

General Certificate of Education
January 2006
Advanced Level Examination



ECONOMICS

EC4W

Unit 4 Working as an Economist: The European Union

Thursday 26 January 2006 1.30 pm to 3.10 pm

For this paper you must have:

- 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.
4 of these marks will be awarded for Quality of Written Communication.
- You are reminded of the need for good English and clear presentation in your answer. The question should be answered in continuous prose.

Advice

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

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

It is the year 2007 and you are an economist working for the Department of Trade and Industry (DTI) in London. The EU is considering a further enlargement which will include Turkey. This country has recently achieved significant reforms in a number of areas including questions of human rights, the role of the military in society and relations with Greece over the status of Cyprus. The DTI now considers that there are no *political* barriers to the accession of Turkey, but wishes to assess the *economic* case for admitting Turkey, especially from the UK point of view.

Economic ministers of the member states are soon to meet in Birmingham to consider the further enlargement of the EU. You have been asked to contribute a paper to this conference.

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

Requirements of the report

You are to write a report entitled: 'The economic case for further enlargement of the EU, with special reference to Turkey'.

Your report should:

- identify and explain the main economic issues that the EU as a whole will need to address when incorporating more members into the single market;
- evaluate the costs and benefits to the UK of applicant countries, such as Turkey, joining the EU;
- discuss the main economic problems faced by applicant countries, such as Turkey;
- make a recommendation as to whether this further enlargement of the EU should take place, with justifications for your recommendation.

Use economic concepts and principles where appropriate. 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: Features of the single market

- Elimination of border controls on goods within the EU; no more long waits.
- Free movement of people across borders.
- Common security arrangements.
- No import taxes on goods bought in other member states for personal use.
- The right for everyone to live in another member state.
- Recognition of vocational qualifications in other member states: engineers, accountants, medical practitioners, teachers and other professionals able to practise throughout Europe.
- Technical standards brought into line, and product tests and certification agreed across the whole EU.

Source: adapted from J SLOMAN, *Essentials of Economics*, Pearson Education Ltd, 2004

Extract B: EU enlargement

- 1 The EU will, on 1 May 2004, be undergoing the largest enlargement in its history. Politically this is a dramatic event because it represents the reuniting of Europe, a continent divided for half a century. Economically it has signalled the end of Communist central planning and, in an astonishingly short period of time, the transformation of these economies
- 5 to market-based, capitalist systems, although the reform process is certainly not over yet. Despite this, these countries have maintained growth rates which, over the last few years, have consistently been higher than those in Western Europe. The EU has provided enormous financial and technical support to aid the transition of these economies from planned to market systems of governance and to help in their preparations for EU accession.
- 10 The EU tradition of squabbles over money is alive and well. The EU has in place a financial framework that imposes a tight spending limit on enlargement. It has also consistently failed to reform the main spending policy, the Common Agricultural Policy (CAP), in such a way that equal support can be offered to all farmers within the spending limit. It seems odd that
- 15 new member states have shed the shackles of centrally planned economics and moved so far so quickly while the EU continues to fail to reform CAP, a policy that is so interventionist.

Source: adapted from 'EU Enlargement' by ROBERT ACKRILL, in *Developments in Economics: An Annual Review*, Pearson Education Ltd, 2003

Extract C: The enlargement of the EU: the countries involved

- 1 We need to set out exactly what is happening on 1 May, and what is *not* happening. In particular, we are not seeing an expansion of the Eurozone, as the acceding countries will not be joining the single currency zone, at least not initially. But European Union is not just about sharing a common currency. It is also about the single market, the adoption of trade
5 agreements and the common external tariff.

The ten new countries (making 25 in all) comprise eight countries in central and Eastern Europe (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia) and the two island states of Cyprus and Malta. Bulgaria, Romania, Croatia and Turkey could follow at a later date.

10 The effects of enlargement

According to the Department of Trade and Industry, enlargement will:

- bring down barriers to trade and business – UK companies will benefit from access to the largest single market for trade and investment in the world;
- benefit UK customers, giving them access to a wider range of goods and services at lower
15 prices;
- encourage GDP growth in both the candidate countries and the present EU 15;
- require institutional changes within the EU itself.

Does population size matter?

- 20 **Figure 1** shows how the enlarged EU will stand in the world ranking of big countries. If Turkey were to join, this would add a massive 70 million more citizens to the EU. What matters in a market is the *effective* demand for goods and services – in other words, demand backed by real purchasing power. **Figure 2** looks at average income levels.

Comparative advantage and diversity

- 25 The gains from specialisation arising from the exploitation of comparative advantage are likely to be greater when there is diversity between countries. It is the *difference* in relative opportunity costs of production that drives the process, so the fact that the new members are not just clones of the existing ones may be a point in their favour. **Figure 3** shows relative growth rates and reveals something of the dynamism of acceding countries relative to the existing members.

30 Summing up

- Opinion polls suggest that more than half of EU citizens are in favour of enlargement, with only 30% against it. A study by the European Commission suggested that enlargement could increase the growth rate of the acceding countries by between 1.3 and 2.1 percentage points annually, and that of existing members by 0.7% annually. This would be significant, as even a
35 small increase in the annual growth rate accumulates over time. However, we must wait and see whether this optimism is justified by events.

Figure 1: Population size, millions

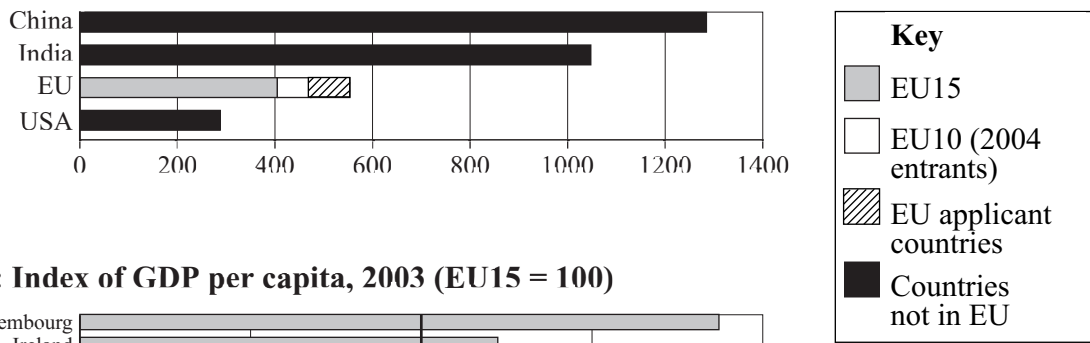


Figure 2: Index of GDP per capita, 2003 (EU15 = 100)

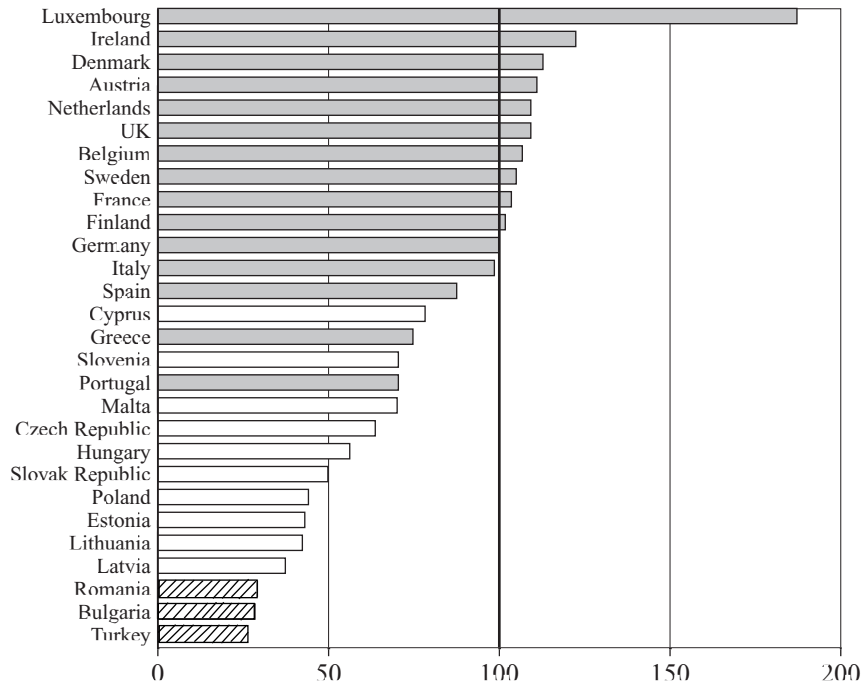
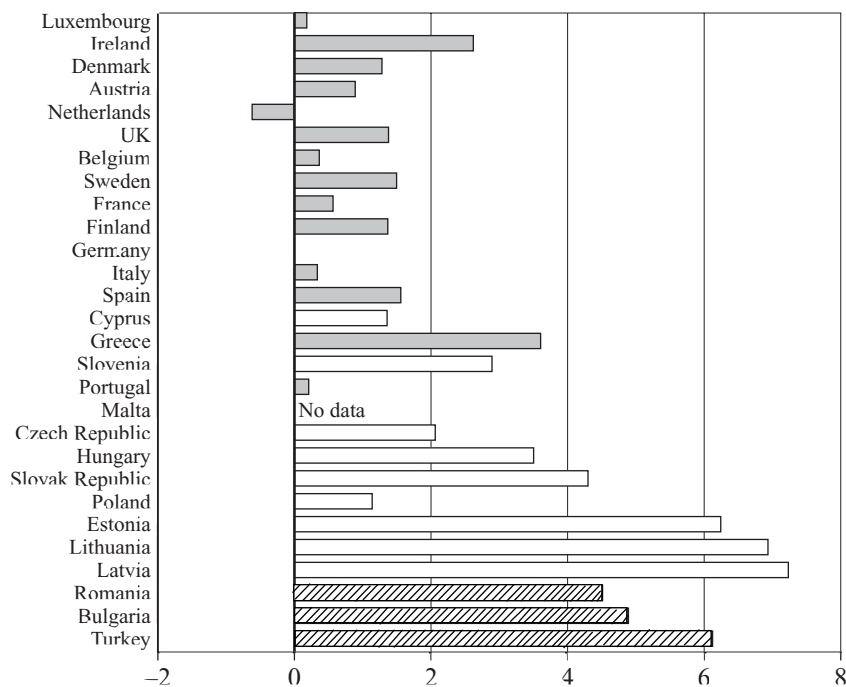


Figure 3: Growth of GDP per capita, 2001–2002 (%)



Source: adapted from an article by PETER SMITH, *Economic Review*, no. 21, 4, Philip Allan Updates, April 2004

Turn over ►

Extract D: Turkey not ready to enter EU, says German report

- 1 A study published by a Munich-based research institute predicts that Turkish membership could cost the Union up to €14 billion a year. Based on the assumption that current EU agricultural and other funding policies remain unchanged, Germany alone would have to contribute €2.5 billion each year.
- 5 The report further predicts ‘considerable migration pressure’ of Turks to Germany. The ‘migration potential’ is estimated between 0.5 and 4.4 million people. In the event of Turkish accession, 15 countries, accounting for only 9% of the wealth of the EU, would together hold 41% of the European Parliament seats and 43% of the votes in the European Council.

Source: adapted from an article by MARK BEUNDERMAN, *EUobserver.com*, 2 March 2004

Extract E: The challenge of enlargement

- 1 Turkey has a functioning market economy and the ability to resist competitive pressure in the internal market. It should make fast progress now with its clear strategy on structural reforms, backed by the International Monetary Fund and World Bank. We do hope that Turkey can further develop active labour market policies. It has a resilient economy and an
- 5 entrepreneurial people.

Source: adapted from a speech made on 9 March 2000 by GÜNTER VERHEUGEN, EU Commissioner for Enlargement, at a Turkish university, *www.europa.eu.int*, accessed on 25 July 2004

Extract F: Turkey: basic data

Population (2000 census)	67 803 927, of which 65% is urban and 35% rural
GDP (in 2000)	\$US195 478 million (world ranking = 22)
Industries	Textiles, food processing, automobiles, mining (coal, chromites, copper, boron), steel, petroleum, construction, lumber, paper
Agricultural products	Tobacco, cotton, grain, olives, sugar beets, pulse, citrus, livestock
Main trading partners (exports)	Germany, USA, France, UK, Italy, the Netherlands
Main trading partners (imports)	Germany, Japan, Italy, USA, France, Russia, UK, Sweden, the Netherlands
Major export products	Agricultural, textiles, iron, steel
Major import products	Oil, machinery, chemicals, iron, steel

Source: adapted from *www.europa.eu.int*, accessed on 25 July 2004

END OF EXTRACTS

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Extract C, Figure 3: World Development Report 2004, © The International Bank for Reconstruction and Development/The World Bank.

Extracts E and F: © European Communities, 1995–2004.

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