Write your name here

Surname	Other names

Pearson Edexcel GCE

Centre Number | Candidate Number

Economics

Advanced
Unit 4: The Global Economy

Thursday 23 June 2016 – Afternoon
Time: 2 hours

Paper Reference
6EC04/01

You do not need any other materials.

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 **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** UK productivity, as measured by output per worker, was 25 percentage points below the average for the rest of the major G7 economies in 2012, the widest gap since 1992.

(a) Assess the view that productivity is the most significant factor influencing the international competitiveness of an economy's goods and services.

(20)

(b) Evaluate the impact of a fall in productivity on an economy.

(30)

(Total for Question 1 = 50 marks)

***2** Between 1986 and 2010, income inequality, as measured by the Gini coefficient, increased from 0.21 to 0.26 in Sweden; from 0.25 to 0.3 in Germany; and from 0.37 to 0.41 in the USA.

(a) Assess possible causes of an increase in income inequality within a country.

(20)

(b) Evaluate ways by which income inequality **and** wealth inequality might be reduced in a developed country of your choice.

(30)

(Total for Question 2 = 50 marks)

***3** In Nigeria, a 70% tariff has been applied to imports of fully assembled motor vehicles. In addition, increased tariffs of between 20% and 100% have been applied on certain agricultural goods, such as wheat and rice.

(a) Assess the possible reasons why a country might impose tariffs on imports.

(20)

(b) Apart from increasing trade barriers, assess factors which might explain changes in a country's pattern of trade with other countries. Refer to the principle of comparative advantage in your answer.

(30)

(Total for Question 3 = 50 marks)

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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 1** ☐ **Question 2** ☐ **Question 3** ☐

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TOTAL FOR SECTION A = 50 MARKS

SECTION B

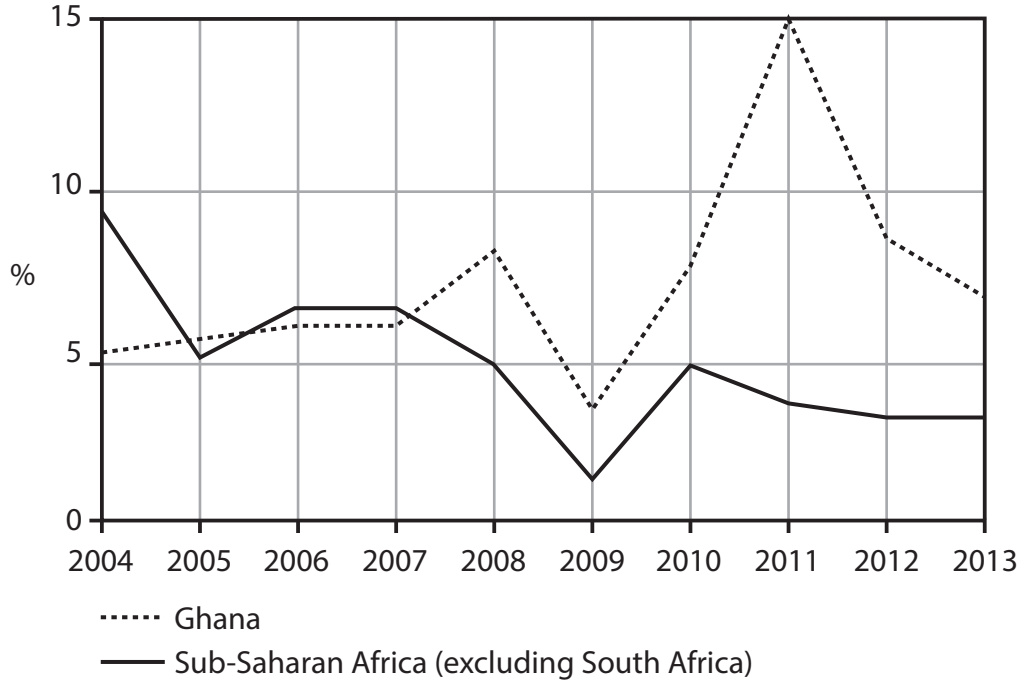
Answer ONE question from this section.

You should spend 60 minutes on this section.

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

4 Ghana's Economy

Figure 1 GDP growth rate 2004–2013 (annual % change in GDP)



(Source: http://www.worldbank.org/en/country/ghana)

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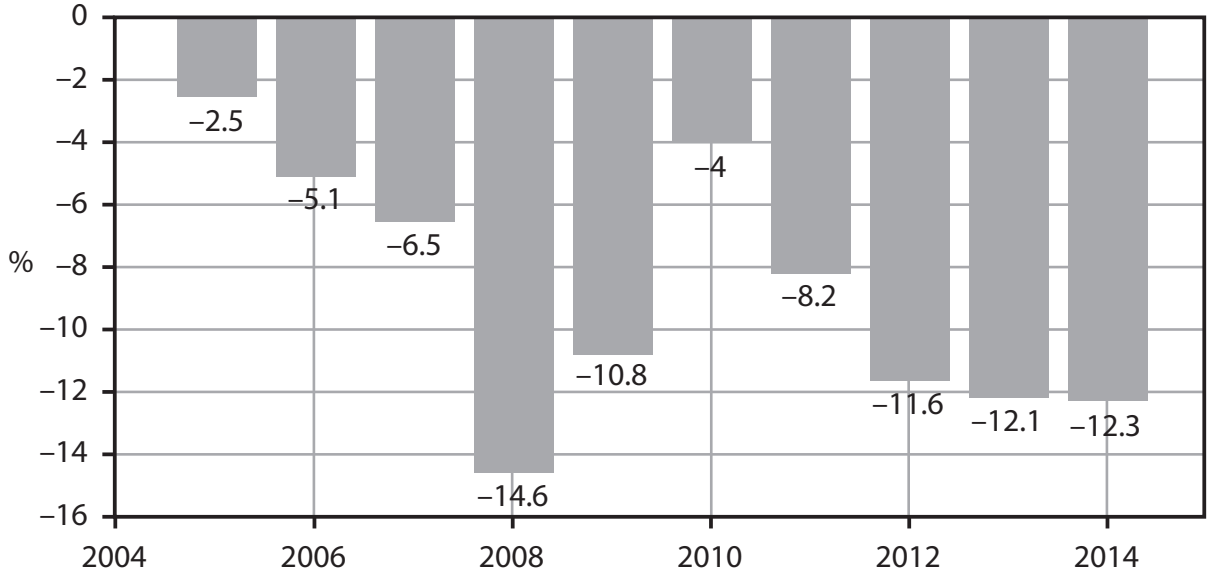
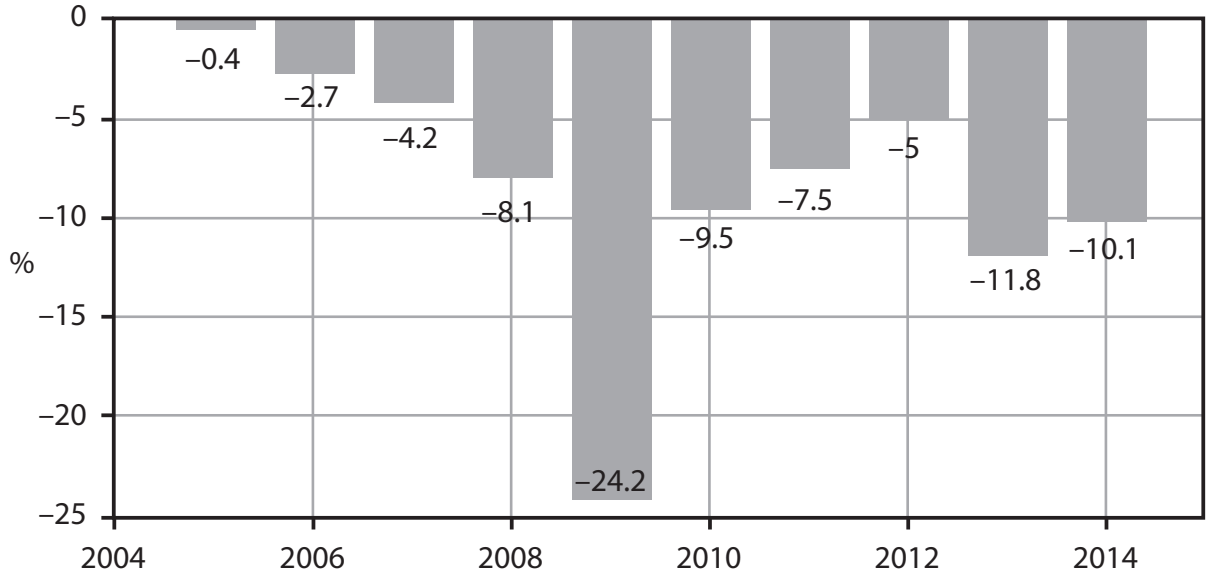
Figure 2 Ghana's current account of the balance of payments as a proportion of GDP, 2005–2014



(Source: http://www.tradingeconomics.com/ghana/current-account-to-gdp)

Figure 3 Ghana's government budget balance as a proportion of GDP 2005–2014



(Source: http://www.tradingeconomics.com/ghana/government-budget)

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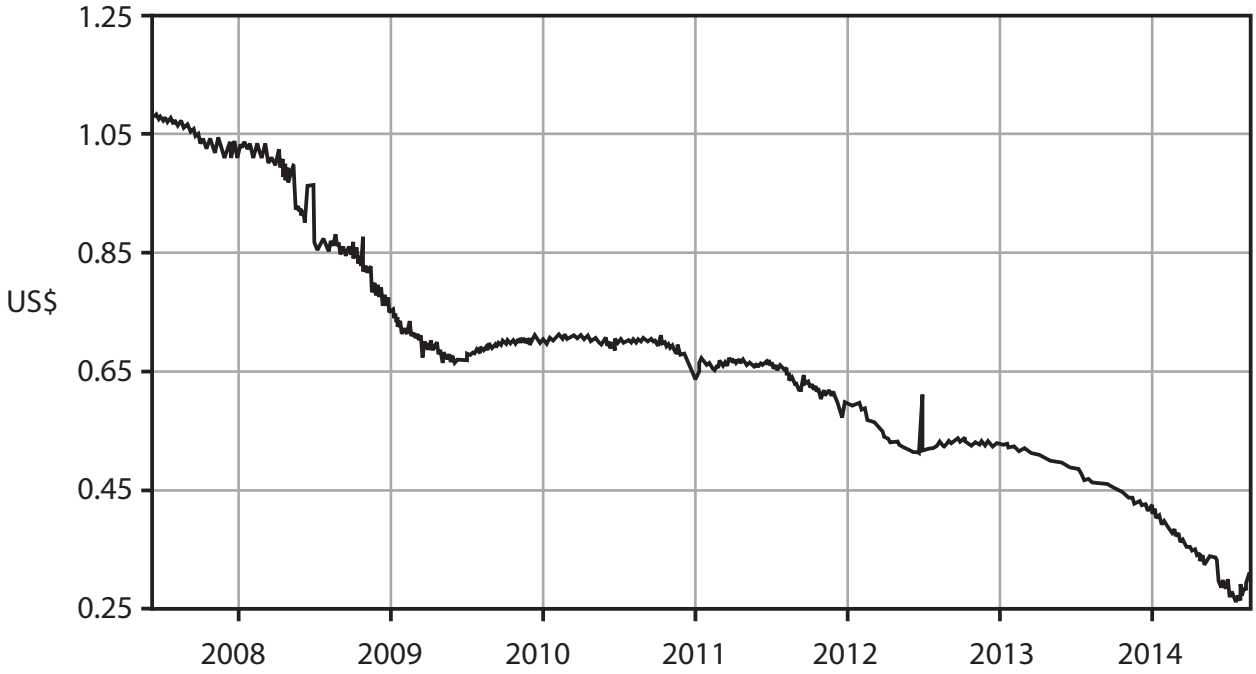
Figure 4 Exchange rate: US dollars per 1 Ghana cedi, July 2007 to September 2014



(Source: http://www.xe.com/currencycharts/?from=GHS&to=USD&view=10Y)

Figure 5 Central Government expenditure, 2009-2014 (% of GDP)

	2009	2010	2011	2012	2013	2014
Total Government expenditure of which:	**24.8**	**25.7**	**25.1**	**33.1**	**31.8**	**31.1**
Wages and salaries	6.8	8.7	7.5	10.0	10.4	9.7
Interest payments	2.7	3.0	2.7	3.4	4.7	6.8
Transfers to other Government units	3.5	4.2	4.2	6.0	4.9	4.6
Capital expenditure	6.8	6.7	6.2	6.6	5.1	4.8
Other	5.0	3.1	4.5	7.1	6.7	5.2

(Source: http://ifsghana.org/images/pdfs/ghana_a_review_of_the_2015_national_budget_final.pdf)

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Extract 1 Ghana seeks International Monetary Fund (IMF) help after its currency depreciates by 40%

Ghana, the country that was the prime example of the 'Africa rising' story of strong economic growth and improved governance, is to seek help from the IMF. The reversal of fortunes underlines the challenges the continent still faces. The West African nation will turn to the IMF for financial assistance after its currency (the cedi) plunged by 40% in value against the US dollar, making the cedi the worst performing currency in the world in 2014. Ghana is the second sub-Saharan African country to turn to the IMF for help in 2014, after Zambia announced its intention to do so in June.

Ghana's request for a bailout is likely to shake some investors, as Ghana was seen as a model of economic and political development in the continent. In 2007 it became the first country in sub-Saharan Africa, apart from South Africa, to raise $750 million through the issue of 10-year government bonds.

Although the continent still has some of the world's fastest-growing economies, issues including conflict, strikes, overspending by the state and the slow pace of reforms have put a brake on expansion.

The opening of talks with the IMF about a financial rescue is a policy reversal for John Mahama, Ghana's president, who has long insisted that his country would resolve its economic problems using home-grown solutions. Critics said Mr Mahama's government has been slow to cut public spending to bring down the double-digit fiscal deficit, although some of its policies have also been praised. For example, the President said that the Government had introduced new taxes to increase revenues. Further, to reduce the current account deficit, Mr Mahama plans to provide "stimulus and incentives" such as investment grants and the removal of export taxes to encourage agricultural businesses to produce foodstuffs domestically – including rice, sugar and poultry – that currently cost the country $1 billion per year to import. He also said he wanted to create a system to incentivise cocoa traders through subsidies to process more beans within the country into raw materials for chocolate production such as cocoa powder, rather than simply exporting the commodity.

Seth Terkper, Ghana's finance minister, said the president had "directed [the government] to open discussion with the IMF" to support the country's growth programme, adding that the most immediate concern was "to stabilise the cedi and reduce the [fiscal] deficit".

Nearly three years after the start of oil production in Ghana, which was meant to strengthen the country's fiscal position, the country faces a double-digit fiscal deficit after a 75% increase in public sector salaries over two years. Inflation is rising rapidly as the cedi plunges.

Ghana ran a fiscal deficit equal to 11.8% of gross domestic product in 2013. The Government has promised to cut the deficit to 8.5% in 2014 but observers believe it would struggle to reduce it below 10%. The IMF warned, in its annual review of the Ghanaian economy in May 2014, that under current policies the fiscal deficit would stay at about 10.2% this year and 9.3% in 2015.

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Mr Terkper said: "We would like to have a complementary plan with the World Bank and the African Development Bank [in addition to the IMF programme] to achieve our objective to become an upper- middle-income economy."

(Source: adapted from www.ft.com/cms/s/0/195ce3ec-1a5f-11e4-8131-00144feabdc0.html#axzz3EgzRL7Xqid Last updated: August 3, 2014 3:16 pm By Javier Blas in London and from http://www.ft.com/cms/s/0/3c9d1018-97d1-11e3-8dc3-00144feab7de.html#axzz3H4SBcfSN 'Mahama vows to diversify economy as Ghana tackles fiscal turmoil' 17 February 2014)

(a) With reference to the information provided, outline **two** roles of the IMF.

(5)

(b) With reference to the fourth paragraph of Extract 1, explain **two** measures which the Government could take to reduce Ghana's deficit on the current account of the balance of payments.

(8)

(c) With reference to the information provided, examine **two** factors which might have caused the depreciation of Ghana's currency, the cedi.

(10)

*(d) Assess the likely effects of the fall in the external value of the cedi on Ghana's economy.

(12)

*(e) With reference to the information provided, evaluate measures by which Ghana's Government could reduce its fiscal deficit.

(15)

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(a) With reference to the information provided, outline **two** roles of the IMF.

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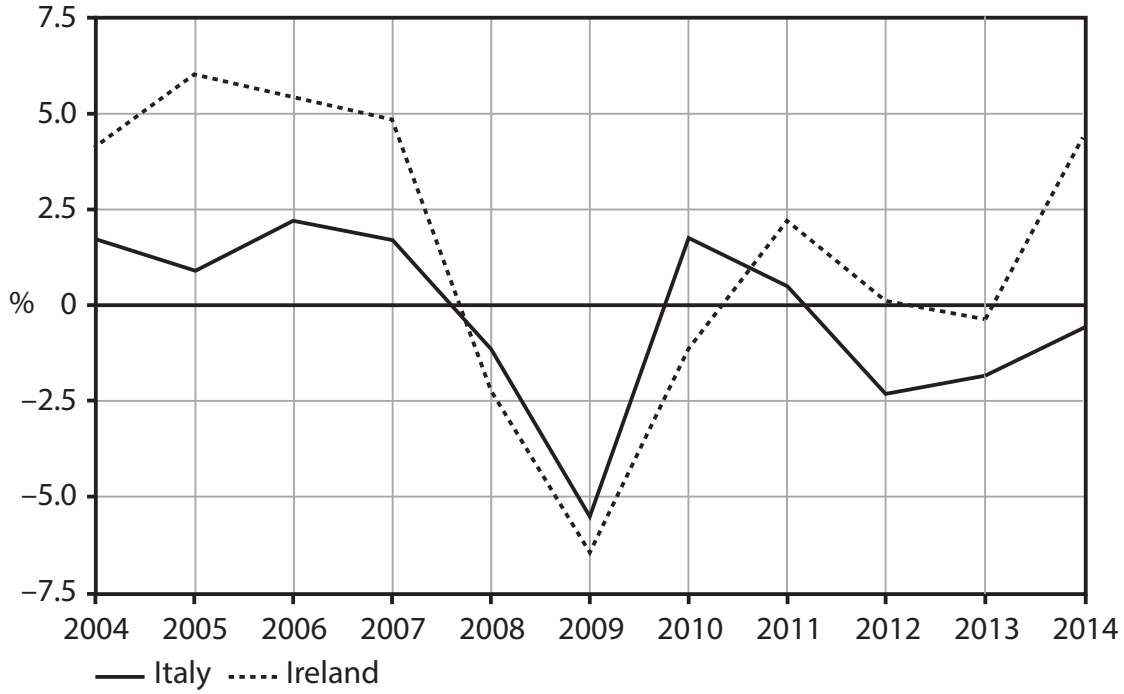
(Total for Question 4 = 50 marks)

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

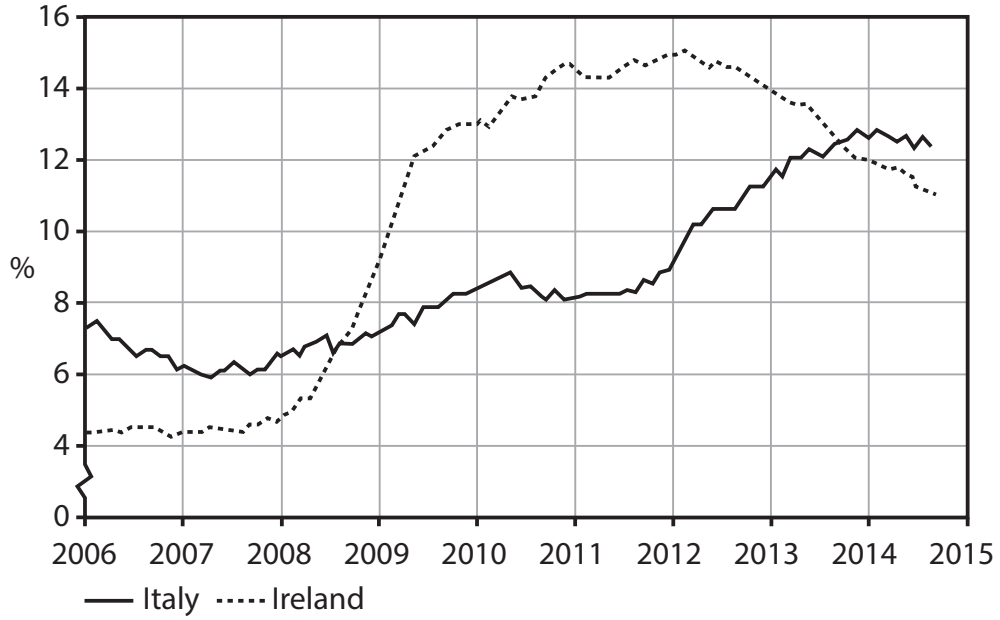
5 Eurozone: Italy and Ireland

Figure 1 GDP growth rate in Italy and Ireland (annual % change in GDP)



(Sources: http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/IT?display=graph and http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/IE?display=graph)

Figure 2 Italy and Ireland: ILO unemployment rates (%)



(Sources: http://www.tradingeconomics.com/italy/unemployment-rate and http://www.tradingeconomics.com/ireland/unemployment-rate)

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Extract 1 Italy's debt burden

The biggest question facing the economic stability of Europe is what happens if Italy continues to stagnate as it has done for the past 15 years. Unless there is a significant increase in economic growth, Italy's economic position is unsustainable and will result in eventual debt default. At that point, Italy's future in the eurozone would also be in doubt – and the future of the euro itself.

The fall in the general price level in Italy is raising the real value of debt. Between 2007 and 2013, the ratio of public sector debt to gross domestic product (GDP) rose from 103.3% to 132.6%. If Italy's economy continues to stagnate in 2015 and 2016, the debt-to-GDP ratio will be heading towards 150% of GDP. The problem is not the number but the trend which could ultimately result in Italy becoming insolvent. However, Japan is still solvent at a debt-to-GDP ratio more than 200%. But Japan, unlike Italy, has its own central bank. If investors believe that the country's debt can be stabilised at any given level, they will continue to refinance its debt.

The main reason for the explosion in the debt ratio has been the fall in nominal GDP. The only way out of this trap is for nominal GDP to rise faster than debt. But Italy, as a member of the eurozone, lacks the policy instruments.

Economic reforms may help to generate some growth but only in the long run. For example, measures to enable companies to make workers redundant more easily are unlikely to have an immediate impact. Italy needs to bring its taxes down to the eurozone average, and to improve the quality and efficiency of the public sector. Other possible remedies include a programme of European Central Bank (ECB) asset purchases (quantitative easing) and higher growth in the other eurozone economies.

(Source: adapted from http://www.ft.com/cms/s/0/02cb9932-3ff0-11e4-936b-00144feabdc0.html#axzz3E2evoa3V September 21, 2014 'Italy debt burden is a problem for us all' by Wolfgang Münchau)

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Extract 2 Ireland leaves eurozone behind as exports boom

Ireland's economy is growing at an explosive pace creating great demand for property. In its capital Dublin, house prices have risen 24% in the year to August 2014, though they are still far below their peak and 135 000 households are still in arrears from the last crisis. GDP surged 7.7% in the year to June 2014 as rising exports to the US, Britain and China transform the former crisis-state into the eurozone's star economy. Meanwhile, the rest of the eurozone remains in a slump. The turnaround comes less than a year after Ireland regained economic sovereignty as it is no longer subject to the ECB-IMF bail-out conditions. The collapse of the banking system in 2008 and the country's €67 billion rescue already seems like a long time ago.

Ireland has been held up as an excellent example of what can be achieved if a country adopts austerity measures and regains competitiveness through an "internal devaluation". For example, the Government cut public sector wages by 20%.

The Irish economy is unique, with an export industry of pharmaceuticals and computer software, led by US transnational companies exploiting Ireland's 12.5% corporation tax. The country has an export to GDP ratio of 108%, compared with 30% for Italy. Irish exports rose 12% between 2013 and 2014 at a time when world trade was stable. Ireland's biggest export earners are Google (€17 billion), Microsoft (€15 billion), Johnson and Johnson (€10.5 billion) and Pfizer (€5 billion).

However, unemployment is still 11.2% despite large scale emigration. Investment has stopped falling but only after reaching the lowest level in Irish history in 2013 as a share of GDP. Credit is contracting. Ireland's public sector debt has risen sharply to 124% of GDP in 2014 from 25% in 2007. The IMF expects the debt ratio to drop to 111% by 2018.

(Source: adapted from *The Daily Telegraph* 18 Sept 2014 By Ambrose Evans-Pritchard http://www.telegraph.co.uk/finance/economics/11107507/Ireland-leaves-eurozone-behind-as-exports-boom.html)

(a) With reference to Figure 1, contrast the rates of economic growth of Italy and Ireland since 2008.

(5)

(b) Analyse **two** possible reasons why Italy is experiencing a high rate of unemployment during a period when the general price level is falling.

(8)

(c) Examine **two** measures which might help to improve Italy's economic performance assuming it remains a member of the eurozone.

(10)

*(d) Evaluate the factors which might explain why the Irish economy is growing at 'an explosive pace' (Extract 2, line 1).

(12)

*(e) To what extent might a high public sector debt to GDP ratio be a cause for concern? Refer to the information provided in your answer.

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

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