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**Edexcel GCE**

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# Economics

**Advanced**

**Unit 4: The Global Economy**

Tuesday 13 June 2017 – Afternoon

**Time: 2 hours**

Paper Reference

**6EC04/01**

**You do not need any other materials.**

Total Marks

## Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **one** question from Section A and **one** question from Section B.
- Answer the questions in the spaces provided  
– *there may be more space than you need.*

## Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets  
– *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (\*) are ones where the quality of your written communication will be assessed  
– *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

## Advice

- Read each question carefully before you start to answer it.
- You are advised to divide your time equally between Section A and Section B.
- Check your answers if you have time at the end.

Turn over ►

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## SECTION A

Answer ONE question from this section.

You should spend 60 minutes on this section.

- \*1 The trade-weighted exchange rate of the US dollar appreciated by over 20 percentage points between January 2013 and January 2016.
- (a) Assess the possible causes of this increase in the exchange rate of the US dollar. (20)
- (b) Evaluate the possible economic effects of the appreciation of the US dollar. (30)
- (Total for Question 1 = 50 marks)**
- 

- \*2 In 2015 Switzerland was ranked first in the Global Competitiveness Index while the UK was ranked tenth, Portugal was ranked thirty-eighth and Greece eighty-first.
- (a) Assess the factors influencing a country's competitiveness. (20)
- (b) Evaluate measures by which the competitiveness of the goods and services produced by the UK, Greece and Portugal might be increased. (30)
- (Total for Question 2 = 50 marks)**
- 

- \*3 In 2014 gross savings as a proportion of GDP were 47% in Singapore but only 16% in Brazil and 10% in Kenya.
- (a) Assess whether a low savings ratio is the most significant constraint on economic growth in developing countries. (20)
- (b) Evaluate trade protection of manufacturing industries in developing countries as a means of achieving economic growth. (30)
- (Total for Question 3 = 50 marks)**
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Indicate which question you are answering by marking a cross ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 1**       **Question 2**       **Question 3**

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**TOTAL FOR SECTION A = 50 MARKS**



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## SECTION B

Answer ONE question from this section.

You should spend 60 minutes on this section.

If you answer Question 4 put a cross in the box  .

### 4 Bolivia's economy

Figure 1 Selected economic variables, 2010–2014

Indicator	2010	2011	2012	2013	2014
Population (millions)	9.9	10.1	10.2	10.2	10.6
Real GDP growth (%)	4.1	5.2	5.2	6.8	5.4
Inflation rate (%)	2.5	9.9	4.5	5.7	5.8
Current account balance (% of GDP)	4.4	2.2	7.3	3.4	0.0

(Source: from <http://databank.worldbank.org/data/reports.aspx?source=2&country=BOL>)

Figure 2 Agriculture, value added, % of GDP

	2006	2014
Bolivia	13.9	13.0
Latin America and Caribbean (developing countries only)	5.1	5.0

(Source: adapted from <http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS/countries/BO-XJ?display=graph>)

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### Extract 1 Economic prosperity

Absolute poverty used to be widespread in Bolivia but in recent years its people have become more prosperous. Since 2006, when Evo Morales became President, the economy – a big exporter of gas and minerals – has almost tripled in size. Mr Morales has benefited by being President during a time of high commodity prices, which have raised economic growth. He nationalised the energy sector by taking a greater stake in the companies that extract the nation's gas and demanded a bigger share of the revenues. This has greatly increased the Government's income, giving it the money to pay for social programmes such as cash payments to young mothers, improved pensions and infrastructure projects. Some \$500 million a year has been spent on cash-transfer schemes for elderly people, schoolchildren and pregnant women, for example. Populist actions such as these have contributed to a substantial increase in consumer spending.

5

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Between 2005 and 2013, 2.6 million people joined the middle class, poverty rates halved and the Gini coefficient fell from 0.6 to 0.48. 'When the money was concentrated in a few hands there was no consumption,' explains Finance Minister Arce, observing that Bolivia's national minimum wage has increased by 276% since 2006.

15

(Sources: adapted from <http://www.ft.com/reports/new-bolivia>, 26 Oct 2015 and [http://www.nytimes.com/2014/02/17/world/americas/turnabout-in-bolivia-as-economy-rises-from-instability.html?\\_r=0](http://www.nytimes.com/2014/02/17/world/americas/turnabout-in-bolivia-as-economy-rises-from-instability.html?_r=0))



## Extract 2 Agriculture

The province of Santa Cruz is the powerhouse of Bolivian agriculture. It accounts for about 60% of national farming output, with soya contributing more than half of the province's production. The potential for expansion in Santa Cruz, where much land is underused, has led some to see it as South America's next agricultural frontier.

Such hopes have only been strengthened by the fall in global oil and gas prices, which has forced energy-producing countries such as Bolivia to seek alternative and more sustainable forms of income. With soya alone representing Bolivia's third-biggest source of foreign exchange after gas and mining, the Government has announced ambitious plans to boost the area of land under cultivation from 2.7 million hectares in 2014 to 4.5 million hectares by 2020.

Another key agricultural product is the original superfood, quinoa. Much of it is grown on Bolivia's high plains by Aymara and Quechua farmers. Quinoa has more nutrients per 100 calories than any other grain and people from New York to London pay roughly \$10 a pound for it. The USA imports 60% of Bolivia's quinoa production; the rest goes mostly to Europe. Exports rose from 4 900 tonnes in 2005 to 35 000 tonnes in 2013.

The price paid to Bolivian producers per kilo of organic royal quinoa also increased sharply, from under \$1 in 2007 to almost \$5 in 2014. However, in 2015, the price dropped to almost \$3.

Nevertheless, farmers identify a long list of challenges which include the need to improve technology, access to credit and the poor infrastructure of this landlocked country. The expansion of Bolivian agriculture has also led to some of the highest deforestation rates in the world.

(Sources: adapted from <http://www.ft.com/cms/s/0/d9b4953a-50d3-11e5-b029-b9d50a74fd14.html#ixzz3xKZ3clvK>, and <http://www.ft.com/cms/s/0/d9b4953a-50d3-11e5-b029-b9d50a74fd14.html#axzz3xFX7qKmt>)



### Extract 3 Tourism

Despite the richness and diversity of natural resources and beautiful unspoiled scenery, Bolivia has not so far been able to attract as many US and European tourists as its neighbour Peru. Lack of accommodation and electricity supply has made many tourists reluctant to visit Bolivia.

However, a new tourism development strategy and investments (both Government and private sector) of \$800 million aim to attract 7.1 million visitors a year by 2020. A new ski resort is to be built on Mount Mururata, 35 kilometres east of the capital, La Paz. Improvements in transportation links between the Andes and the Amazon, upgrades of Santa Cruz de la Sierra airport and the opening of new boutique hotels are further projects that will make the country more appealing for visitors. 5  
10

(Source: adapted from <https://www.ft.com/reports/new-bolivia>  
'Bolivia's tourism market wants to go upmarket' FT 26 October 2015)

- (a) With reference to Figure 1, what might be inferred about the change in the standard of living of a Bolivian citizen between 2010 and 2014? (5)
- (b) With reference to Extract 1, describe what has happened to income inequality in Bolivia. Illustrate your answer with a Lorenz curve diagram. (8)
- (c) With reference to Extract 1, examine the policies that may have contributed to Bolivia's high rate of economic growth. (10)
- \* (d) With reference to the information provided, assess the benefits to the Bolivian economy of having a large agricultural sector. (12)
- \* (e) With reference to Extract 3 and your own knowledge, evaluate tourism as a means of promoting economic development in Bolivia. (15)



(a) With reference to Figure 1, what might be inferred about the change in the standard of living of a Bolivian citizen between 2010 and 2014?

(5)

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(b) With reference to Extract 1, describe what has happened to income inequality in Bolivia. Illustrate your answer with a Lorenz curve diagram.

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(c) With reference to Extract 1, examine the policies that may have contributed to Bolivia's high rate of economic growth.

(10)

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\*(d) With reference to the information provided, assess the benefits to the Bolivian economy of having a large agricultural sector.

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\*(e) With reference to Extract 3 and your own knowledge, evaluate tourism as a means of promoting economic development in Bolivia.

(15)

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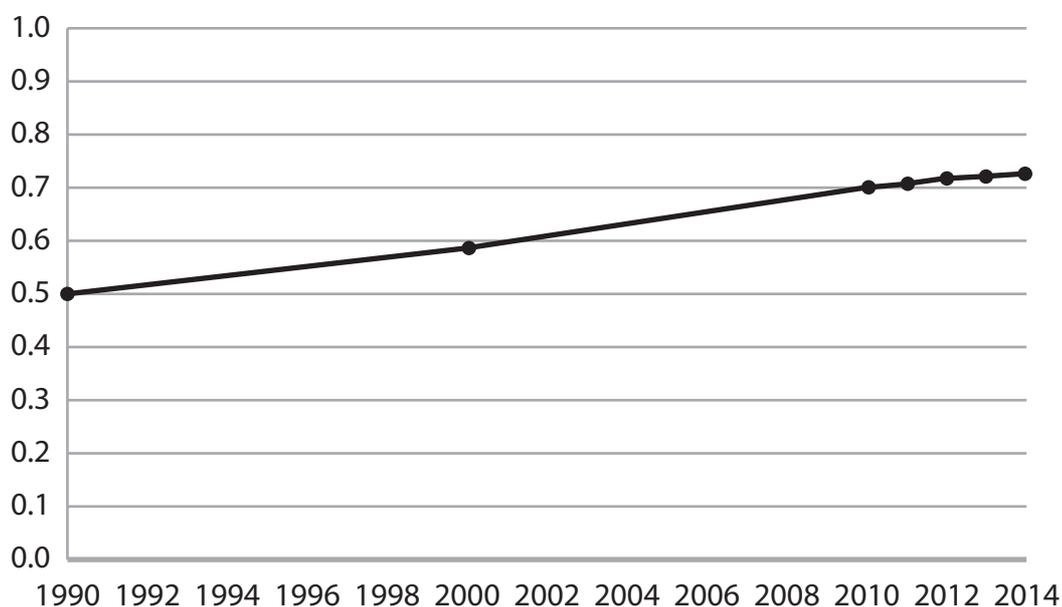


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If you answer Question 5 put a cross in the box  .

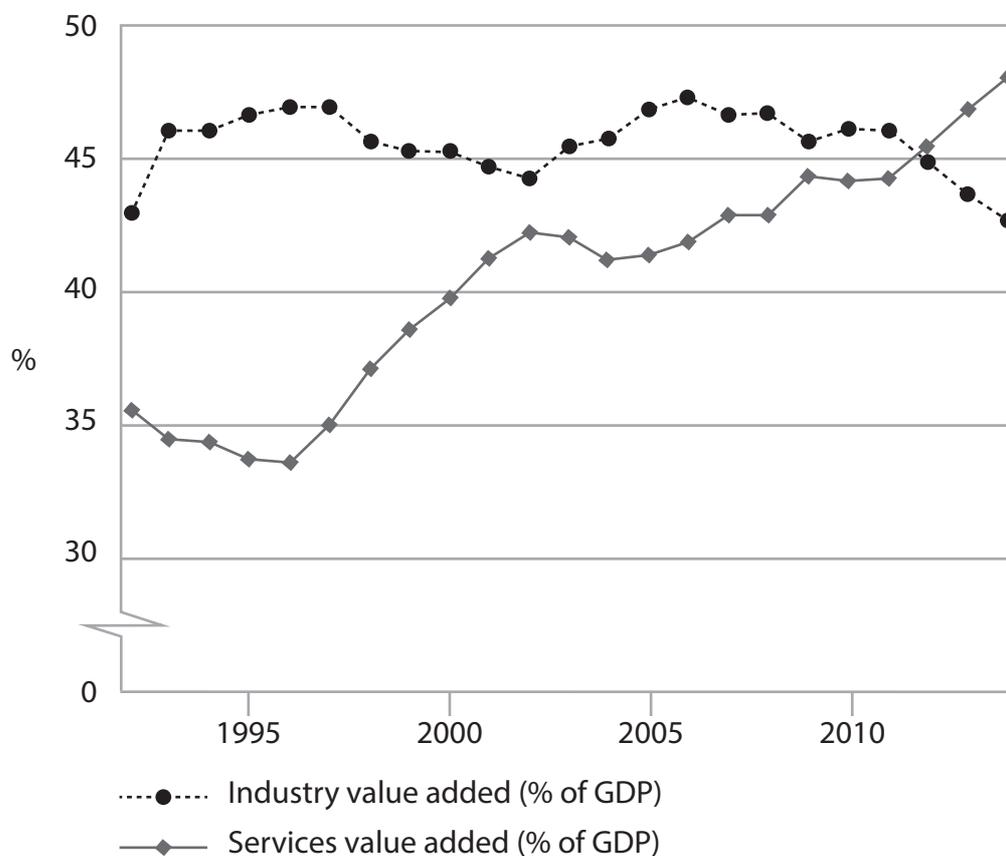
## 5 China's economy

Figure 1 China's human development index (HDI), 1990–2014



(Source: <http://hdr.undp.org/en/countries/profiles/CHN>)

Figure 2 China's industry and services sectors, as a proportion of GDP, 1992–2014



(Source: adapted from <http://www.cnbc.com/2016/01/17/how-chinas-economy-has-evolved-in-charts.html>)

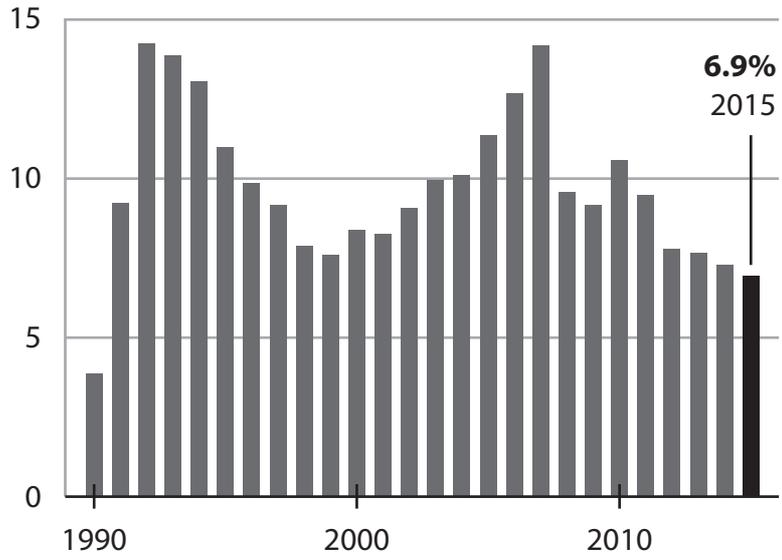


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**Figure 3 China's real GDP growth, year-on-year percentage change, 1990–2015**



(Source: adapted from [http://i.dailymail.co.uk/i/pix/2016/01/19/11/305438200000578-3406224-image-m-6\\_1453201350106.jpg](http://i.dailymail.co.uk/i/pix/2016/01/19/11/305438200000578-3406224-image-m-6_1453201350106.jpg))



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## Extract 1 China's economic growth

In 2015, China recorded a significant fall in its rate of economic growth to 6.9%, the weakest for 25 years. If any other major economy grew by nearly 7% a year, it would be seen as a triumph. However, it is being seen as evidence of deep problems in the Chinese economy.

With growing debt and too much housing and factory capacity, economists predict a tougher year ahead. Share prices have fallen and there is a danger of a house price crash. Fears over slowing momentum in China and the Government's handling of the economy have combined with concerns over plunging oil and commodity prices to pull down global stock markets since the start of 2016. 5

During the economic slowdown, China's economy has diverged along two tracks, with the manufacturing industries that powered it for so long being hit harder while services and household consumption are booming. Service industries last year managed to absorb job losses from manufacturing. In 2015, services made up 50.5% of GDP, considerably higher than the manufacturing sector. Consumption's contribution to the economy also grew strongly, accounting for 66.4% of GDP, more than 15 percentage points higher than in 2014. 10 15

The trend to greater reliance on consumption rather than investment is one the Government has long said it wants to encourage. But as the rate of economic growth falls further, economists expect more companies to fail and unemployment to rise. Therefore, it is expected that the Chinese Government will adopt further expansionary economic policies in 2016. The Chinese Government has traditionally used budget deficits to fund infrastructure spending coupled with lower interest rates and measures to boost exports to revive growth. However, these policies appear increasingly ineffective. For example, higher spending on infrastructure in 2015 only led to a short-term increase in investment. Meanwhile, exports, which accounted for 34.9% of GDP in 2007 but only 22.6% as of 2014, are unlikely to promote growth given weak demand from developed economies. 20 25

Even as the economy slowed, consumer debt increased by 18.2% in 2015. Total debt equals almost 260% of annual economic output, up from less than 160% in 2007. Increasingly, new lending is being used to service debt rather than fund new ventures and energy-saving technologies. Households and companies now spend the equivalent of 20% of GDP on interest payments, more than the US, Japan and the UK. As the economy slows and the yuan (the Chinese currency) weakens, the Chinese are moving their money out of the country, contributing to a fall in investment. 30

The Government finds itself in a dilemma: if it cuts interest rates, there will be more capital flight. If it raises interest rates then companies with large debts are likely to go bankrupt causing an increase in unemployment. 35

(Sources: adapted from <http://www.wsj.com/articles/china-economic-growth-slows-to-6-9-on-year-in-2015-1453169398> and <http://www.afr.com/news/economy/chinese-gdp-growth-falls-to-new-low-of-7-percent-20160119-gm8xi2#ixzz3yAGy1eJJ>)



- (a) With reference to Figure 1, explain factors that might account for the change in China's human development index between 1990 and 2014. (5)
- (b) With reference to Figure 2, Extract 1 and your own knowledge, analyse **two** reasons why China might wish to expand its services sector. (8)
- (c) With reference to the information provided, examine **two** likely causes of the decline in China's rate of economic growth between 2010 and 2015. (10)
- \*(d) Assess the likely economic effects of a continuing decline in China's rate of economic growth on the global economy. (12)
- \*(e) With reference to Extract 1, evaluate the likely impact of 'further expansionary economic policies' (Extract 1, lines 20–21) on the Chinese economy. (15)





(b) With reference to Figure 2, Extract 1 and your own knowledge, analyse **two** reasons why China might wish to expand its services sector.

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(c) With reference to the information provided, examine **two** likely causes of the decline in China's rate of economic growth between 2010 and 2015.

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\* (d) Assess the likely economic effects of a continuing decline in China's rate of economic growth on the global economy.

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\***(e)** With reference to Extract 1, evaluate the likely impact of ‘further expansionary economic policies’ (Extract 1, lines 20–21) on the Chinese economy.

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**TOTAL FOR SECTION B = 50 MARKS**

**TOTAL FOR PAPER = 100 MARKS**



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