rise in price from P1 to P3, but only a small change in quantity.

Other causes include a weaker US dollar in 2020 and 2021, which made dollar priced commodities cheaper for buyers using other currencies and raised demand, speculation by investors buying commodities as a hedge against inflation, and extreme weather, such as droughts that reduced harvests of wheat and coffee.

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Evaluation. First, the size of the increase is partly a base effect. Q2 2020 was an abnormally low starting point, as oil prices had collapsed during lockdowns, so a 239% rise in oil prices overstates how high prices became compared with their long run average. This explains why oil rose faster than the 150% average for commodities.

Second, the significance of each cause changed over time. Between 2020 and 2021 the main cause was the recovery of demand together with OPEC+ supply cuts, while in 2022 the war in Ukraine was the dominant cause, especially for energy and wheat. Different causes matter for different commodities: metals such as copper were driven mainly by demand from China and the shift to electric vehicles, whereas wheat was affected mostly by supply shocks from the war and the weather.

Third, the extent of the rise depends on PED and PES. Because both are low in the short run, the price effect is large, but in the long run high prices encourage new investment, such as US shale oil, and substitution towards renewable energy, so supply becomes more elastic and prices fall. Indeed, prices fell in the second half of 2022 as central banks raised interest rates and China's lockdowns reduced demand, showing that the demand side causes were cyclical.

In conclusion, the combination of a rapid recovery in demand and supply restrictions was more important than any single factor. The most significant cause of the rise up to 2021 was the recovery in demand, while the war in Ukraine was the most significant cause of the peak in 2022, particularly for oil, gas and wheat. As these causes are largely temporary, the high prices were unlikely to last in the long run.

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TOTAL FOR PAPER = 80 MARKS

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Friday 17 January 2025

Afternoon (Time: 2 hours)

Paper reference **WEC14/01**

Economics

International Advanced Level

UNIT 4: Developments in the global economy

Source Booklet

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Sources for use with Section B

The economy of Ghana

Figure 1 National debt, % of Gross Domestic Product (GDP), 2010–2022

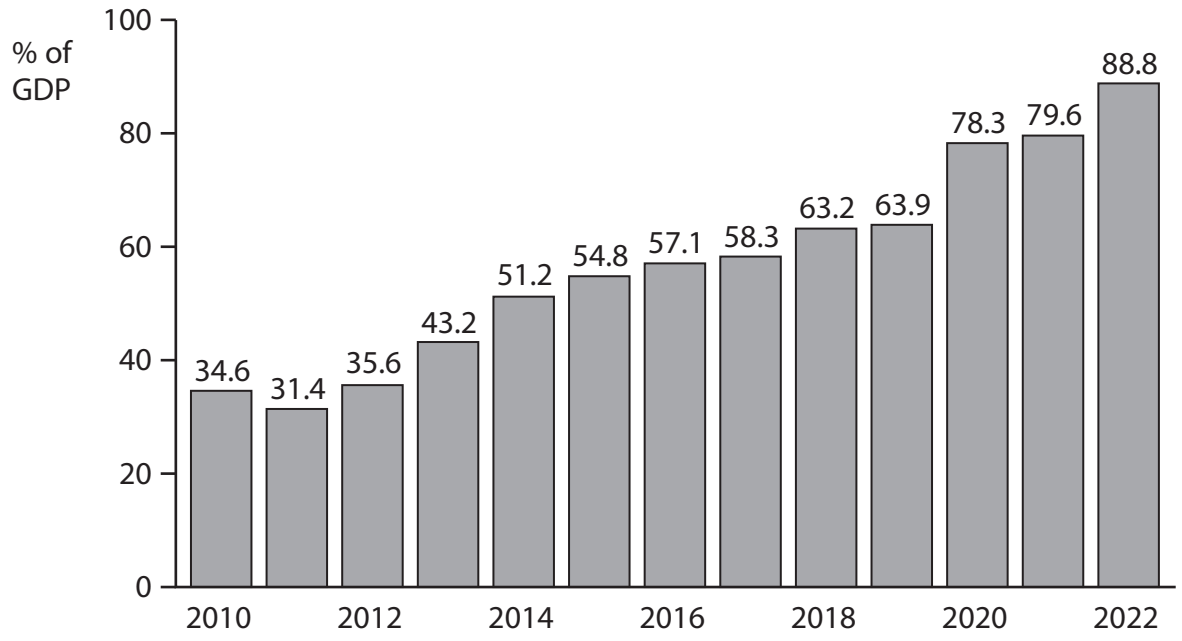
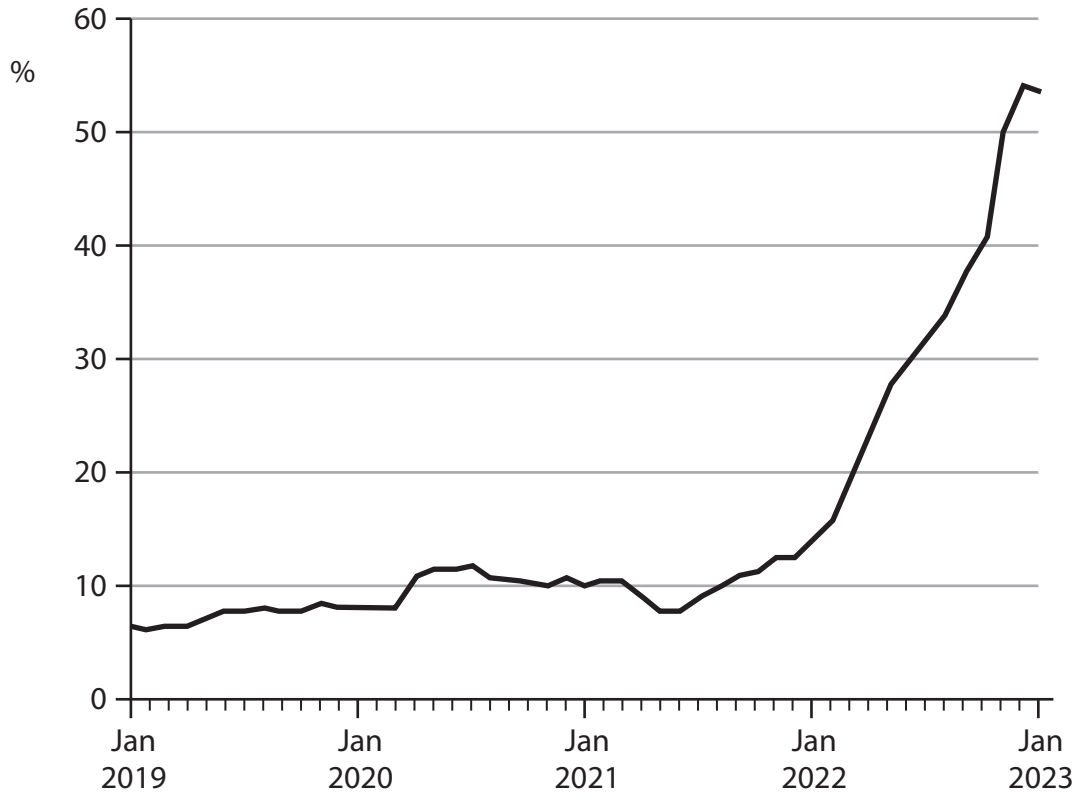


Figure 2 Annual rate of inflation*, as measured by the consumer price index (CPI), January 2019 to January 2023



*This is the year-on-year inflation rate calculated monthly.

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Extract A Economic outlook

Ghana has long been considered a success story and a model for African development. It is a major producer of gold and cocoa and has one of the region's highest Gross Domestic Product (GDP) per capita. The Government provides public services, including free education for children up to 15 years of age.

Between 2010 and 2020, the Government borrowed significant sums of money to finance the country's transport infrastructure projects. These included spending on ports, roads, railways and airports. In 2020 the Government increased its borrowing to prevent the economy from going into a recession as a result of the global health crisis. Much of the Government's spending took place when interest rates were low.

In 2022 Ghana experienced a rapid increase in its rate of inflation. This was partly caused by rising global food and energy prices. Ghana is a net importer of both food and energy. The depreciation of Ghana's currency, the *cedi*, against the US dollar also contributed to this increase in the country's rate of inflation. During 2022 Ghana's central bank raised the country's base rate of interest to control the high and rising rate of inflation.

In December 2022 Ghana defaulted on its debts. The country had failed to generate enough income to pay back its debts. Therefore debt servicing costs increased to 70% of government revenue. In 2023 the Government agreed to a bailout of $3 billion from the International Monetary Fund (IMF). The bailout was provided on the condition that Ghana would take measures to reduce its debt. It was hoped that this IMF deal would help to restore business confidence in Ghana and to reduce exchange rate fluctuations.

However, there was little confidence amongst Ghana's population that the Government would spend the funds received from the IMF effectively. It was believed that there was significant corruption in the public sector.

The Government needed to increase revenue. Initially it introduced an additional marginal rate of income tax of 35% for the highest income earners. However, the IMF expressed concerns as to why this tax only applied to a very small proportion of the population. In addition, there was an IMF requirement to broaden the tax base to include more people in the informal sector. It is estimated that the informal sector makes up at least 80% of the economy. In 2023 Ghana's tax-to-GDP ratio was 13.4%. This was below the average in Africa of 16% and below the Government of Ghana's own target of 20%.

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Acknowledgements

Figure 1 adapted from https://tradingeconomics.com/ghana/

Figure 2 and Extract A adapted from FT, https://www.ft.com/content/bd67731c-cea0-4045-96d4-5fff001f1fd2