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

Tuesday 3 June 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 India has experienced a significant increase in its economic development since 2002.

Which **one** of the following is likely to have caused the increase in India's economic development?

- ☒ **A** An increase in the proportion of people with access to the internet per thousand of population
- ☒ **B** A decrease in the proportion of people with access to mobile phones per thousand of population
- ☒ **C** An increase in terrorism and civil wars
- ☒ **D** A decrease in life expectancy at birth

(Total for Question 1 = 1 mark)

2 Between 2020 and 2022 Sweden's national debt decreased from $184.4 billion to $180.2 billion.

Which **one** of the following is the most likely effect of a decrease in the national debt of a country?

- ☒ **A** An increase in debt servicing costs
- ☒ **B** An increase in the rate of inflation
- ☒ **C** A decrease in the rate of interest
- ☒ **D** A decrease in absolute advantage

(Total for Question 2 = 1 mark)

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3 In 2022 Romania's labour productivity increased at a faster rate than that of its main trading partners.

Ceteris paribus, which **one** of the following can be deduced from this statement?

- ☒ **A** Average export prices of Romanian goods and services increased relative to the average export prices of its trading partners
- ☒ **B** Unit labour costs in Romania decreased relative to the average unit labour costs of its trading partners
- ☒ **C** Romania's goods and services became less internationally competitive relative to its trading partners
- ☒ **D** Romania experienced an improvement in its terms of trade

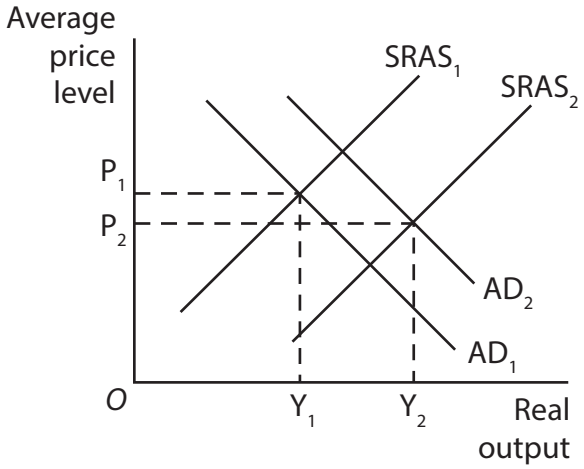
(Total for Question 3 = 1 mark)

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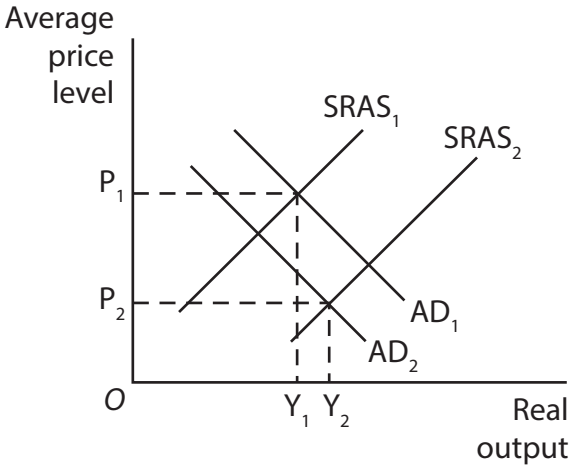
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4 In each of the diagrams the original equilibrium is represented by P_1 and Y_1.

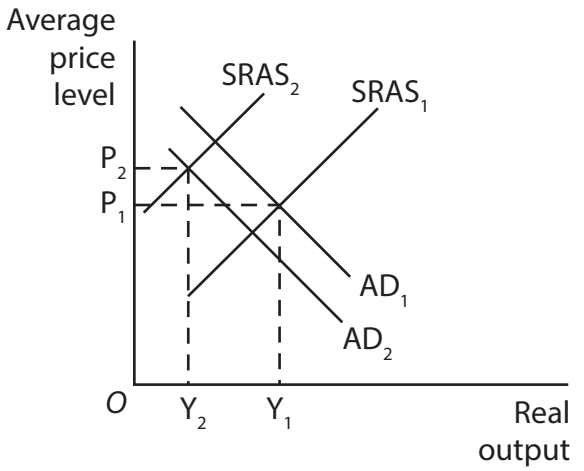
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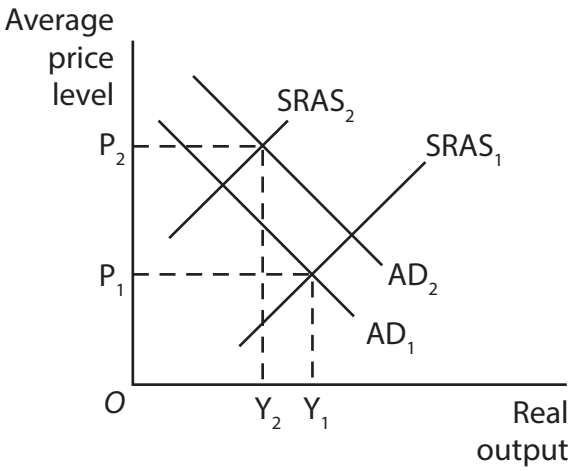
B



C



D



Which **one** of these aggregate demand (AD) and short-run aggregate supply (SRAS) diagrams represents the most likely effect of a substantial currency depreciation?

- ☒ **A**
- ☒ **B**
- ☒ **C**
- ☒ **D**

(Total for Question 4 = 1 mark)

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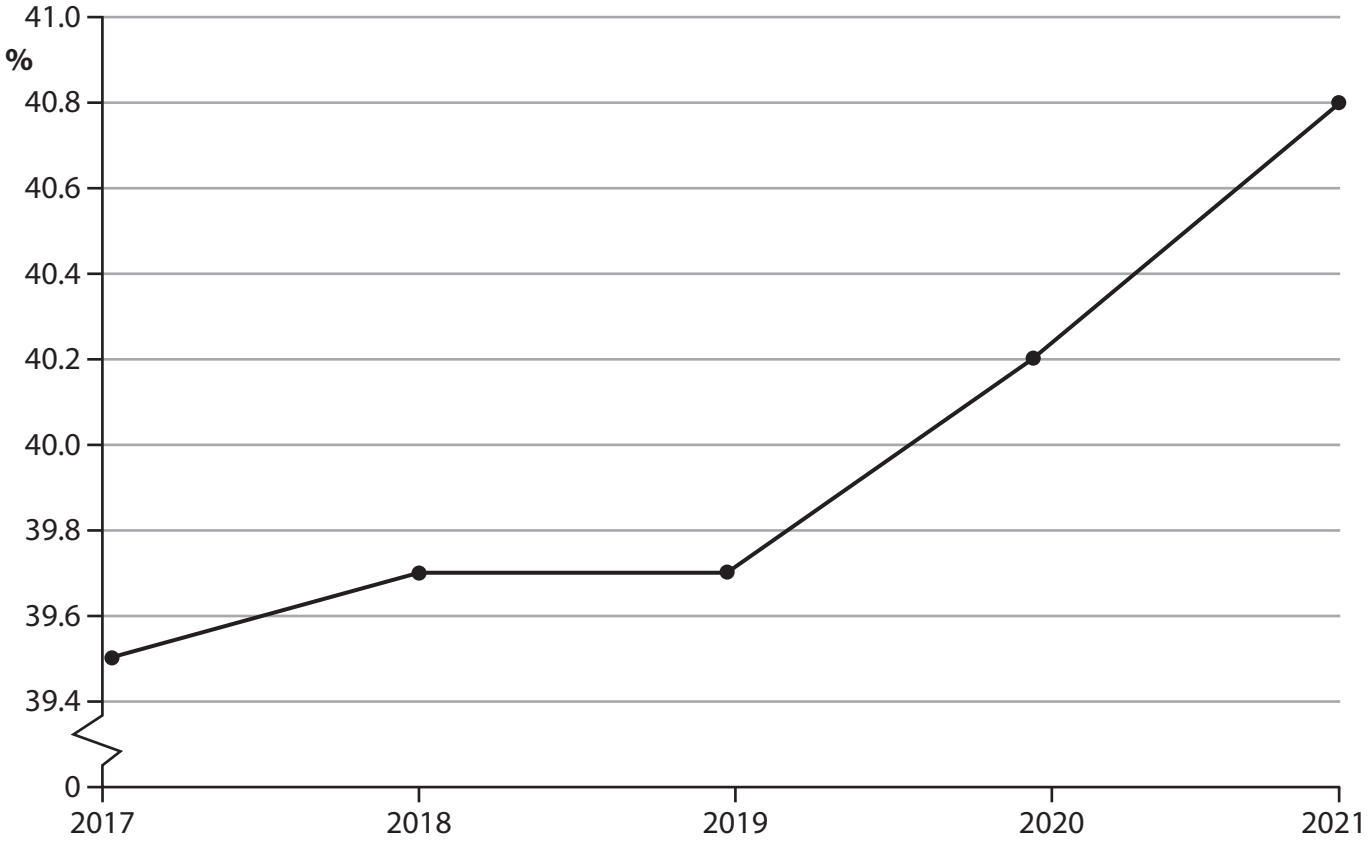
5 Between December 2022 and December 2023, Australia's export prices decreased by 4.8% and import prices decreased by 3.1%.

What was Australia's terms of trade in December 2023 if December 2022 = 100?

- ☒ **A** 64.58
- ☒ **B** 98.25
- ☒ **C** 101.79
- ☒ **D** 154.84

(Total for Question 5 = 1 mark)

6 The chart shows Uruguay's Gini coefficient, expressed as a percentage, between 2017 and 2021.



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

- ☒ **A** Uruguay's Lorenz curve shifted closer to the line of perfect equality
- ☒ **B** Uruguay experienced perfect income inequality
- ☒ **C** Uruguay's Lorenz curve shifted away from the line of perfect equality
- ☒ **D** Income inequality in Uruguay decreased by 1.3 percentage points

(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 2020 the value of world exports was $22.5 trillion.

With reference to Figure 1, calculate the value of world GDP in 2020. You are advised to show your workings.

(2)

(b) With reference to Figure 1 and the first paragraph of Extract A, examine **two** factors that contributed to 'increased globalisation'.

(8)

(c) Explain what is meant by 'protectionist policies'. (Extract A, line 14)

(4)

(d) With reference to the third paragraph of Extract A, analyse **two** roles of the World Trade Organization (WTO).

(6)

(e) With reference to the information provided and your own knowledge, discuss the likely economic benefits to China of signing free-trade agreements with other countries.

(14)

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(a) In 2020 the value of world exports was $22.5 trillion.

With reference to Figure 1, calculate the value of world GDP in 2020. You are advised to show your workings.

(2)

In 2020 world exports = 26.3% of world GDP (Figure 1)

World GDP = $22.5 trillion ÷ 26.3 × 100

= $85.55 trillion

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(b) With reference to Figure 1 and the first paragraph of Extract A, examine **two** factors that contributed to 'increased globalisation'.

(8)

Globalisation is the growing integration and interdependence of the world's economies through trade, capital flows, migration and the spread of technology. Figure 1 shows world exports rose from 20% of world GDP in 1980 to 26.3% in 2020, an increase of 6.3 percentage points, reaching a peak of about 31% in 2008.

Factor 1: the reduced cost of transport. Containerisation, larger ships, more fuel-efficient aircraft and better port and road infrastructure have cut the cost per unit of moving goods between countries. This lowers the final price of imported goods, so trade becomes profitable for a wider range of products and firms can source components from the cheapest country. As a result more goods are traded and exports grow faster than GDP, which is why the export share of GDP rose.

Factor 2: the increased significance of TNCs. Transnational corporations expanded into new markets and invested abroad to increase sales and profits, using offshoring and outsourcing to locate each stage of production where costs are lowest. This creates global supply chains in which components cross borders many times, so a large share of world trade is now trade within TNCs, raising world exports as a % of GDP.

However, the reduced cost of transport is probably the more significant factor, since TNC supply chains only became profitable because shipping costs fell, and container volumes have grown enormously in the last 50 years. The impact has also differed between countries: landlocked developing countries have gained far less from containerisation than those with seaports. Moreover, Figure 1 shows globalisation has slowed since 2011, with the export share falling from about 30.5% to 26.3% in 2020, so these factors were not enough to keep globalisation increasing, and other factors such as the fall in protectionism after WTO negotiations also

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(c) Explain what is meant by 'protectionist policies'. (Extract A, line 14)

(4)

Protectionist policies are government measures that restrict free trade between countries in order to protect domestic industries and jobs from foreign competition, for example tariffs, quotas, subsidies to domestic producers and non-tariff barriers such as regulations and embargoes.

In Extract A the USA and the EU used protectionist policies on China to protect national security, and as a result growth in trade and investment increased at a slower rate after 2010 ('slowbalisation').

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(d) With reference to the third paragraph of Extract A, analyse **two** roles of the World Trade Organization (WTO).

(6)

Role 1: to promote free trade and trade liberalisation. The WTO runs negotiating rounds in which members agree to reduce tariffs, quotas and other trade barriers, and it applies the "most favoured nation" principle so a tariff cut for one member applies to all. Lower barriers allow countries to specialise according to comparative advantage, increasing world output, economic growth and living standards. Extract A suggests this role has been weakened, as the WTO "was ineffective in preventing the USA and the EU from using protectionist policies" against China.

Role 2: to resolve trade disputes. When a member believes another has broken trade rules, for example by imposing illegal tariffs or dumping, the WTO's dispute settlement process provides a forum to negotiate and can rule against the offending country and authorise retaliation. This reduces the risk of tit-for-tat trade wars, which would cut trade flows and output for both sides. Because disputes between China and the USA and the EU were not resolved, China instead promoted trade with developing countries in Asia, Africa and South America and signed free-trade agreements with 28 countries, which WTO rules allow as long as they cover substantially all trade.

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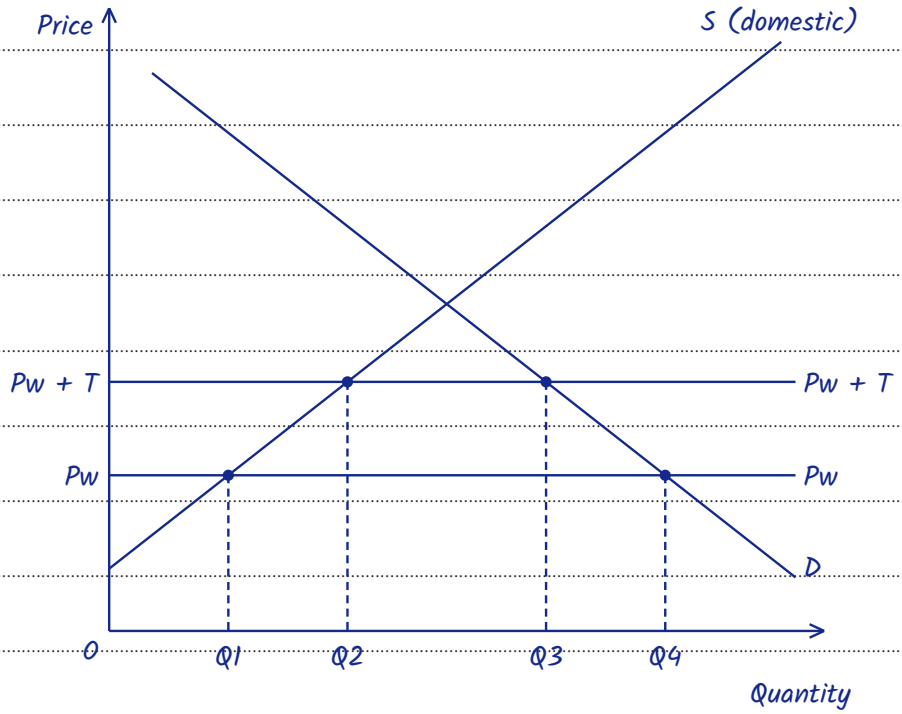
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(e) With reference to the information provided and your own knowledge, discuss the likely economic benefits to China of signing free-trade agreements with other countries.

(14)

A free-trade agreement removes tariffs, quotas and other barriers to trade between member countries. By 2022 China had signed free-trade agreements with 28 countries, allowing the free movement of goods and services and removing restrictions on FDI, and it joined RCEP, a free-trade area covering one-third of world GDP.

Trade creation and specialisation. Removing tariffs lets China specialise in goods where it has a comparative advantage, such as manufactured goods, and import from lower-cost partners. In the diagram, removing a tariff lowers the price of an import from Pw + T to Pw. Domestic consumption rises from Q3 to Q4, high-cost domestic output falls from Q2 to Q1, and imports grow from Q2Q3 to Q1Q4, so consumer surplus rises and resources are allocated more efficiently. With exports to the 28 countries rising to nearly 38% of China's global exports in 2023, net exports and AD increase, raising real GDP through the multiplier, which supports the Government's aim to "increase the country's rate of economic growth".



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Less dependence on developed countries. Figure 2 shows the share of China's exports going to developed countries fell from about 46% in 2010 to about 34% in April 2023, while the share to developing countries rose from about 23% to about 36%. Diversifying export markets reduces the risk from US and EU tariffs, so exports, output and employment become more stable. A current account surplus and incomes from exports are protected.

Economies of scale, competition and FDI. Access to larger markets lets Chinese firms increase output and cut long-run average costs. More competition from partner firms reduces x-inefficiency and encourages innovation, raising dynamic efficiency. Removing restrictions on FDI increases injections into the circular flow and brings technology transfer, increasing productivity and shifting LRAS to the right. Consumers gain from lower prices and more choice, improving economic development.

However, the benefits may be limited. Some trade may be trade diversion, where China switches imports from a low-cost non-member to a higher-cost member, distorting comparative advantage. Imports may rise faster than exports, worsening the current account. Domestic firms that cannot compete with partner-country firms may exit the market, causing structural unemployment. Greater interdependence also makes China more exposed to external shocks in RCEP economies.

The size of the gain depends on the partners. RCEP is likely to bring larger benefits than the 28 separate agreements, as it covers one-third of world GDP and includes nearby countries, so transport costs are lower. Trade with RCEP members grew by only 5.3% between 2021 and 2023, which is modest, and in the long run "China cannot easily replace its loss of trade with the USA and the EU", which are still its largest export markets taking around a third of its

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exports.

Overall, the agreements are likely to bring significant benefits in diversifying China's exports and raising growth, especially through RCEP, but they are a partial substitute rather than a replacement for access to the US and EU markets, so the size of the benefit depends on how far the trade wars continue.

(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 In 2022 Türkiye's deficit on the current account of the balance of payments was $48.75 billion. In the same year, Canada's deficit on the current account of the balance of payments was $6.65 billion.

Evaluate measures that could be taken to reduce a current account deficit on the balance of payments. Refer to a country of your choice in your answer.

(Total for Question 8 = 20 marks)

9 In 2022 Mozambique had a Human Development Index (HDI) score of 0.46 whereas Guatemala had a HDI score of 0.63.

Evaluate economic factors that constrain the growth **and** development of a developing country. Refer to a developing country of your choice in your answer.

(Total for Question 9 = 20 marks)

10 Between 2002 and 2022 Italy's public expenditure as a proportion of GDP increased from 47.1% to 56.7%.

Evaluate the likely economic effects of an increase in public expenditure as a proportion of GDP. Refer to a developed country of your choice 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** ☐

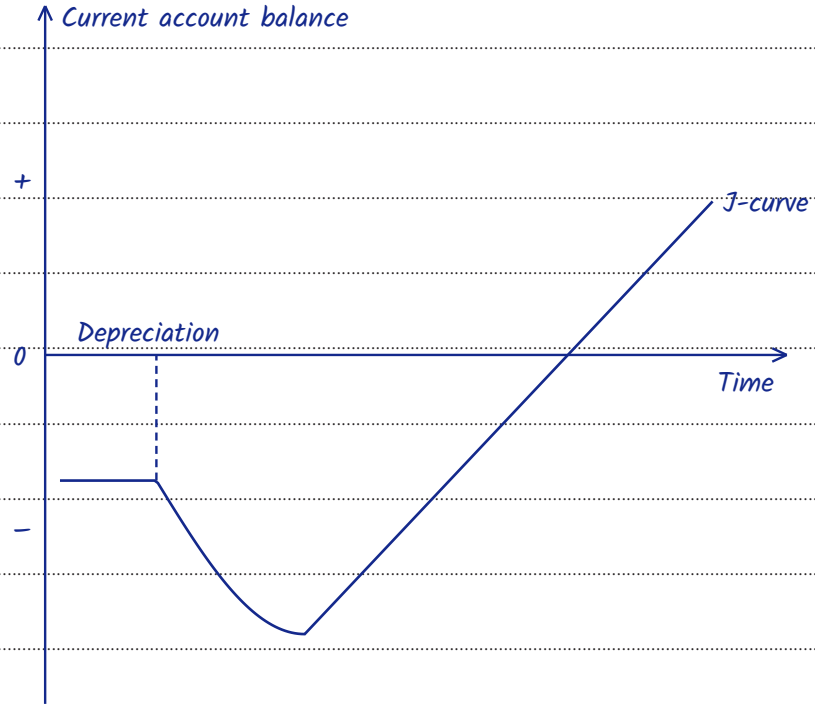
The current account of the balance of payments records trade in goods and services, primary income such as investment income, and secondary income such as remittances. A deficit means the value of outflows is greater than the value of inflows, mainly because imports exceed exports. In 2022 Türkiye had a current account deficit of $48.75 billion, around 5% of its GDP and over seven times Canada's $6.65 billion. Türkiye imports almost all its oil and gas, so the rise in energy prices in 2022 increased its import bill sharply, while very high inflation, peaking at about 85% in 2022, made its exports less competitive.

1. Deflationary (expenditure-reducing) policies. The central bank can raise interest rates, increasing the cost of borrowing and the reward for saving, so consumption and investment fall. The government can also raise income tax or cut public spending, reducing disposable income. As incomes fall, spending on imports falls through the marginal propensity to import, and lower inflation makes exports more price competitive. Türkiye followed this route from June 2023, raising its policy rate from 8.5% to 50% by March 2024.

2. Depreciation of the currency (expenditure-switching). A lower exchange rate makes exports cheaper in foreign currency and imports dearer in lira, so consumers switch from imports to domestic goods and foreign buyers buy more Turkish exports, such as cars, textiles and tourism. If the Marshall-Lerner condition holds, meaning the sum of the price elasticities of demand for exports and imports is greater than one, the current account improves. However, the J-curve shows it first worsens, because in the short run demand is price inelastic and contracts are

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fixed, so the higher price of imports raises the import bill.



3. Supply-side policies. Spending on education and training raises human capital and labour productivity, investment in infrastructure cuts transport costs, and tax relief for R&D encourages innovation. These lower unit costs and improve quality, so Turkish exports become more competitive in price and non-price terms, raising the value of exports. Policies to diversify into higher value-added exports, and to develop renewable energy to replace imported oil and gas, would also reduce the deficit permanently.

4. Protectionism. Tariffs raise the price of imports and quotas limit their quantity, so the value of imports falls and domestic producers gain market share.

Evaluation. The effectiveness of deflationary policy depends on how much of the fall in spending is on imports. Since Türkiye's imports are largely energy and intermediate goods, with a low price elasticity of demand, a large fall in AD and real output would be needed, increasing

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unemployment and reducing long-run growth. Higher interest rates may also attract hot money and cause the lira to appreciate, reducing the price competitiveness of exports and offsetting the policy. There are also time lags of 18 months to two years before interest rate changes take full effect.

Depreciation is only effective if the Marshall-Lerner condition is met and if spare capacity allows exporters to raise output. Türkiye's experience shows the risk: the lira fell sharply in 2021 and 2022, yet the deficit widened, because import prices rose and fed into inflation, raising costs and eroding the competitive gain. Depreciation also increases the burden of debt held in foreign currencies.

Supply-side policies address the underlying cause, but they take many years to work and are costly, which may increase the budget deficit and national debt. Protectionism is largely ruled out for Türkiye, as it is a WTO member and in a customs union with the EU, its largest export market, and tariffs would invite retaliation and raise the cost of imported components, reducing exports.

It also matters whether the deficit needs reducing at all. A deficit of 5% of GDP financed by short-term capital is risky, but one financed by FDI that builds export capacity may be sustainable. Canada's deficit is small relative to its GDP and is not a concern, whereas Türkiye's is large and persistent.

In conclusion, in the short run tighter monetary policy is the most effective measure for Türkiye, as it reduces inflation and import demand quickly and restores confidence in the lira, although it costs output and jobs. In the long run, only supply-side policies to raise productivity and reduce dependence on imported energy can reduce the deficit sustainably, so a combination of the two

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is likely to be the best approach.

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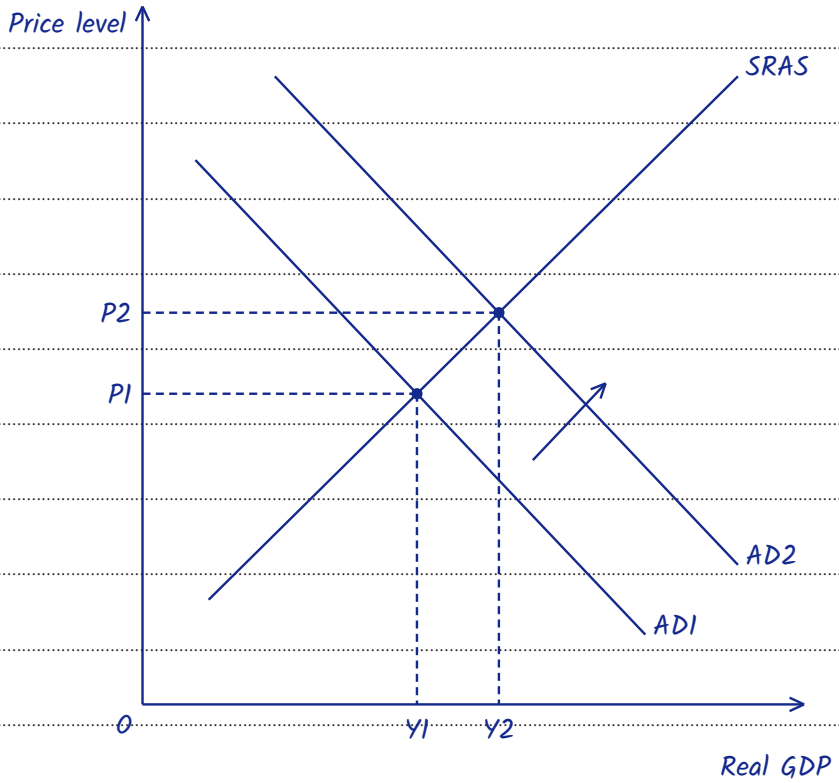
Write the answer to your SECOND chosen question here.

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** ☒

Public expenditure is spending by the government on goods and services such as health, education, defence and infrastructure, together with transfer payments such as pensions and benefits. As a proportion of GDP it measures the size of the state in the economy. In Italy it rose from 47.1% of GDP in 2002 to 56.7% in 2022, an increase of 9.6 percentage points, which is one of the highest ratios in the EU.

1. Higher aggregate demand and economic growth. Government spending is a component of AD (AD = C + I + G + (X − M)) and an injection into the circular flow of income. An increase in G shifts AD to the right from AD1 to AD2. Because the extra spending becomes income for firms and workers, who then spend part of it, there is a positive multiplier effect, so real output rises by more than the initial increase, from Y1 to Y2.



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2. Lower unemployment and higher incomes. The demand for labour is a derived demand, so as output rises firms hire more workers and cyclical unemployment falls, which was about 8% in Italy in 2022. Higher employment raises household incomes and tax revenue.

3. Long-run supply-side gains. If spending goes on infrastructure, education and healthcare, it increases the quantity and quality of capital and human capital, raising productivity and shifting LRAS to the right. Italy is using around €190 billion of EU recovery funds largely for this purpose. Greater provision of public services also raises living standards, and higher transfer payments reduce income inequality and poverty.

4. Inflation and the public finances. As AD rises the price level rises from P1 to P2, causing demand-pull inflation. Unless taxes rise by the same amount the budget deficit grows, so the government must borrow more and the national debt increases. Italy's debt is around 140% of GDP and its budget deficit was about 8% of GDP in 2022, partly because of spending on the Superbonus home renovation tax credit and energy support.

5. Crowding out and efficiency. Extra government borrowing increases the demand for loanable funds and raises interest rates, reducing private investment and consumption (financial crowding out), and the state uses factors of production that the private sector could have used (resource crowding out). A larger state with less role for the private profit motive may also reduce productive and allocative efficiency.

Evaluation. The size of the effect depends on the size of the multiplier. Italy is an open economy with a high marginal propensity to import and high tax rates, so the multiplier is likely to be small and much of the extra spending leaks out of the circular flow. The effects also

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depend on the level of spare capacity: if the economy is near full employment on a steep part of the AS curve, more spending mainly causes inflation rather than higher real output.

The type of spending matters most. A large share of Italy's increase is on pensions for an ageing population, which are among the highest in the EU at about 15% of GDP. Transfer payments do not raise productive capacity, and generous benefits may reduce the incentive to work. This helps to explain why Italy's real GDP growth averaged well under 1% a year in the two decades before the pandemic, despite rising public expenditure.

The ratio itself must also be treated with care. It can rise because GDP falls rather than because spending rises: the ratio jumped in 2020 when Italy's GDP fell sharply during the pandemic. Over 20 years, a rise of 9.6 percentage points is gradual, so the effects build slowly. In addition, the effect on the budget depends on tax revenue: if growth raises tax receipts, the deficit may not worsen much. Crowding out is also less likely when interest rates are low, as they were in the eurozone for most of 2014 to 2021, though higher rates since 2022 have raised Italy's debt interest payments.

In conclusion, an increase in public expenditure as a proportion of GDP is likely to raise AD and reduce unemployment in the short run, but the long-run effects depend on what the money is spent on. For Italy, where much of the rise is on pensions and debt is already very high, the most likely effects are a heavier debt burden and limited gains in growth, unless spending is redirected towards investment in infrastructure and human capital that raises productivity.

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TOTAL FOR PAPER = 80 MARKS

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Tuesday 3 June 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 global economy

Figure 1 World exports, % of world Gross Domestic Product (GDP), 1980–2020

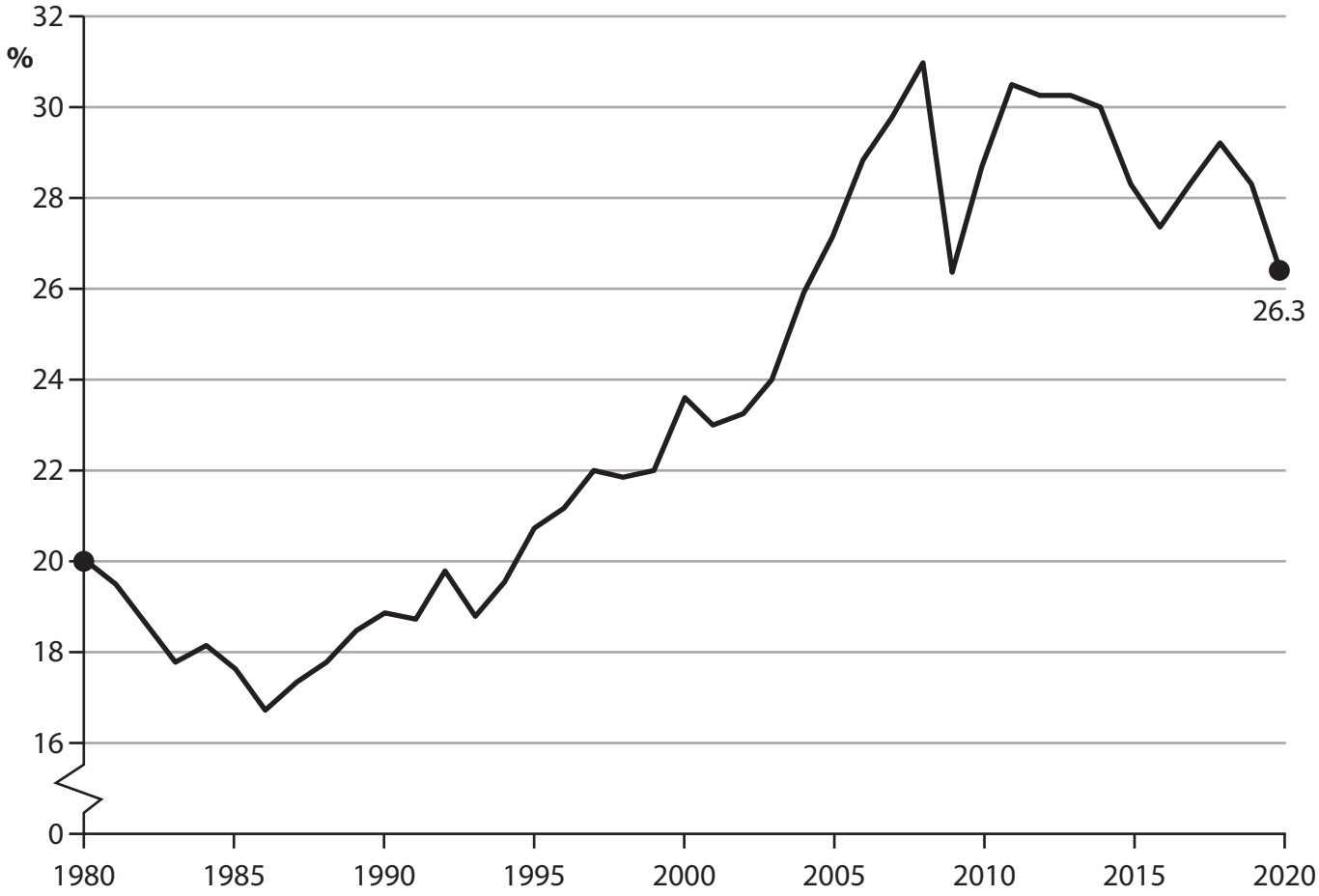
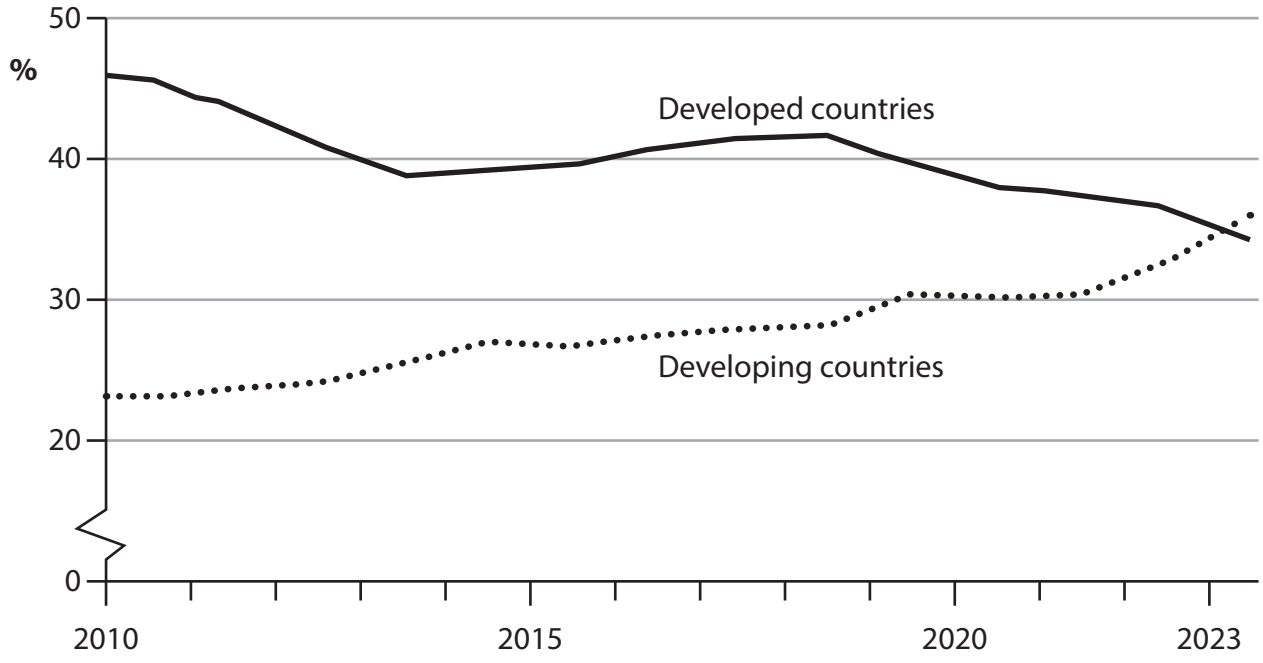


Figure 2 Destination of exports from China, % of total exports, January 2010 to April 2023



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Extract A Globalisation

Between 1980 and 2020, world exports as a percentage of GDP rose significantly. Economists identified a combination of factors that contributed to increased globalisation during this period:

- the reduced cost of transport
- the reduced cost of communications
- the increased significance of TNCs
- political change (breakdown of the Soviet system and the opening up of China).

After the breakdown of the Soviet system in the early 1990s, the world economy experienced two significant periods in relation to global exports. Until 2010 there was a period of 'hyperglobalisation'. The flows of foreign direct investment (FDI) and portfolio investment across borders grew faster than the trade in goods and services. After 2010 there was a period of 'slowbalisation' in which growth in trade and investment increased at a slower rate. This was as a result of the increased use of protectionist policies by the USA and the European Union (EU) on China to protect national security. The USA and the EU are China's largest export markets.

Economists claimed that the World Trade Organization (WTO) was ineffective in preventing the USA and the EU from using protectionist policies. These policies prompted the Government of China to reduce its trade dependency on developed countries by promoting trade with developing countries in Asia, Africa and South America. By 2022 China had signed free-trade agreements with 28 countries. These agreements allow the free movement of goods and services and remove restrictions on FDI. In 2022, China also became a member of the Regional Comprehensive Economic Partnership (RCEP), a free-trade area, that contributes to one-third of the world's GDP.

China's Government believes that these 28 free-trade agreements and its RCEP membership could increase the country's rate of economic growth and improve its economic development. In 2023 exports to these 28 countries contributed to nearly 38% of China's global exports, exceeding its exports to developed countries. Trade between China and the other RCEP member countries increased by 5.3% between 2021 and 2023.

However, many economists suggest that, in the long term, China cannot easily replace its loss of trade with the USA and the EU by trading with other countries and regions. The current trade wars with the USA and the EU mean that China remains highly exposed to risks that global trade may further decline in 2024. Consequently, China would not want to see continued 'slowbalisation'. It has been a beneficiary of trade liberalisation, experiencing a tenfold increase in its total trade since it became a member of the WTO in 2001.

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Acknowledgements

Figure 1 adapted from: World Bank, https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?end=2022&start=1973&view=chart

Figure 2 and Extract A adapted from: https://www.ft.com/content/e167eca5-e1e7-4927-abb5-d87dfb699cf3
https://www.ft.com/content/c51622e1-35c6-4ff8-9559-2350bfd2a5c1