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SECTION A

Answer ONE question from this section.

You should spend approximately 45 minutes on this section.

You may include diagram(s) in your answers where these are helpful.

1. (a) Examine the significance of the factors which have contributed to increased globalisation in recent years. (40)

(b) Evaluate the likely implications for the world economy of the predicted decline in non-renewable energy resources. (60)

(Total 100 marks)

Q1

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2. (a) Examine the factors which affect the international competitiveness of the UK's goods and services. (40)

(b) Evaluate the likely economic effects of a fall in the UK's competitiveness. (60)

(Total 100 marks)

Q2

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3. The average tariff on industrial goods is 4% in the USA, 14% in Brazil and 30% in India.
(a) Examine the reasons why a country might wish to restrict imports. (40)

(b) Evaluate the likely economic implications of an increase in protectionism on a country's economy. (60)

(Total 100 marks)

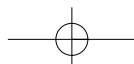
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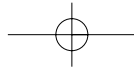
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TOTAL FOR SECTION A: 100 MARKS

**Put a cross in the box indicating the question from Section A that you have chosen (X).
If you change your mind, put a line through the box (X) and then indicate your new
question with a cross (X).**

Chosen Question Number: Question 1 Question 2 Question 3





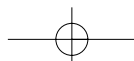
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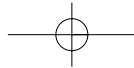
Write your answer to Section A here:

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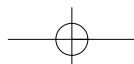
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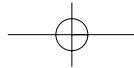




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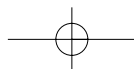


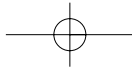
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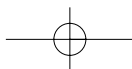
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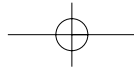




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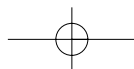


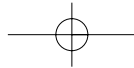
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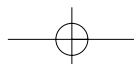
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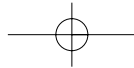




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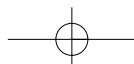


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SECTION B**Answer ONE question from this section.****You should spend approximately 45 minutes on this Section.****If you answer question 4 put a cross in this box .****Question 4****Britain and the Euro****Extract 1****The five economic tests**

In June 2003 Gordon Brown, the Chancellor of the Exchequer, announced that the UK would not be adopting the euro because four out of five 'tests' had been failed. The only one passed was that relating to financial services. These five tests and the Chancellor's view on them are outlined below.

- **Convergence:** Is there sustainable convergence between the UK and euro zone economies? Apart from output gaps, interest rates, inflation and unemployment rates, an important factor is the UK's housing market which is significantly different from those in the euro zone. In Britain, 70 per cent of households are homeowners, compared with 40 per cent in Germany.
- **Flexibility:** Is there sufficient flexibility in the UK economy to respond to shocks if it joined the euro zone? At present the pound can fall if Britain's costs get out of line with those of the euro zone. But once Britain joins the euro, wages will have to fall to restore competitiveness.
- **Investment:** What will be the effect of the euro on investment in the UK? Foreign investment might increase if Britain joins the single currency but only when tests for convergence and flexibility have been met. Therefore, the verdict is entirely dependent on the results of the first two tests.
- **Financial services:** What will be the verdict on the UK financial services industry? Entry into the single currency would benefit the City of London and Britain's powerful financial services industry.
- **Growth and jobs:** How will the euro affect UK employment and jobs? Joining the euro would bring an increased risk of high unemployment because Britain's economy has failed to converge significantly with those in the euro zone.

(Source: adapted from *The Economist*, 3 May 2003 and 14 June 2003, and *The Daily Telegraph*, 10 June 2003)

Extract 2**A new role for fiscal policy**

The Treasury is exploring an important new plan to use fiscal policy to counter greater economic fluctuations in the economy once Britain joins the euro. The Chancellor wants to reinvent fiscal demand management which was used so enthusiastically in the 1950s and 1960s.

(Source: adapted from *The Economist*, 14 June 2003)



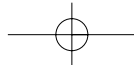
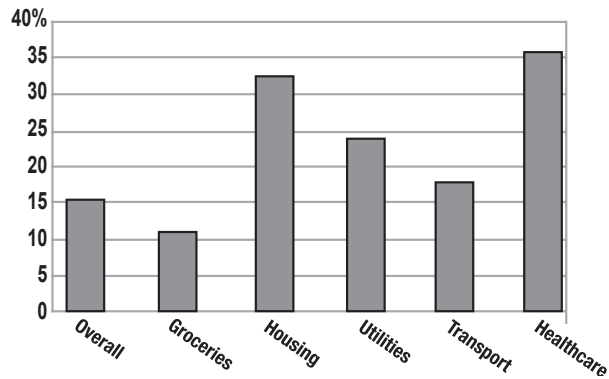
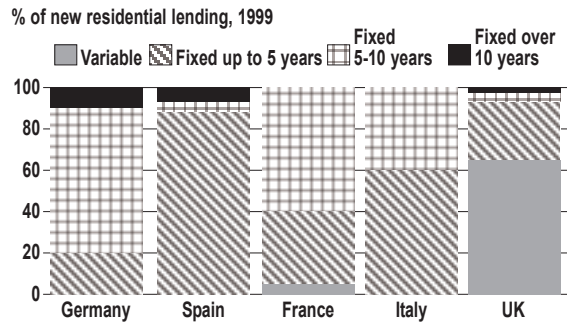


Figure 1 Price differences between euro zone countries



(Source: *Sunday Times*, 29 June 2003)

Figure 2 Mortgage lending by type of loan

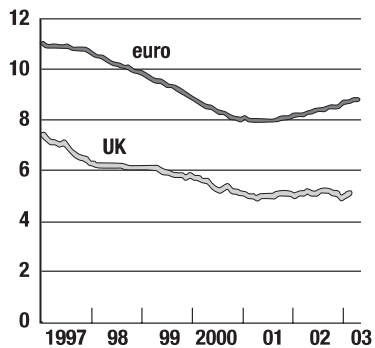


(Source: *Financial Times*, 10 June 2003)

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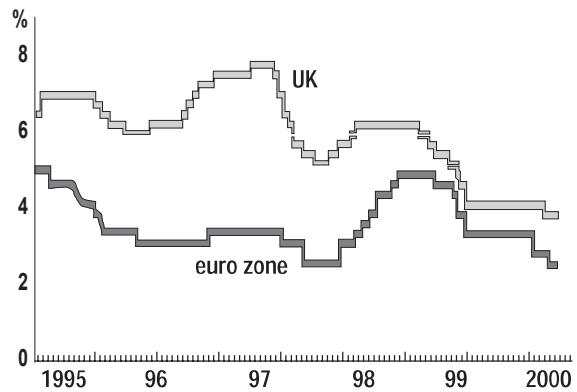
Figure 3 Unemployment rates

ILO rates (% of labour force)



(Source: *Financial Times*, 10 June 2003)

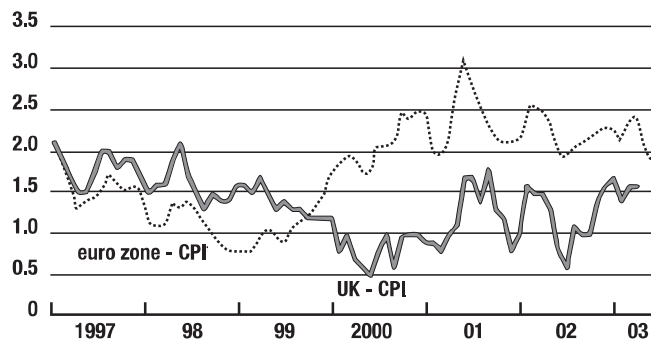
Figure 4 Official interest rates



(Source: *The Economist*, 3 May 2003)

Figure 5 Inflation rates as measured by the Consumer Price Index (CPI)

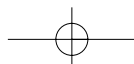
Annual % change

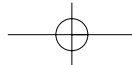


(Source: *Financial Times*, 10 June 2003)



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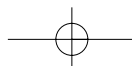


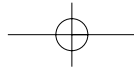
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(ii) With reference to Figure 3, examine **two** likely reasons for the difference between unemployment rates in the UK and the euro zone.

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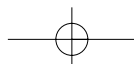
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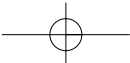
(iii) To what extent do the data in Figures 3, 4 and 5 suggest that the UK economy is converging with the euro economies?

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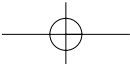
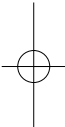
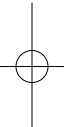
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Turn over for Question 4(d)



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

Question 5

UK in Debt

Extract 1

Debt of all types is increasing. Consumer borrowing on credit cards and through mortgage equity release schemes, has reached record levels. It is the huge increase in consumer spending which has kept the economy growing over recent years. The Governor of the Bank of England admitted that the UK's record £900 billion debt burden meant that the

- 5 Bank's Monetary Policy Committee would have to move carefully on interest rates. He said, 'There is a risk that some heavily indebted households will be badly affected by changes in economic circumstances or in interest rates.'

- 10 Meanwhile, government borrowing is on the increase. The National Institute of Economic and Social Research predicts net borrowing of £26 billion in 2003-4, rising to £34 billion in 2004-5 and £40 billion for 2005-6 (which is nearly double the Treasury's prediction). The worrying thing about these forecasts, the National Institute says, is that they come at a time of economic recovery.

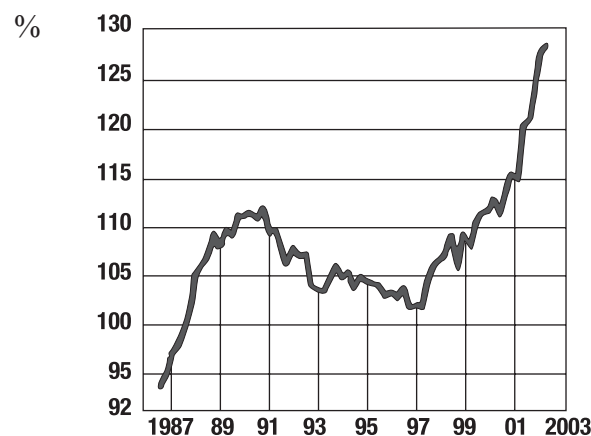
- 15 A further cause for concern is the UK's deficit on the trade in goods and services account. In September 2003 exports fell while consumer demand continued to suck in imports. Stripping out the surplus on services, the UK imported £4.8 billion more goods than it exported, the second biggest deficit on record and equivalent to 4.3 per cent of GDP. It is the latest evidence of a pronounced imbalance in the economy that is creating a headache for the Bank of England as it tries to slow consumer demand without causing serious difficulties for manufacturers.

- 20 The pound weakened against the dollar and euro – something economists say could accelerate if the trade position worsens. Analysts said the Bank faced a stark choice – increasing interest rates to stem consumer demand that might drive up the pound, or keeping them low at the expense of a housing boom.

(Source: *Independent on Sunday*, 16 August 2003; *Sunday Times*, 27 July 2003; *Independent*, 12 November 2003)

Figure 1

Consumer debt as a percentage of disposable income

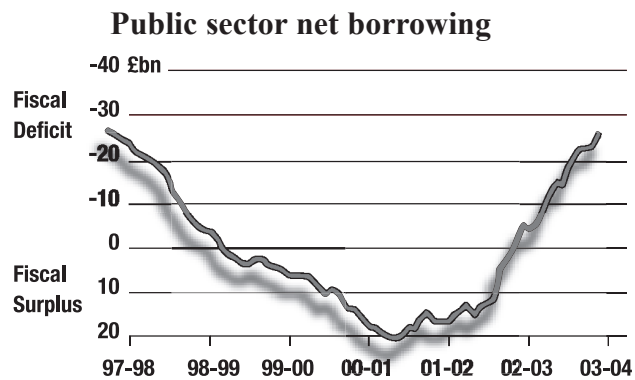


(Source: *Independent on Sunday*, 16 August 2003)



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Figure 2



(Source: David Smith, *Sunday Times*, 27 July 2003)

Figure 3

The UK's trade imbalance by sector

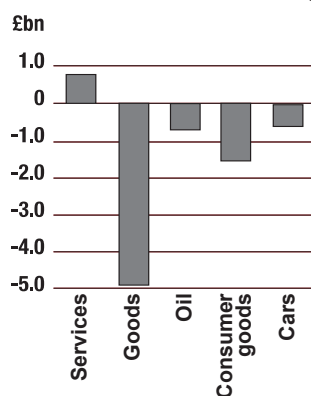


Figure 4

The UK's trade position with selected countries

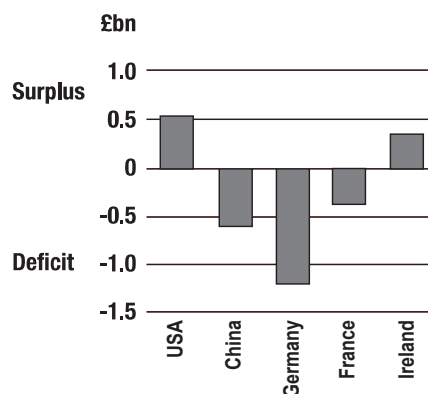
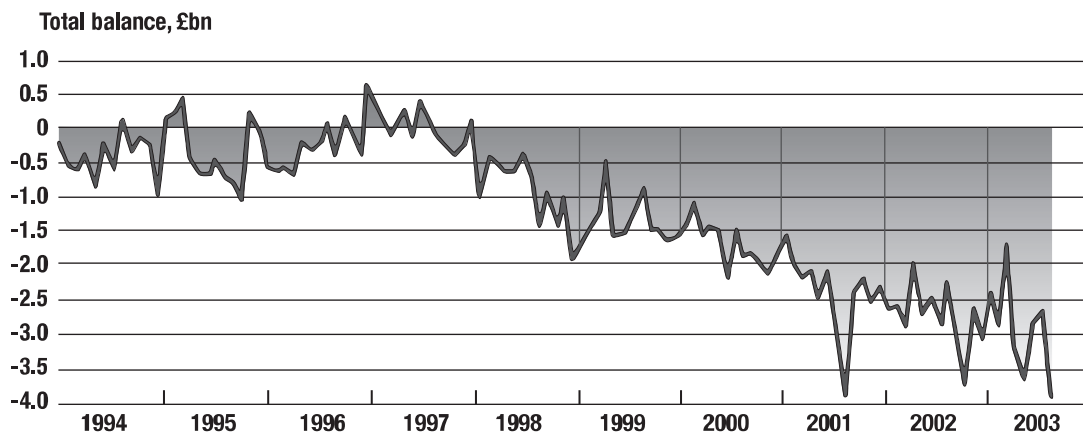


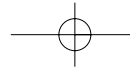
Figure 5

UK trade in goods and services



(Source of Figures 3, 4 and 5: *The Independent*, 12 November 2003)





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(a) Distinguish between a *deficit on the trade in goods and services account* and a *fiscal deficit*.

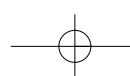
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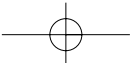
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(b) Outline **two** factors which might explain the increase in the level of consumer debt, as shown in Figure 1.

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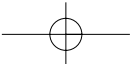
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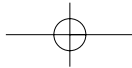
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(e) Assess the likely implications of a fall in the sterling exchange rate.

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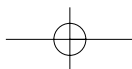


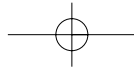
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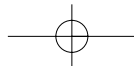
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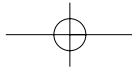
TOTAL FOR SECTION B: 50 MARKS

TOTAL FOR PAPER: 100 MARKS

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