



General Certificate of Education
Advanced Level Examination
January 2011

Economics

ECON4

Unit 4 The National and International Economy

Tuesday 1 February 2011 1.30 pm to 3.30 pm

For this paper you must have:

- an AQA 12-page answer book.
- You may use a calculator.

Time allowed

- 2 hours

Instructions

- Use black ink or black 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 ECON4.
- In **Section A**, answer **EITHER** Question 1 **OR** Question 2.
- In **Section B**, answer **one** question.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
 - use good English
 - organise information clearly
 - use specialist vocabulary where appropriate.

Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer **EITHER** Question 1 **OR** Question 2.

EITHER

Total for this question: 40 marks

Question 1

THE GLOBAL CONTEXT

Study **Extracts A and B**, and then answer **all** parts of Question 1 which follow.

Extract A: China's macroeconomic performance

	2006	2007	2008	2009 (forecast)	2010 (forecast)
Real GDP growth (%)	11.6	13.0	9.0	7.7	9.3
Inflation rate (%)	3.3	7.4	7.2	2.0	0.5
Fiscal balance (% of GDP)	1.6	3.5	4.2	-3.0	-2.7
Current account balance (% of GDP)	9.4	11.1	9.9	9.6	7.8

Source: official statistics, accessed on 29 July 2009

Extract B: China: a bright spot in a gloomy world

China, despite its recent rapid growth, has not remained immune to the economic downturn as some economists had hoped. However, it remains an economy which is looking to the future with some optimism. It continues to invest in the production of raw materials and resources in other countries. The consequent increased global investment should give a much-needed boost to jobs and growth in countries benefiting from it. Despite this investment, growth in demand from China is likely to continue to push up world raw material prices in the long term. 1
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Certainly, China has shown an increased recognition of the need to play its part in bringing about global recovery. For example, in a recent international agreement to boost the funds of the International Monetary Fund (IMF) by \$500 billion, China has agreed to contribute \$40 billion, compared to the UK's \$15 billion. The IMF can now fulfil its promise of loans to such countries as Poland and Mexico, which should contribute to the greater global stability needed for recovery. 10

Nevertheless, China, fearing inflation, has expressed its concern about the policy of some leading central banks, including the Bank of England, of quantitative easing (increasing the money supply) in order to bring about economic revival by increasing aggregate demand. China also knows that its policy of holding down the external value of its currency in 15

order to boost export-led growth is only likely to be successful if a global revival of demand is achieved. For example, China saw a 25% decline in exports in 2008. The depressed UK market will have contributed to this decline.	20
The other major world economies are keen to keep talking with China and win its approval for a host of measures to bring about recovery. They want to engage China in more long-term talks as well. These will include international financial reforms and environmental policies, especially as China's industrial growth continues to create negative externalities.	25
China has every reason to be optimistic about its future prospects. In June 2009, the <i>Organisation for Economic Co-operation and Development</i> (OECD) forecast growth for that year of 7.7% and 9.3% for 2010. To a country used to double-digit growth figures, this may seem like a recession. However, such figures are a far cry from the negative growth seen in many parts of the global economy, including the UK economy.	30
Nevertheless, the ongoing concern of the Chinese Government is reflected in the decision to give a \$565 billion fiscal stimulus to its economy in 2009. It is also considering protectionist policies, which may impact on those countries hoping to increase exports to China. For the World Bank, however, the Chinese economy remains a 'relative bright spot in an otherwise gloomy global economy' and countries such as the UK are keen to see China help pull the global economy out of recession.	35
China has reacted coolly to suggestions that a solution to the world's economic problems lies in the hands of two powers: itself and the US. Although the UK has played a leading role in international discussions on recovery, such an assertion may yet prove to have a ring of truth. What is certain is that co-operation is vital in ensuring that appropriate policies are followed to bring about a new era of sustained growth.	40

Source: various sources, 2009

Question 1

- 0 1** Using **Extract A**, identify **two** main features of China's macroeconomic performance for the period 2006 to 2010. (5 marks)
- 0 2** **Extract B** (lines 4-5) refers to global investment undertaken by China. Explain the term 'global investment' **and** analyse **two** economic consequences for an economy receiving such investment. (10 marks)
- 0 3** In 2009, the World Bank described the Chinese economy as a "relative bright spot in an otherwise gloomy global economy" (**Extract B**, lines 34-35). Using the data and your economic knowledge, assess the consequences for the UK economy of China's continued economic growth during a global recession. (25 marks)

Turn over ►

Do **not** answer Question 2 if you have answered Question 1.

OR

Total for this question: 40 marks

Question 2

THE EUROPEAN UNION CONTEXT

Study **Extracts C and D**, and then answer **all** parts of Question 2 which follow.

Extract C: EU unemployment (%)

	March 2008	October 2008	March 2009
EU	6.7	7.3	8.3
UK	5.2	6.1	7.2
France	7.6	8.0	8.8
Latvia	6.1	9.3	16.1
Lithuania	4.3	7.2	15.5

Source: official statistics

Extract D: Is European Union (EU) unity threatened?

In March 2009, the Hungarian Government asked Germany for €190 billion to prevent what it saw as a new economic 'Iron Curtain' from going up across Europe. The term 'Iron Curtain' was intended to remind Europeans of the Soviet-era divide between the poorer Communist East and the more prosperous, free, democratic West. Hungary argued that, without such help, the contrast between the richer and poorer members of the EU would only widen further. Germany's refusal of Hungary's request symbolised, for many, the deepening divide between the EU's richer and poorer members.	1 5
The contrast in fortunes is seen by newer members of the EU, such as Latvia, Lithuania and Hungary, as one which can only worsen during the recession and which may threaten the EU's existence in the long term. On the other hand, some people in the more-established members of the EU, such as the UK and France, have become increasingly disillusioned with the EU and especially with the level of assistance now expected from these more-established members by the newer members.	10
At the Brussels Summit of March 2009, the Czech Prime Minister warned of 'the greatest crisis in the history of European integration'. Gordon Brown, for the UK, spoke of the need for unity and common policies. The Single European Market, for example, is seen as an evolving policy which can foster prosperity for all and bring closer integration.	15
Cyclical unemployment is now widespread, however, and has been growing faster in the Eastern members of the EU than in those of the West. This could increase tensions between Eastern and Western members of the EU. The impact of cyclical unemployment	20

on both individuals and whole economies can be serious, as incomes and output fall and welfare-dependency becomes more widespread.

Nevertheless, it would be wrong to argue that the wealthier members of the EU have been totally immune to the problem. The Netherlands, the worst affected Western member, experienced a 34% rise in unemployment between January 2008 and March 2009. There was a much greater rise in Latvia and Lithuania, both in the East. 25

During a recession, questions are likely to be asked about the future of the EU as policy disagreements emerge. Supporters claim that the EU is a force for good and needs to be strengthened, rather than weakened or abandoned. In this way, it is argued, East-West tensions can be kept at bay. 30

Such supporters feel that an enlarged EU, with open markets based on the Single European Market policy, helps spread benefits of membership across the whole organisation and offers the best chance of rapid recovery. In the UK, however, many see openness as a threat to jobs and to living standards.

In the current climate, it has also been argued that a more ambitious set of common macroeconomic policies would help speed recovery in the EU. Fiscal and supply-side policies come into this category, as well as monetary policy, even though only 16 members of the 27-member EU have adopted the euro. Even so, limited agreement on monetary policy, such as interest rates, could be of benefit. 35

The UK has not had the leading role in EU recovery policies that it has had globally, but it has shown a willingness to play its part in fostering unity and economic revival so that Europe can make a vital contribution to international recovery. Talk of disunity and the break-up of the EU can only cause instability and hinder economic recovery. This is something that members can ill-afford, particularly the UK. Growth, jobs and stable prices are desperately needed. 40 45

Source: various sources

Question 2

0 4 Using **Extract C**, identify **two** main features of unemployment for the period March 2008 to March 2009. (5 marks)

0 5 **Extract D** (lines 18-20) suggests that cyclical unemployment 'is now widespread' and that this 'could increase tensions between Eastern and Western members of the EU'.

Explain the term 'cyclical unemployment' **and** analyse **two** effects of cyclical unemployment. (10 marks)

0 6 **Extract D** (lines 35-36) argues that 'a more ambitious set of common macroeconomic policies would help speed recovery in the EU'.

Using the data and your economic knowledge, assess the impact on the UK economy of a recovery in the EU as a whole. (25 marks)

Turn over for the next question

Turn over ▶

Section B

Answer **one** question from this section.

Each question carries 40 marks.

Question 3

'Oil, as a form of energy, reigns supreme but it has brought significant problems to economies in terms of inflation in particular, and the potential for economic instability in general.'

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 Explain the main causes of inflation. *(15 marks)*

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 Discuss how rising oil prices might affect the macroeconomic performance of an economy. *(25 marks)*

Question 4

'While it is necessary to have macroeconomic policy objectives, such as price stability and full employment, they can sometimes prove difficult to reconcile.'

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 Explain the various macroeconomic policy objectives **and** their importance to an economy. *(15 marks)*

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 Discuss ways in which government economic policies can be used to try to reconcile conflicts between macroeconomic objectives. *(25 marks)*

Question 5

The deficit on the UK balance of trade in goods and services rose from £26 billion in 2003 to £44 billion in 2008.

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 Explain the main factors which might help determine the volume of UK exports and imports. *(15 marks)*

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 Evaluate government policies which might bring about a reduction in the UK deficit on the balance of trade in goods and services. *(25 marks)*

END OF QUESTIONS

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