

ECONOMICS

6841

Thursday 28 June 2007 9.00 am to 12 noon

For this paper you must have:

- a 16-page answer book.

You may use a calculator.

Time allowed: 3 hours

Instructions

- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is 6841.
- Answer **all** parts of Question 1 from Section A, **one** question from Section B and **one** question from Section C.
- **At the very start of the examination**, detach page 5 by tearing along the perforations.

Information

- The maximum mark for this paper is 160.
- The marks for questions are shown in brackets.
- Section A carries 50% of the total marks for the paper. Sections B and C each carry 25% of the total marks for the paper.
- You will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

Advice

- You are advised to spend 90 minutes on Section A, 45 minutes on Section B and 45 minutes on Section C.

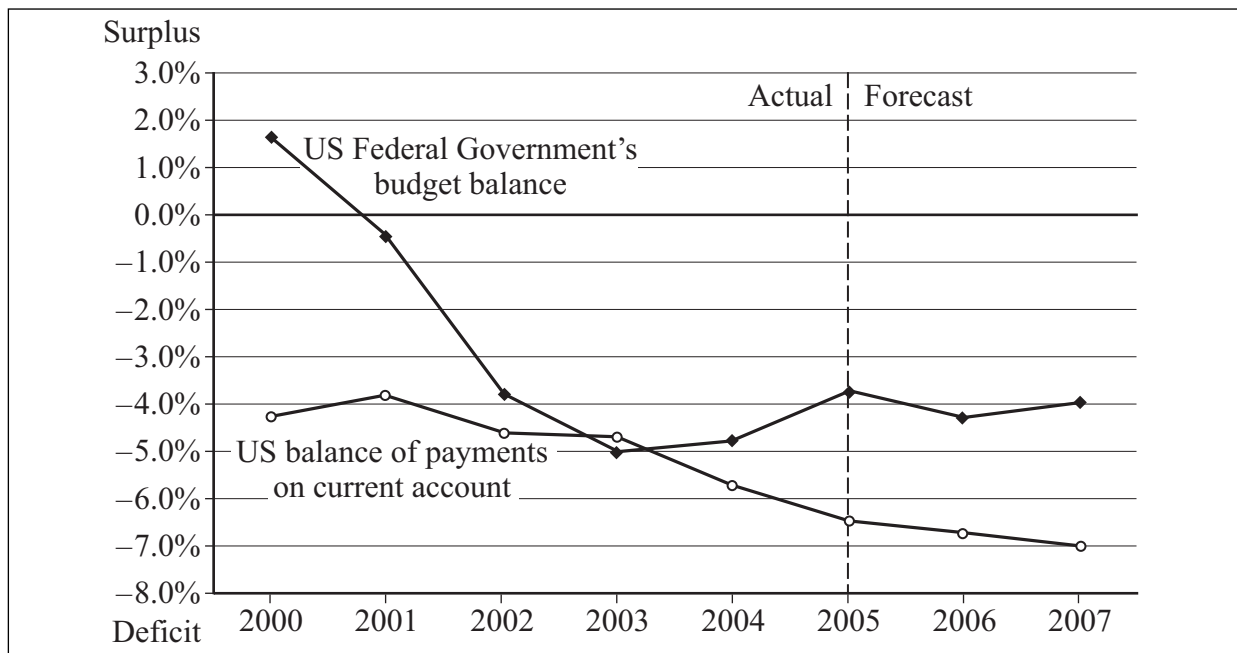
SECTION A: Interpreting Economic Data

Study the data on pages 2–4 and then answer **all** parts of Question 1 which follows on page 5.

Total for this question: 80 marks

1 AMERICA'S TWIN DEFICITS

Extract A: Changes in the size of the actual and forecast US current account and the Federal Government's budget balances, 2000–2007 (percentage of US GDP)



Source: Organisation for Economic Co-operation and Development (OECD), 'OECD Economic Outlook Database', December 2005

Extract B: The balance of payments

Extract B is an extract of text.
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Extract C: Is the US current account deficit sustainable?

Extract C is an extract of text.
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Extract D: America's bulging budget deficit

Extract D is an extract of text.
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Extract E: Capital assets located outside the USA owned by US residents and capital assets located in the USA owned by foreign residents, 1989–2004, at current values

Extract E is a graph.
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Extract F: America is a net debtor country, but does this matter?

Extract F is an extract of text.
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Question 1

- (a) **Extract A** shows changes in the US balance of payments on current account and changes in the US Federal Government's budget balance.

Explain how the changes in the US Federal Government's budget balance may have affected the US balance of payments on current account. *(10 marks)*

- (b) 'The laws of demand and supply imply that a nation experiencing a current account deficit should witness a depreciation in its currency, if capital flows remain unchanged' (**Extract C**, lines 1–2).

With the help of a diagram, explain this statement. *(10 marks)*

- (c) 'Bringing the US Federal Government's budget back into balance will require a politically unpopular combination of tax increases and spending cuts' (**Extract D**, lines 7–8).

Assess the case **for** and **against** bringing a government's budget, such as the US Federal Government's budget, back into balance. *(20 marks)*

- (d) 'Since the world-wide economic slowdown of 2001, America's insatiable appetite for imports has been one of the mainstays of the global economy' (**Extract D**, lines 18–19).

Assess the possible effects on the global economy resulting from action taken by the US Federal Government to reduce America's imports of goods and services. *(20 marks)*

- (e) For **either** the US economy **or** the global economy, discuss the advantages **and** disadvantages of inward capital investment into the USA. *(20 marks)*

See page 7 for Questions 2–5

Turn over ►

There are no questions printed on this page

SECTION B: Markets and Market Failure

Answer **EITHER** Question 2 **OR** Question 3 from this section.

- 2 ‘A few weeks ago an interesting experiment was undertaken at the Brussels food fair. A new shop was opened selling boxes of Belgian chocolates. On the first day, the price was set at €9 for each box. Sales went well. The next day the price was raised to €15 per box. Steeped in economic theory, you might think that demand now declined. Wrong. Demand doubled. On the third day the price was lowered to €2 for each box. Demand for the chocolates collapsed.’

Source: adapted from an article by PAUL DE GRAUWE, *Financial Times*, 13 January 2006

In the light of this information, evaluate the view that firms should **always** charge high prices rather than low prices. (40 marks)

- 3 Using economic theory, evaluate the view that there is no point in a particular country, such as the UK or the USA, implementing economic policies to reduce global warming, because the problem cannot be addressed effectively through action taken by a national government. (40 marks)
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SECTION C: The National and International Economy

Answer **EITHER** Question 4 **OR** Question 5 from this section.

- 4 ‘Although high oil prices can have important demand-side effects on the economy, they may also have significant supply-side effects. While the resulting lower than anticipated growth might indicate a shortage of demand, it might just as easily indicate a reduction in the economy’s supply potential.’

Source: adapted from an article by STEPHEN KING, *The Independent*, 6 March 2006

Evaluate the demand-side **and** supply-side effects that might result from higher oil prices. (40 marks)

- 5 Do you agree that globalisation is simply a name for the processes through which rich countries exploit poor countries? Justify your answer. (40 marks)

END OF QUESTIONS

There are no questions printed on this page

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Extract D: © The Economist Newspaper Limited, London (7 February 2006)