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**Pearson Edexcel**
**International Advanced Level**

Centre Number

Candidate Number

# Economics

## International Advanced Level
## Unit 4: Developments in the Global Economy

Friday 19 June 2015 – Morning
**Time: 2 hours**

Paper Reference
**WEC04/01**

**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 80.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- Calculators may be used.

## Advice

- Read each question carefully before you start to answer it.
- 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.**

**You should include diagrams in your responses where appropriate.**

**1** (a) To what extent does the theory of comparative advantage explain increased globalisation over the past 40 years?

**(15)**

(b) Evaluate whether globalisation has been beneficial for both developed **and** developing countries.

**(25)**

**(Total for Question 1 = 40 marks)**

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**2** From March 2012 to June 2012, Argentina's terms of trade worsened by 13%, while from November to December 2012, Taiwan's terms of trade improved by 29%.

(a) Assess the factors that cause a worsening of a country's terms of trade.

**(15)**

(b) Evaluate the effects of a significant improvement in a country's terms of trade on the achievement of its macroeconomic objectives.

**(25)**

**(Total for Question 2 = 40 marks)**

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**3** (a) Discuss the likely causes of income inequality **between** countries of your choice.

**(15)**

(b) Evaluate the economic impact of a significant decrease in income inequality **within** a country.

**(25)**

**(Total for Question 3 = 40 marks)**

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**Indicate which question you are answering by marking a cross in the box ☒. 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** ☒

**TOTAL FOR SECTION A = 40 MARKS**

**SECTION B**

**Answer EITHER Question 4 OR Question 5.**

**You should spend 60 minutes on this section.**

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

**Question 5 starts on page 24.**

**4 The Trans-Pacific Partnership (TPP) and the World Trade Organisation (WTO)**

**Extract 1 The benefits of joining the TPP**

The TPP is a proposed regional free trade area (FTA) between 12 countries that cover almost a third of global trade: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. It has been estimated that the TPP could create annual global income gains of $295 billion (including $78 billion for the United States), and help lead to wider free trade in the Asia-Pacific region.

Every economy participating in the TPP can expect substantial gains. Small economies and those with high trade barriers will gain the most. The greatest absolute gains are estimated for Japan and China. In Japan, inward foreign direct investment should increase from the liberalisation of its service and other investment sectors. China would benefit from a reduction in the considerable protectionist barriers on its exports to other countries in the region. Additionally, Vietnam could become a much bigger manufacturing hub in textiles, garments, and other industries. Hong Kong could experience significant growth as a service and investment centre.

Over recent years, focus has shifted from global agreements to regional trade agreements. In June 2012, the WTO reported 319 such agreements were in force. Groups of 'like-minded' partners appear to be better able to reach agreements that achieve mutual gains, and address wider issues.

Some opponents of regional agreements criticise them because they are not global agreements. They think that the costs to non-member countries will be greater than the benefits of greater regional trade and investment.

However, such arguments underestimate the challenges facing WTO negotiations. They also ignore the positive effects of renewed momentum toward global economic integration. The consequences of this could include improved investor confidence and better macroeconomic performance around the world. Increased competition and cooperation should also lead to faster productivity growth and more innovation. Although it is impossible to put probabilities or values on these effects, they could easily be large.

(Source: adapted from 'The Trans-Pacific Partnership and Asia-Pacific Integration: Policy Implications', Peter A Petri and Michael G Plummer, Peterson Institute for International Economics, Policy Brief 12-16, June 2012, http://www.iie.com/publications/pb/pb12-16.pdf)

**Extract 2  WTO negotiations**

In December 2013, 159 members of the WTO met in Bali, hoping to set binding targets to cut bureaucracy and reduce delays at borders around the world. Some estimate such a deal would add $1 trillion to the global economy by easing the flow of goods around the world.

Jagdish Bhagwati, a Professor of Economics and Law at Columbia University, says that the WTO is crucial for the smooth conduct of international commerce. Even the USA, he points out, has abided by the WTO judgements against it. A weakened WTO would eventually lead to the biggest economies negotiating favourable deals with each other, harming the weaker economies.

Victor Fung, who is leading a delegation in Bali on behalf of the International Chamber of Commerce, argues that the regional deals depend on rules made possible by the WTO and its predecessor, the GATT.

But regional agreements have a chance of delivering tangible results, says Gary Hufbauer of the Peterson Institute for International Economics. "Given that we've had 12 years of the Doha round and the best we can come up with is a trade facilitation deal, that's not a very good result." The Bali agreement would do nothing to end export subsidies to farmers, or to provide tariff-free and quota-free access to the global market for goods from the world's poorest countries.

(Source: adapted from 'WTO: Up in the air', *The Financial Times*, 2 December 2013, http://www.ft.com/cms/s/0/4f5dcb6e-5b38-11e3-a2ba-00144feabdc0.html#axzz2mybkm59O)

(a) Explain what is meant by a 'free trade area (FTA)'. (Extract 1, line 1)

**(4)**

(b) With reference to the information provided, analyse the impact of **two** types of restrictions on free trade.

**(8)**

(c) With reference to the information provided and your own knowledge, to what extent do regional trading blocs such as the TPP conflict with the objectives of the WTO?

**(12)**

(d) Assess the likely economic benefits of the proposed TPP for the countries that plan to join it.

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**(Total for Question 4 = 40 marks)**

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

**5 The Ghanaian Economy**

**Figure 1 Ghana and Sub-Saharan Africa real GDP growth, 2000–2014 (annual percentage change)**

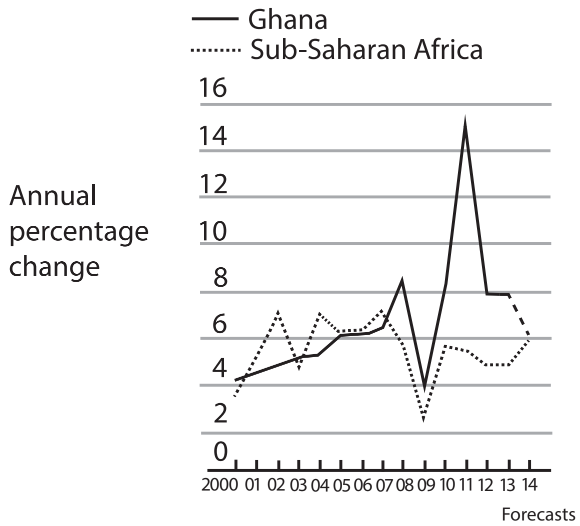
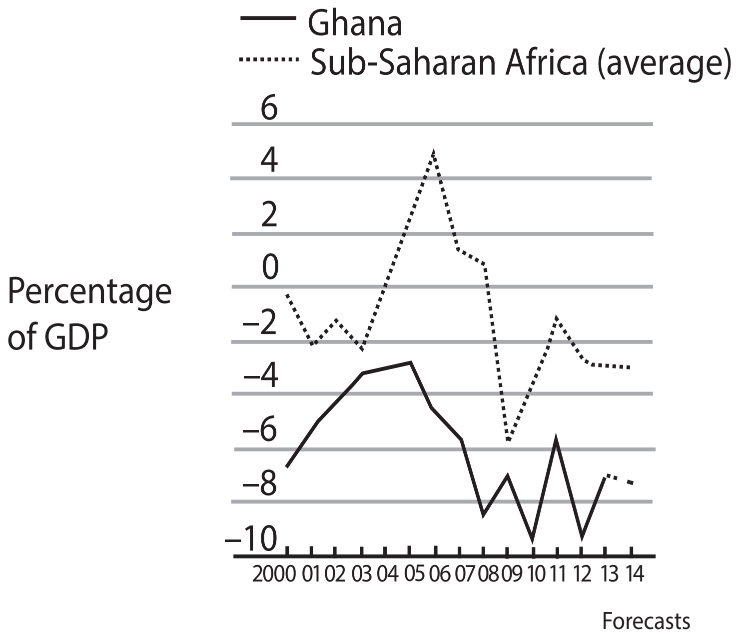



**Figure 2 Fiscal balances for Ghana and Sub-Saharan Africa (average) 2000–2014 (percentage of GDP)**



**Extract 1 Fiscal deficit fears grow in Ghana**

Ghana has experienced encouraging average economic growth rates for a decade, but look at other financial indicators, and talk to Ghanaians about the cost of living, and a different picture emerges.

Despite the start of oil production in 2010, which was meant to strengthen the fiscal balance, the economy is starting to look weak. In October 2013, the International Monetary Fund warned African countries for the first time that they are becoming vulnerable to financial shocks as they rely more on foreign investors, who can withdraw their financial capital at short notice if they feel the economic situation is worsening. On 17 October 2013, Fitch, a credit rating agency, downgraded Ghana's credit rating from B+ to B. It warned that "policy credibility has been significantly weakened" due to the size of the fiscal deficit, and noted the rising cost of servicing the public sector debt. Meanwhile, sharp rises in the price of fuel, water and power have led unions to threaten strikes.

The financial concerns have put pressure on the government of President John Dramani Mahama. Mr Mahama's party introduced a new public sector salary structure in 2010, designed to motivate workers and improve service delivery. This saw the government's wage bill rise 47% between 2011 and 2012, and salaries now consume more than 70% of tax revenue. With other government spending also increasing ahead of the presidential election in December 2012, the fiscal deficit rose sharply.

In September 2013, inflation rose to a three-year high of 11.9%, while by the end of October 2013, public sector debt stood at about 50% of GDP. Ghana's currency, the cedi, had depreciated 15% against the dollar since December 2012. GDP growth for 2013 is now expected to be closer to 7% than the 8% that was forecast.

Ghana is not alone in Africa in seeing its fiscal position worsen. But while other countries such as Kenya and the Ivory Coast can explain much of their greater fiscal deficits by increased capital expenditure, such as infrastructure projects, Ghana's capital spending as a share of GDP has fallen recently. The Managing Director of DaMina Advisors, a frontier markets advisory firm, said "it's a classic case: a country finds oil, people's expectations rise and government spending balloons. The problems are not going to go away until the government takes enough unpopular but necessary measures."

Mr Terkper, Ghana's Finance Minister, told reporters that Fitch had not given enough weight to the fiscal consolidation efforts already under way, such as the cuts in fuel and utility subsidies. New corporate taxes have also been introduced. Cutting subsidies further and reducing the public sector wage bill are necessary if the deficit is to be controlled, but are also politically difficult.

(Source: adapted from 'Deficit fears cast shadow on Ghana's economic star', *The Financial Times*, 31 October 2013, http://www.ft.com/cms/s/0/c042cb6a-420e-11e3-bb85-00144feabdc0.html#axzz2mybkm59O)

(a) With reference to Extract 1, explain the difference between current government expenditure and capital government expenditure.

**(4)**

(b) Discuss why Ghanaian 'GDP growth for 2013 is now expected to be closer to 7% than the 8% that was forecast'. (Extract 1, lines 22 and 23)

**(12)**

(c) Analyse the likely impact of 'cuts in fuel and utility subsidies' as a means of reducing Ghana's fiscal deficit. (Extract 1, lines 33 and 34)

**(8)**

(d) Assess the significance of the size of Ghana's **public sector debt** as a proportion of its GDP.

**(16)**

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**(16)**

**(Total for Question 5 = 40 marks)**

**TOTAL FOR SECTION B = 40 MARKS**
**TOTAL FOR PAPER = 80 MARKS**

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