

General Certificate of Education
June 2003
Advanced Level Examination



ECONOMICS **EC4W**
Unit 4 Working as an Economist: The European Union

Tuesday 10 June 2003 Morning Session

In addition to this paper you will require:

an 8-page answer book.
You may use a calculator.

Time allowed: 1 hour 40 minutes

Instructions

- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is EC4W.
- Answer the compulsory question.
- **At the very start of the examination**, tear along the perforations in order to detach the question on page 2 from the extracts.
- **The extracts** are printed on pages 3, 4, 5 and 6, which can be unfolded.

Information

- The maximum mark for this paper is 84. This includes up to 4 marks for Quality of Written Communication.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

Advice

- You are advised to spend the first 20 minutes reading the Case Study.

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Answer the compulsory question.

You may detach this page by tearing along the perforations.

Case Study:

THE EUROPEAN UNION

You are advised to spend the first 20 minutes thoroughly reading the Case Study before writing the report. The instructions below set the scene of the Case Study and explain what you should include in your report. The whole report will be marked out of 84, including 4 marks for Quality of Written Communication.

Setting the scene

You are an economist working for one of the regional policy units of the European Commission. You have been invited to an international conference where regional economic development is to be discussed. You are to present a report at this conference.

When writing your report, you should make use of the information in **Extracts A to F**, together with any other relevant knowledge you possess.

Requirements of the report

You are to write a report entitled: ‘The regional problem in the EU, and the policy response’.

Your report should:

- discuss what is meant by ‘the regional problem’ in the EU;
- explain why regional policy is no longer decided solely by national governments;
- assess the likely economic impact of EU regional policy and evaluate its effectiveness;
- conclude by recommending whether the EU should allocate more of its budget to regional policy (i.e. structural funds), giving reasons to justify your recommendation.

You will be given credit for demonstrating your ability to analyse, comment critically on, and make effective use of, the data provided. *(84 marks)*

Extract A: The regional problem

Disparities or imbalances between Europe's regions have been long reported by both the European Commission and independent experts. As early as 1958, it was reported that the regional GDP per head in Hamburg (Germany) was five times greater than in Calabria (Italy). Yet the Treaty of Rome, which created the European Community institutions, made no specific commitment to the idea of a Community regional policy. For almost two decades, the responsibility for regional policy remained with the member states.	1 5
The Commission showed recognition of regional problems in 1961 when it convened a conference in Brussels to consider what a European regional policy would constitute. In 1969, the Commission made proposals for the co-ordination of member states' regional policies and the creation of a European Regional Development Fund (ERDF). The Commission's proposals were not well received by the Council of Ministers. Only Italy was keen to see progress. West Germany was already feeling concern at the financial implications of the Common Agricultural Policy (CAP), and was not keen on making further open-ended commitments.	10
After 1969, a combination of three factors elevated the status of regional policy.	15
1 The issue of economic and monetary union (EMU) It was felt that regional disparities within the Community would work against this long-term aim. A single market with a single monetary policy across Europe would require counterbalancing measures for poorer areas affected by a tighter monetary policy than their regional economies could cope with.	20
2 The proposed enlargement of the Community to include Britain, Ireland and Denmark This would bring in a new set of disadvantaged regions to deal with in two of these countries.	
3 The issue of member state aid to industry Some countries were subsidising key industries. The Commission recommended that, in line with the commitment to fair competition in the Treaty of Rome, any state aid should be clearly measurable and transparent. It proposed that a distinction should be made between the 'central' or wealthy areas of the Community and the 'peripheral' regions or poorer areas, and that 80% of member states' aid should be targeted at poorer regions.	25
The European Regional Development Fund officially came into existence in 1975. In the 1980s, further interest in regional policy was encouraged when Spain, Portugal and Greece joined the Community, and European regional policy underwent further reforms in 1988, 1993 and 1999. The part of the EU budget spent on regional policy became known as the 'structural funds'. The following principles were agreed, guiding the operation of the structural funds:	30
<ul style="list-style-type: none"> ● Concentration: concentration of the funds on the areas of greatest need, as defined by 'objectives'. ● Programming: programs lasting several years would be the norm, to promote a strategic approach. ● Partnership: partnerships involving local and regional decision-makers, such as councils, regional assemblies, local business groups, trade unions and voluntary organisations, would be established, for the first time, to oversee and administer the funds. ● Additionality: the additionality requirement would be strengthened, ensuring that Community spending in the regions would not simply replace spending by national government, but be additional to it. 	35 40

Source: adapted from STEPHEN GEORGE and IAN BACHE, *Politics in the European Union* (Oxford University Press) 2001

Extract B: A narrowing prosperity gap is the EU's objective: the case of Wales

The purpose of European structural funding is to promote the development of the poorer parts of the European Union. The European Summit of March 1999 agreed to allocate €195bn (approximately £122bn) to structural funds across the whole of Europe for the program period 2000-2006, most of which will be spent through three identified objectives.	1
<ul style="list-style-type: none"> • Objective 1 is to promote the development and structural adjustment of regions whose development is lagging behind. For example, the Commission has established that in the broad area of 'West Wales and the Valleys', GDP per head is less than 75% of the EU average. Objective 1 brings the highest level of funding from the EU budget, which in the case of Wales is about £1.2bn in total over the 6 year program, or about £350 per head of the population of Wales. 	5 10
<ul style="list-style-type: none"> • Objective 2 is to provide assistance to areas undergoing economic change, to declining rural areas, crisis-hit fishing areas, and urban areas in difficulty. Objective 2 criteria are more complex. In Wales, the Objective 2 map is likely to include some areas of Cardiff, Newport and Powys, as well as the Objective 1 areas, and will total about £50m. 	
<ul style="list-style-type: none"> • Objective 3 is to combat social exclusion by promoting lifelong training and education, encouraging job creation, and by countering the adverse effects of economic and social change. It is designed to create a 'learning region'. In Wales, these funds are expected to benefit those areas not in Objective 1, including the whole of Powys, a large portion of Monmouthshire, Newport, and areas of Cardiff. Funds will total about £80m. 	15
In general, European structural funds must be 'matched', so the funds can only be used to pay for a proportion of the cost of eligible projects. The rest of the cost has to come from non-EU sources – the regional government budget or from the national state.	20
The Commission has also agreed four community initiatives for which further funding is available:	
<ul style="list-style-type: none"> • INTERREG III to assist cross-border cooperation in areas which might not be political regions or administrative regions, but might be seen as economic regions (for example West Wales and South East Ireland, which share strong transport links through car ferries and air services). • LEADER to stimulate rural development. • EQUAL to combat discrimination. • URBAN to promote urban development. 	25 30
By 1999, Wales was not only poor in a UK context, but also within Europe, with GDP per head at 75% of the EU average. More important, Wales was expected to grow at a slower rate than the UK or EU average. Reversing this trend is, therefore, the prime task of European structural funding: Wales needs to grow at a rate of 3 or 4% per year for 20 to 25 years, to have a chance of even reaching UK averages.	35

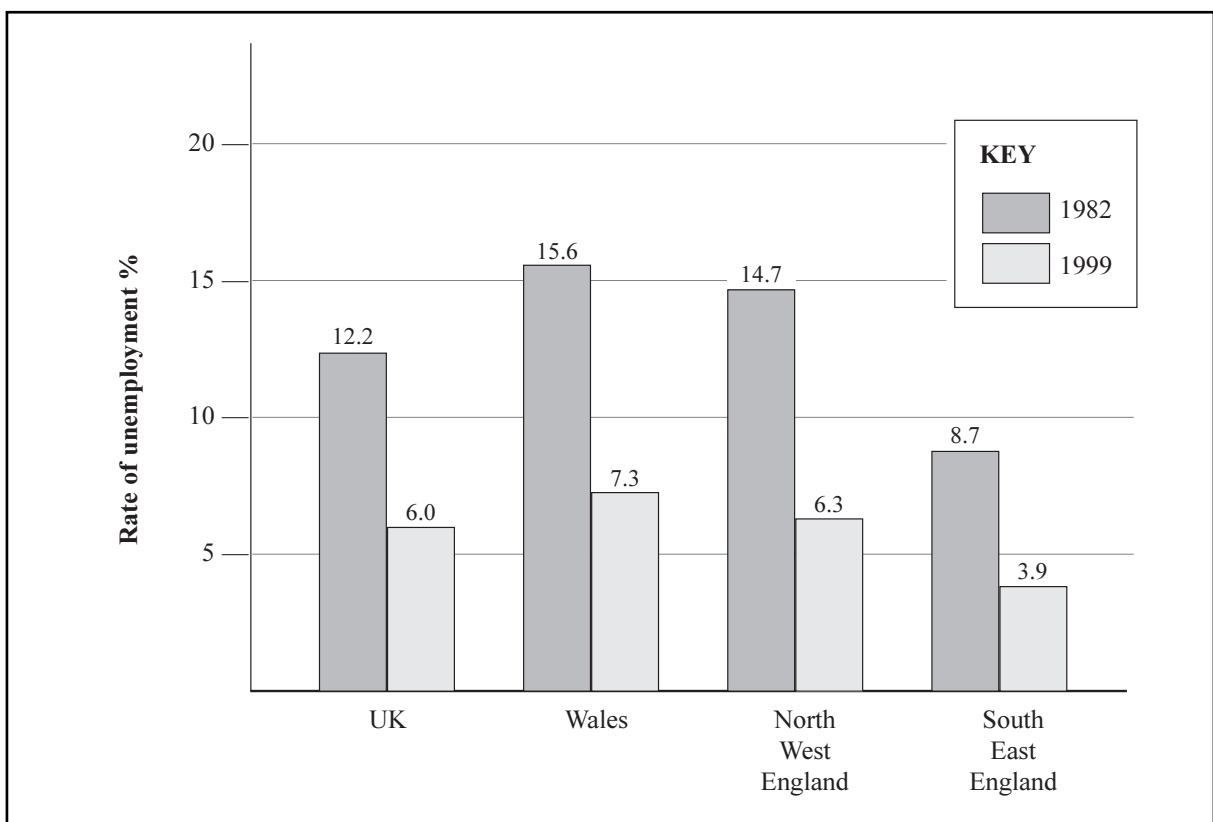
Source: *Western Mail Business News*, 19 January 2000

Extract C: GDP per head as a percentage of EU average, UK Objective 1 regions in the 1990s

The table from Eurostat (www.europa.eu.int/comm/regional_policy, 12 March 2002) is not reproduced here due to third-party copyright constraints.

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Extract D: Unemployment, United Kingdom and selected regions

Source: Office for National Statistics, 2001

EXTRACTS E AND F ARE ON PAGE 6

Extract E: Selected data for regions with highest and lowest rates of employment, 1999/2000

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Extract F: EU expenditure, budget composition %

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