



Rewarding Learning
ADVANCED
General Certificate of Education
2009

Economics

Assessment Unit A2 2

assessing

Module 4: The International
Economy

[A2E21]

FRIDAY 29 MAY, MORNING



TIME

1 hour 40 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer Question **1** and any **one** of Questions **2**, **3** or **4**.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.
Quality of written communication will be assessed in all questions except **1(a)**.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

You **must** answer this question.

- 1 The article below was written in August 2008.
Study it carefully and answer the questions which follow.

Balance of Payments on Current Account UK 2007

(All figures in millions of Pounds)

Trade in Goods	Trade in Services	Income	Current Transfers	Balance on Current Account	Deficit as % of GDP
-89515	38331	5302	-13793	-59675	4.3

(UK Office for National Statistics, ONS)

Fig. 1

The UK balance of payments deficit on current account shows no signs of decreasing. In 2006 it stood at £50725 million and for 2007 it was £59675, a rise of almost 18%. Of course when allowance is made for inflation and for economic growth this increase may not be quite as significant as it appears.

1

Nevertheless the deficit is considerably greater than in the 1950s and 60s when the current account was more often in surplus than in deficit. Indeed the UK has not had a current account surplus since 1983 and this phenomenon is not confined to the UK as the Irish Republic is also showing a large deficit.

2

Balance of Payments on Current Account Republic of Ireland 2007

(All figures in millions of Euros)

Trade in Goods	Trade in Services	Income	Current Transfers	Balance on Current Account	Deficit as % of GDP
22459	-2869	-28608	-1283	-10301	5.4

(Central Statistical Office of Republic of Ireland)

Fig. 2

So why has the UK's trading position deteriorated so significantly?

Part of the answer is that governments in both Europe and the USA no longer regard a balance of payments current account equilibrium as a major policy goal. In the past, large deficits would have been a catalyst for corrective measures such as deflation or a devaluation of the pound. Today many European and the American governments are prepared to tolerate deficits which in the past would have caused political leaders to resign.

3

Now the prevailing view is that such deficits are sustainable so long as they are offset by surpluses on the financial and capital accounts. One economist pointed out that the overall balance of payments must always balance and the fact that one section of the accounts might show a deficit was a matter of no consequence.

However, this policy of ignoring the current account deficit was described by another economist as government burying its head in the sand and hoping that the bad news would go away. He added, "A persistent current account deficit is a sure sign of serious structural weakness in the economy. It requires urgent corrective action and its elimination should be the government's number one economic priority."

5

Source: Adapted from a variety of sources August 2008

- (a) Explain what is meant by a country's balance of payments on current account. [4]
- (b) Using the information in **Figs. 1** and **2**, outline the major differences between the UK and the Republic of Ireland balance of payments on current account. [6]
- (c) Explain **two** of the major differences between the UK and the Irish balance of payments on current account. [6]
- (d) Explain why the increase in the UK's current account deficit from 2006 to 2007 may not be as significant as it appears. [6]
- (e) Explain why the overall balance of payments must always balance. [8]
- (f) Critically examine the view that eliminating a current account deficit should be one of the government's main economic priorities. [10]

Answer **one** question from 2, 3 or 4.

- 2 (a) Explain what is meant by the Single European Market.
- (b) Analyse the impact of the UK's membership of the EU on the Northern Ireland economy. [16]
- (c) Critically examine the view that the UK in general and Northern Ireland in particular would benefit from UK membership of the single European currency (the Euro). [16]
- 3 (a) Explain the difference between absolute advantage and comparative advantage. [8]
- (b) Using the theory of comparative advantage, explain why a country might import a good which it could produce more cheaply itself. [16]
- (c) "The theory of comparative advantage is based on so many unrealistic assumptions that it cannot be used to justify free trade." Evaluate this view of comparative advantage. [16]
- 4 (a) Explain the difference between "formal" and "hidden" trade barriers. [8]
- (b) Analyse the impact on an economy of imposing trade barriers against foreign imports. [16]
- (c) In 2008 World Trade Organisation negotiations collapsed on the issue of agricultural protection. Evaluate the view that European and American farmers should operate in free market conditions without government assistance and protection. [16]