



General Certificate of Education
Advanced Level Examination
January 2013

Economics

ECON4

Unit 4 The National and International Economy

Wednesday 30 January 2013 1.30 pm to 3.30 pm

For this paper you must have:

- an AQA 12-page answer book
- a calculator.

Time allowed

- 2 hours

Instructions

- Use black ink or black 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 ECON4.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
 - use good English
 - organise information clearly
 - use specialist vocabulary where appropriate.

Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER

Total for this Context: 40 marks

Context 1

THE GLOBAL CONTEXT

Study **Extracts A and B**, and then answer **all** parts of Context 1 which follow.

Extract A: Annual real GDP growth rates and unemployment rates (%), world and selected regions, 2007 to 2010

Annual real GDP growth rates (%)	2007	2008	2009	2010 (forecast)
World	5.3	2.8	– 0.6	4.8
Developed economies and EU	2.6	0.3	– 3.4	2.3
Middle East and North Africa	6.0	5.1	2.4	4.4

Unemployment rates (% of labour force)	2007	2008	2009	2010 (forecast)
World	5.6	5.7	6.3	6.2
Developed economies and EU	5.8	6.1	8.4	8.3
Middle East and North Africa	10.4	9.9	10.1	10.1

Source: official statistics, 2011

Extract B: Worrying times across the world for unemployment

In August 2011, it was reported that unemployment in the US economy had fallen in July from 9.2% to 9.1% of the labour force. This was seen by some as a turning point, a time when stronger real GDP growth would signal an economic recovery despite the effects of economic shocks persisting. Oil price increases, banking crises and interest rate rises are examples of such shocks. At a time when global unemployment was around 6%, many saw the US unemployment statistic as just a tiny bright spot in an otherwise depressing picture, both in America and globally. 1
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Data from the *International Labour Organisation* (ILO) show a picture of increasing unemployment in developed economies for the period 2007 to 2009, with some levelling out in 2010 and 2011. UK unemployment in mid-2011 was around 8%. Some had anticipated that this figure would be far higher given a significant tightening of fiscal policy in the UK, severe debt problems in parts of the eurozone and a US economy stubbornly refusing to recover. Both the eurozone and the US economies are important trading areas for the UK. Further increases in UK unemployment were seen as inevitable despite job creation taking place. The number of people in work in the UK rose by 184 000 between April and June 2011, taking the total in work to over 29 million. 10
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The UK Government has argued that its policy of fiscal restraint is the correct one in order to reduce the budget deficit, although the Managing Director of the *International Monetary Fund* (IMF) has argued that recovery in aggregate demand is ‘the single best cure for unemployment’.

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However, the Managing Director of the IMF has also argued that targeted programmes in the labour market are vital, even to the extent of wage subsidies paid to employers for vulnerable groups such as the young unemployed. The more people in work, he argued, the greater the spending power available to help recovery by raising demand for goods and services. The teaching of new skills and the encouragement of occupational and geographical mobility are a vital part of such programmes. For example, in the UK, the Government’s Work Based Learning Programme includes apprenticeship programmes aimed at unemployed young people. Another targeted UK scheme is the Work Programme. This is designed to help the long-term unemployed of whatever age to find a job.

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Such supply-side measures are regarded by some as an irrelevance in the short term when stimuli to aggregate demand are seen to be so urgently needed. However, all economies need to look at their long-term performance, and supply-side measures can create a stronger labour market. Economic recovery is then more likely to occur.

Source: official statistics, 2011

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Using **Extract A**, identify **two** significant points of comparison between annual real GDP growth and unemployment for the period 2007 to 2010. (5 marks)

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Extract B (lines 3–4) states that ‘stronger real GDP growth would signal an economic recovery despite the effects of economic shocks persisting’.

Explain why stronger real GDP growth would signal an economic recovery **and** analyse how **one** economic shock might prevent recovery in an economy. (10 marks)

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Extract B (lines 21–22) suggests that ‘targeted programmes in the labour market are vital’ in order to reduce unemployment.

Using the data and your economic knowledge, to what extent would you agree that such programmes are likely to be the most effective way of reducing unemployment in developed economies such as the UK? Justify your answer. (25 marks)

Turn over for Context 2

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

OR

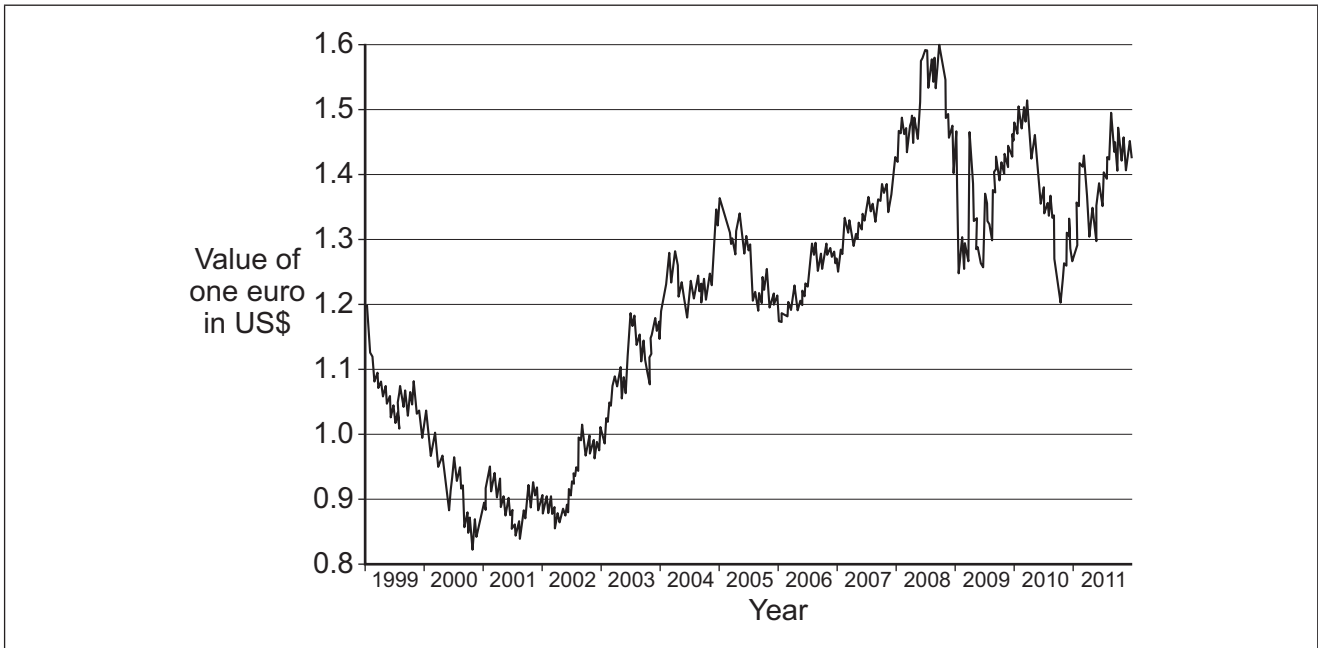
Total for this Context: 40 marks

Context 2

THE EUROPEAN UNION CONTEXT

Study **Extracts C and D**, and then answer **all** parts of Context 2 which follow.

Extract C: The US\$/euro exchange rate, 1999 to 2011



Source: European Central Bank, 2012

Extract D: Can the eurozone survive?

Before the global recession of 2008, the euro had emerged as a successful major currency, making travel and trade for member countries much easier. Those countries traditionally with weaker currencies, such as Italy, Greece and Spain, were given a degree of stability which fostered economic growth. Some leading economists and politicians were urging the UK to adopt the euro, seeing it as a major step towards the full integration of the UK into the European Union (EU).

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The global recession changed everything. By 2011, there were many in the UK relieved that we were still outside the eurozone. The growing debt crisis in the eurozone has inevitably had repercussions for the euro. Stronger members found themselves being called upon to offer financial support to those economies in trouble. Media reports began to suggest that the ultimate outcome of the debt crisis would be the break-up of the eurozone, with some of the weaker members such as Spain, Italy and Greece re-adopting their former national currencies.

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The UK Government has adopted a policy of fiscal restraint in order to reduce annual borrowing and to try to limit the growth of the National Debt (the total outstanding debt of the government). It urged the weaker members of the eurozone in particular to adopt a similar policy if they were to retain membership.

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<p>However, the potential benefits of leaving the eurozone are not lost on some politicians and economists within the weaker economies. One such benefit is the absence of the same 'one-size-fits-all' interest rate. For example, some countries still in recession in the eurozone saw their interest rates, as set by the European Central Bank, rise to 1.25% in July 2011. This was at a time when the Bank of England kept the UK Bank Rate at 0.5%. Countries could also restore an exchange rate for their own currencies which would give them a competitive edge, rather than being forced to cut wages and jobs. They would also not be obliged to follow such a strict policy of fiscal restraint which remaining members would have to follow.</p>	20
<p>There are others, however, both within these countries and beyond, who warn against departure from the eurozone. It is difficult to predict what the economic impact on the UK might be should there be a break-up of the eurozone. The impact would depend on a number of factors, including how many countries left and which countries these were. It might also depend on the degree of economic instability which departure from the eurozone might cause in those countries as they restored their national currencies, and the impact on the stability of the remaining members of the eurozone. It has to be borne in mind, however, that the EU would still exist.</p>	30
<p>The UK might expect disruption to trade, at least in the short term, with consequences for the balance of payments. Another banking crisis could also emerge. International money, seeking a safe haven, might favour the pound sterling and thus strengthen its external value. These potential developments have implications for UK growth and employment and pose yet another threat to the current recovery. The UK might be relieved to be outside the eurozone. However, the UK is certainly not immune from the possible consequences of its break-up.</p>	35 40

Source: various sources, 2011

- 0 | 4** Using **Extract C**, calculate the price in dollars of a good exported from the eurozone to the US at the start of 1999 priced at 20 euros **and** identify **one** significant feature of the dollar/euro exchange rate for the period 1999 to 2011. *(5 marks)*
- 0 | 5** **Extract D** (lines 19–26) refers to economies which, if they left the eurozone, would no longer be obliged to follow such a strict policy of fiscal restraint and could enjoy other economic benefits.
- Explain the phrase 'policy of fiscal restraint' **and** analyse **one** potential economic benefit for an economy if it leaves the eurozone. *(10 marks)*
- 0 | 6** **Extract D** (lines 28–29) states that it 'is difficult to predict what the economic impact on the UK might be should there be a break-up of the eurozone'.
- Using the data and your economic knowledge, assess the possible impact on the UK economy if a number of countries leave the eurozone. *(25 marks)*

Turn over for Section B

Turn over ►

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

‘Globalisation has made many economies more prosperous, but all economies have been made more vulnerable to economic shocks.’

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 Explain the term ‘globalisation’ **and** the role that multinational companies play in the development of globalisation. *(15 marks)*

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 To what extent, if at all, have the economic consequences of globalisation differed between developed and developing countries? *(25 marks)*

OR**Essay 2**

In March 2011, the UK Office for Budget Responsibility (OBR) forecast that the budget deficit would fall from 7.9% of GDP in the financial year 2011–2012 to 1.5% in 2015–2016.

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 Explain the term ‘living standards’ **and** analyse how cuts in government spending to lower the budget deficit might affect living standards in the UK. *(15 marks)*

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 Discuss whether the UK Government should **either** raise taxes **or** cut government spending to achieve its 2015–2016 fiscal objective. *(25 marks)*

OR**Essay 3**

‘The avoidance of price deflation must always be the major macroeconomic objective.’

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 Explain how changes in the price level in the UK are measured through the use of price indices such as the RPI and CPI. *(15 marks)*

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 Evaluate the view that the avoidance of price deflation should always be the major macroeconomic objective. *(25 marks)*

END OF QUESTIONS

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