

THINKING SKILLS

9694/43

Paper 4 Applied Reasoning

October/November 2014

1 hour 30 minutes

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Answer **all** the questions.

The number of marks is given in brackets [] at the end of each question.

This document consists of **7** printed pages, **1** blank page and **1** insert.

- 1 Study the passage and answer the question that follows.

Fit for purpose?

In recent years, it has become increasingly popular for people of all ages and from all walks of life to take part in mass-participation races or 'fun runs'. These events often involve thousands of competitors running distances that can be as much as 26 miles. Of those who take part, some do it for the sense of achievement, some in order to keep fit and others in order to raise funds for charity. However, far from promoting fitness, these events can actually be injurious to health. In 2005, four runners died during the Great North Run, a 13-mile event in northeast England, one of whom was only 28 years old. More recently, in 2012, a 30-year-old woman competitor died just yards from the finishing line of the London marathon.

It seems that distance running mass-participation events should be seen as potentially dangerous.

Make **five** criticisms of the statistics in the passage and/or the inference drawn from them. [5]

Questions 2, 3 and 4 refer to Documents 1 to 5.

- 2 Briefly analyse Bank-lover's argument in Document 1: *Stop Bashing Banks*, by identifying its main conclusion and main reasons, as well as any intermediate conclusions and counter-arguments. [6]
- 3 Give a critical evaluation of the strength of Bank-lover's argument in Document 1: *Stop Bashing Banks*, by identifying and explaining any flaws, implicit assumptions and other weaknesses. [9]
- 4 'We need to radically change our banking system.'

To what extent do you agree with this statement? Construct a well-reasoned argument in support of your view, commenting critically on some or all of Documents 1 to 5, and introducing ideas of your own. [30]

DOCUMENT 1**Stop Bashing Banks**

There is presently in many countries growing public rage against reckless gambling by banks that are seen as 'too-big-to-fail', and this is getting out of hand. Nations can have no future without banks. The jobs and investments generated by the banking sector are simply irreplaceable and banks are crucial for maintaining an energetic economy. If banks do not offer finance, the economy will be impoverished.

There is an amazing world of software applications developing in many places across the globe. This cutting-edge industry, which employs huge numbers of people, has the scope, thanks to the banking sector, of recruiting any young person who likes playing with a smartphone – whether or not they have any academic qualifications, or indeed any education. All they need is the right idea and, most importantly, financial backing in order to take off. One day one of these dreamer kids will come up with a bright idea to create a wonder application that will boost their country's economy. Gifted young entrepreneurs need the financial backing of banks to launch their innovations.

In that incredible scene in the excellent film about Facebook, *The Social Network*, this young fellow goes to the bankers and outlines his idea. "You bet", says the bank guy – "you need half a million dollars? No problem, be my guest." This is how risk-taking has given America such successes as Facebook, Google and Amazon. It is also the reason why, in order for countries to compete, they need a confident and dynamic banking sector.

Apart from business booming, the possibilities for the good life are endless. Banks help improve the quality of life all round. Suppose somebody invented an application which helps politicians become mistake-proof, by checking their every word and going BLEEP if they inadvertently say something wrong. Our politicians would benefit greatly, and life would be easy for everyone else as well.

It is time to get the message across to our unthinking opponents loud and clear: we need bankers who are willing to put their necks on the line. Yes, bank managers who engage in fraud should be arrested and locked away, such as those who were involved in the LIBOR scandal in London. But people should not turn their aggression on the banks themselves, as the banking sector is utterly crucial to a nation's economy and the current system of global capitalism.

Those who advocate that we should impose stringent regulation on banks and keep them under strict surveillance are short-sighted fools. It is no use regulating banks to the point where they are too nervous to lend. As I pointed out earlier, by daring to take risks the applications industry can become the economic powerhouse of a country. But that day will never come unless one makes way for a strong banking sector and a culture of entrepreneurship. It is, then, very important that we move towards deregulating our banks.

Bank-lover

DOCUMENT 2

There is no wealth but life

If we are to truly understand the economic crisis of 2007–08, we must begin with society itself, and its destruction at the hands of the market and the state.

In the UK we are now a flat society. There are only two powers in our country: the state and the marketplace. All other sources of autonomous independent power which form civil society, such as local government, trades unions, cooperative societies, churches, publicly funded educational institutions and civic organisations have been crushed. The consequence of this has been economic and political exclusion for the many, and massive and monopolised enrichment for the few.

The financial meltdown of 2007–08 has given us opportunity to see the game as it really is. Thatcher-Reagan political complicity allowed the banks to rig the market. In spite of all the propaganda about endless economic growth and the awesome creativity of bankers and financiers, the truth is that the poor lost almost all their savings, while they and the middle class have taken on unprecedented levels of personal debt. As official statistics demonstrate, the share of non-proprietary wealth enjoyed by the bottom 50% of the population fell from 12% in 1976 to just 1% in 2003, whereas in the same period the share enjoyed by the top 10% rose from 57% to 71%. Even when property is included, half the population still owns only 7% of the country's wealth. The real outcome of the past 30 years is a state of disempowerment. Squeezed by the extreme ideology of markets and the unlimited sway of capital, most Britons feel they cannot influence their locality, let alone the nation. Passive and compliant, all we can do is shop – and after a while that doesn't make us particularly happy either.

Capital has centralised in fewer and fewer hands and is now rented out in the form of credit to those who do not own and so must borrow in order to. For to own something on credit is not to own it at all – rather, people have bought into a form of ownership that ultimately converts its possessor into debtor. Through a growing bubble, more and more money was provided by banks to finance more and more purchases, and house prices climbed accordingly, which in turn allowed a further increase of credit and so on. Thus more and more people became heavily indebted in the hope of acquiring freedom from debt. Market speculation helps the bubble to develop. Financing companies and banks cease to scrutinise these inflated values. They are flying blind.

One should challenge the notion that the aim of contemporary capitalism is to deliver prosperity and property to all. If we are to have real freedom and true liberty, the new conditions of serfdom must be recognised and challenged. We need to revive civic culture and establish the 'politics of virtue', whereby families and communities are empowered to chart a pattern for their lives that differs from that prescribed by the market–state. The elevation of society above economy and the creation of a moral market is the only genuine alternative to today's economic crisis. There is no wealth but that enshrined in the good life and the extension of that to all subjects and citizens.

Philip Blond

Director of ResPublica and a research fellow at NESTA (National Endowment for Science, Technology and the Arts)

DOCUMENT 3**What is the importance of banks?**

Bankers play a very important role in the economic life of the nation. The health of the economy is closely related to the soundness of its banking system. Although banks create no new wealth, their borrowing, lending and related activities facilitate the economic processes of production, distribution, exchange and consumption. The banks are mobilising the savings of people for investment purposes. If there were to be no banks then a great portion of the capital of the country would remain idle.

A bank is just like a heart in the economic structure and the capital provided by it is like blood. As long as blood is in circulation the organs will remain sound and healthy. If the blood is not supplied to any organ then that part would become useless, so if finance is not provided to the agricultural or the industrial sector, for example, they will be destroyed. Loans provided by banks allow the producer to increase production. Many difficulties in making international payments have been overcome and the volume of transactions has increased. Cheques, drafts, bills of exchange and letters of credit are very important instruments of the banks.

Blurtit

Internet forum

DOCUMENT 4

Banks are useless

The key question is: what are banks for, and how do we want them to serve the national interest? Punishing scapegoats to change the culture of finance is not enough. The 'It's-a-few-rotten-apples' alibi conceals the reality that the culture of finance can only be addressed through radical reforms. Banks must become public utilities with the duty to serve the wider economy, and not act like players in casinos.

The regulatory authorities decided LIBOR manipulation merited only a modest fine – the penalty is £290m which equates to just 4.2% of Barclays' pre-tax profit and is equivalent to 13 days of profit. What is required is a fundamental redefinition of the social and economic roles of finance.

As a start, we need to address some of the myths pushed by City lobbyists. As reports show, the economic benefits of the City for the 'real' economy are an illusion; much of the City's dealings do little to promote welfare or efficiency in the wider economy. Evidence from working papers establishes the economic and social uselessness of finance. Banks have been inflating assets that led to a financial implosion, are a sector creating no new jobs since the early 1990s, and have offered a contribution of no more than 8% of government revenue – much less than manufacturing.

If much of finance is not worth saving, what kind of policies should we consider? We can start by splitting retail and investment banks and radically shrinking the investment banks, depriving them of their high-trading-volume business models. This would free funds so that they are channelled into the productive economy.

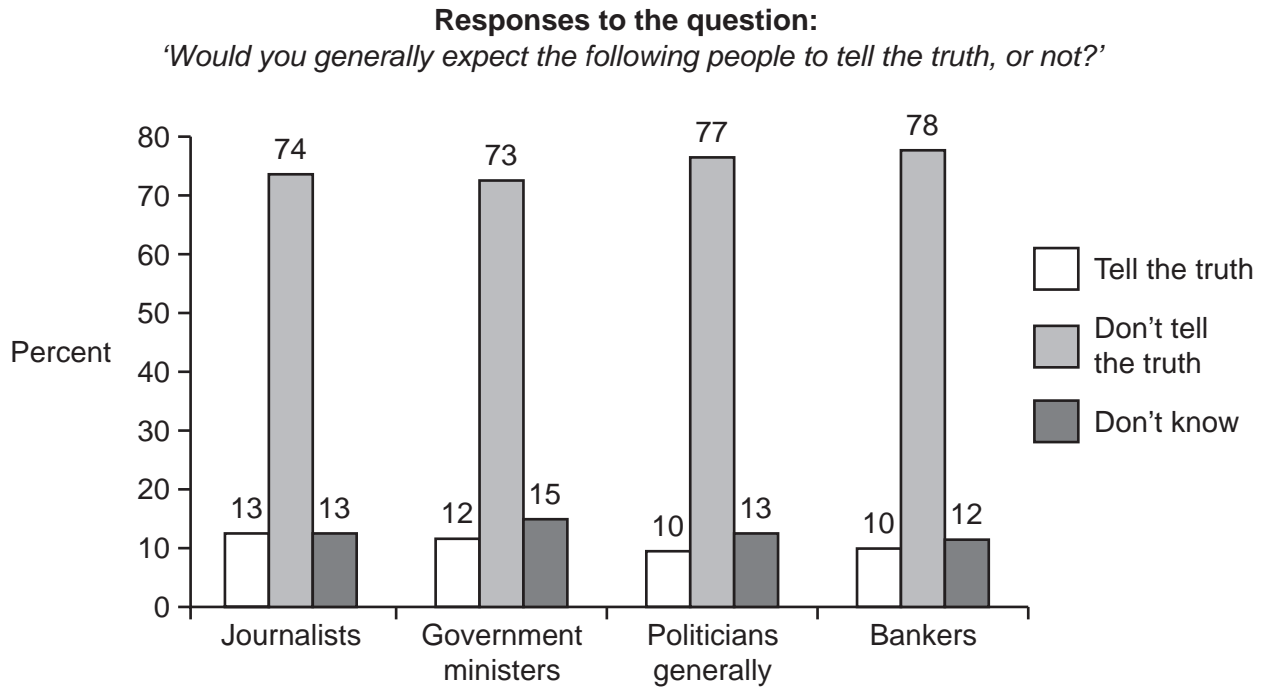
We need to break up the 'too big to fail/jail' banks because the concentrated political power of the banks enhances their ability to extract favourable policies from government to the detriment of other social interest groups. Finance should not be allowed to work against the common good. There should be transparency and restrictions around lobbying, and the City of London should be converted into a public organisation. The funding of political parties should be reformed, so that they can break free from the influence of a small elite of wealthy backers and start becoming more accountable to ordinary citizens.

London School of Economics website

Post made in July 2012 by a think-tank of highly respected academics and researchers in the UK

DOCUMENT 5

Bankers even worse than politicians?



FullFact.com
July 2012

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