



Rewarding Learning

ADVANCED
General Certificate of Education
2012

Economics

Assessment Unit A2 2

The Global Economy

[AE221]

FRIDAY 25 MAY, MORNING



AE221

TIME

2 hours.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **Question 1** and **one** question from **Questions 2, 3 or 4**.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

Quality of written communication will be assessed in all parts of **all** questions **except 1(a)**.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks allocated for each part question in allocating the available examination time.

Question 1

The following passages were written in September 2010. Please read them carefully answer the questions which follow.

Case Study: Economic Power Shifts to the East

Source 1: Sterling recovers

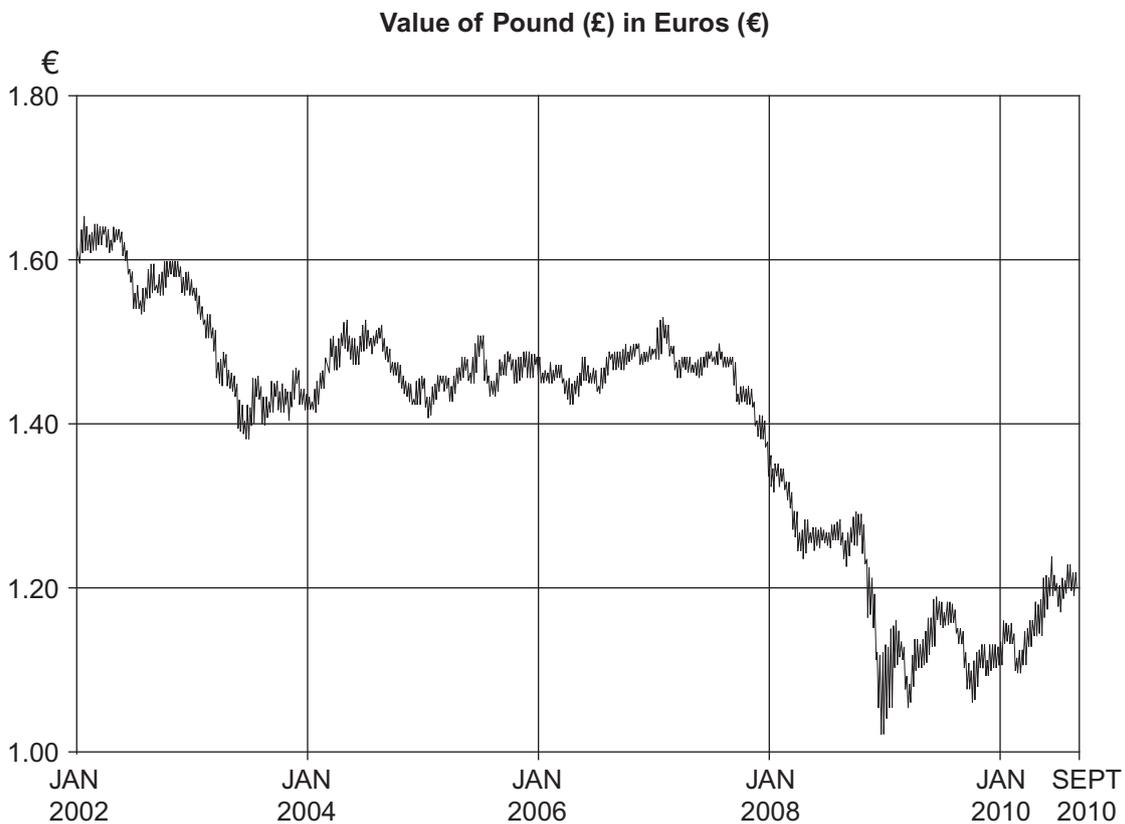


Fig. 1

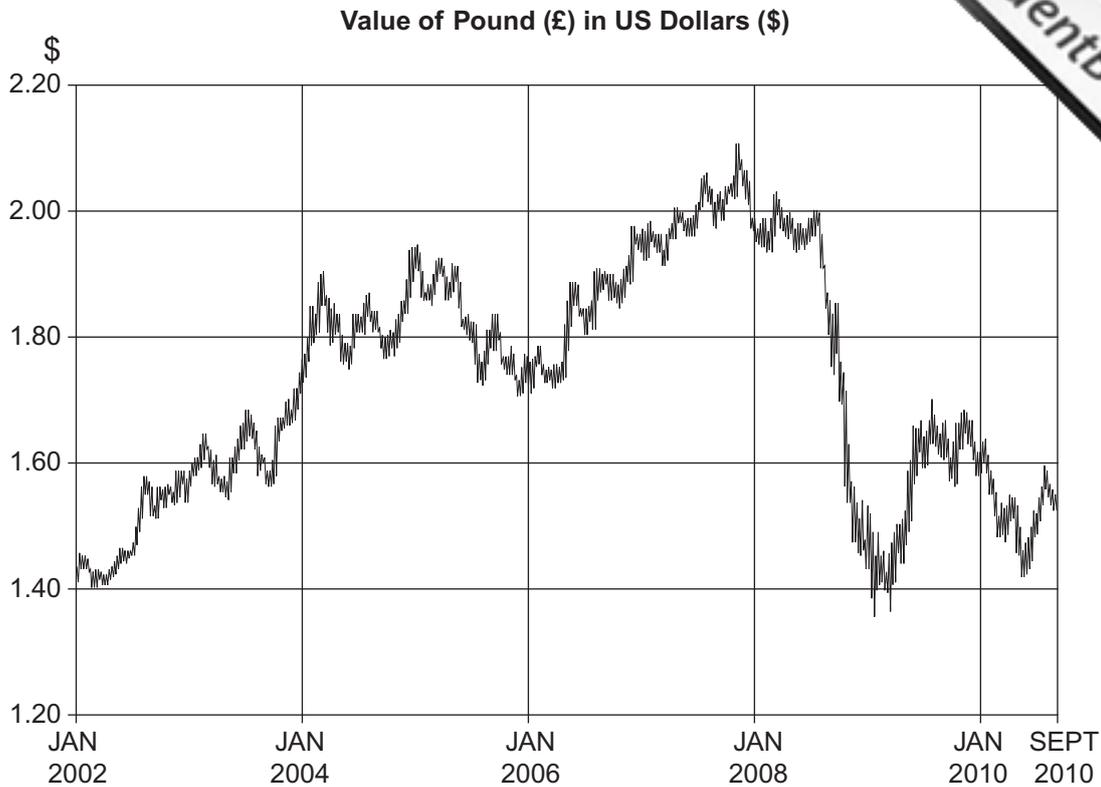


Fig. 2

The value of a nation's currency against that of some other country is often taken as an indicator of the relative strength of the two economies. The UK pound exchanged for four US dollars just after the Second World War but, as the American economy grew much more rapidly than the British, so the value of the pound fell. Today the same process is evident with many of the newly emerging economic powers. Over the past eight years, the pound has fallen by 13 per cent against the Chinese yuan and by 23 per cent against the Brazilian real.

However, rumours of the death of sterling appear to have been greatly exaggerated. From a low of 1.08 euros in March 2009 it is now (September 2010) worth just over 1.20 euros. OK, not back to the heady days of 1.60 euros last seen in 2002, but still good news for UK holidaymakers and importers!

It will also have brought some comfort to Bank of England Governor, Mervyn King, as it may help the Bank's Monetary Policy Committee to achieve its inflation target. This has been regularly missed in recent months and Mr King has had to write several letters of explanation to the Chancellor.

Of course, a stronger pound is not good news for everybody. UK firms facing competition from imports will be less than happy, but overall most people will welcome this slight recovery in the pound's external value.

Source 2: The world needs more BRICs

The acronym BRIC, standing for Brazil, Russia, India and China, was first coined by a group of investment bank, Goldman Sachs, in 2001. Since then it has become widely used as the acronym for the economic power and influence of these nations has rapidly increased and with it the volume of media coverage devoted to them.

The rate at which these nations are catching up on more developed economies such as the EU and USA has accelerated as a result of the world recession. While developed economies have languished in recession, these new economic super-powers have continued to forge ahead. Jim O'Neill is quoted on his bank's website as saying "What seems clear is that the global credit crisis and its aftermath have caused more damage to the major developed economies than to the BRICs". Since the start of the crisis in 2007, BRIC nations have been responsible for some 45 per cent of global growth and now make up 16 per cent of global GDP. Each of them now has a level of GDP which they had not been expected to reach until 2015.

A number of factors have contributed to this economic transformation. The failure of state planning led to the introduction of significant free market reforms in all the BRIC nations. Brazil and Russia have vast endowments of natural resources and governments of all these nations have encouraged education, foreign investment and the growth of an enterprise culture.

So successful have been the BRIC nations, that political leaders in the developed world are increasingly looking to them to pull the world out of recession. BRIC economic growth has produced a thriving middle class with an insatiable appetite for luxury consumer goods, many of which are produced in the west. Jim O'Neill cites the average monthly new subscription rate for mobile phones in just India and China as an example. This stands at 32 million, the equivalent of the whole of Britain signing up every two months.

China now has 477,000 millionaires, 31% more than in 2008 and, according to the Hurun report, the average Chinese millionaire owns three cars and 4.4 luxury watches. It is normal for these high flyers to show the world their achievements and what better way to do so than the purchase of Gucci, Louis Vuitton, Omega, Rolex and Bentley or Mercedes cars. O'Neill commented, "The BRIC consumer is taking over from the US as the key driver of world demand".

Source: adapted from "The BRIC path to global growth", author Tim Gosling, Daily Telegraph September 7th 2010

Source 3: Time for fortress Britain

The rise of the BRIC economies has not been universally welcomed in the UK. One trade unionist pointed out that large sectors of UK manufacturing had disappeared as a result of competition from emerging economies.

He said, "Look at what has happened to our shipyards and steelworks. Most have disappeared and, to add insult to injury, much of what's left has been taken over by firms from the Far East. We just cannot compete on price with these low-wage countries and we shouldn't try. If we do, our wages will be driven down to their levels".

He went on, "It is all very well for industry bosses to lecture us about the benefits of free trade, but my members see no benefits. The end result of global free trade can only be lower wages. The best way to protect our jobs and living standards is to impose strict controls on imports from these nations".

- (a) Using the information in **Figs. 1 and 2**, compare the trends in the pound's exchange rate against the euro and the dollar. [5]
- (b) Analyse the probable impact on the UK economy of a rise in the value of the pound against the euro. [10]
- (c) Examine why growth rates in the BRIC economies have been significantly higher than those in Europe and the USA. [10]
- (d) Critically examine the view that the UK should not try to compete on price with the BRIC economies. [15]

Essays:

Answer **one** question from **Questions 2, 3 or 4.**

2 Current account deficit cannot be ignored

- (a) Explain why a nation's overall balance of payments must always balance. [15]
- (b) Critically examine the main policies which the UK Government could adopt to correct a deficit in the current account of the balance of payments. [25]

3 UK commits to increased foreign aid

- (a) Explain the main economic problems faced by Less Developed Countries (LDCs). [15]
- (b) Critically examine the view that the world's richer nations should significantly increase the percentage of their GDP they allocate to foreign aid. [25]

4 The euro's time has passed!

- (a) Explain the role and functions of the European Central Bank. [15]
- (b) Critically examine the view that the European common currency (euro) is a failed economic experiment. [25]

THIS IS THE END OF THE QUESTION PAPER

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