Write your name here

Surname	Other names

Centre Number | Candidate Number

Edexcel GCE

Economics

Advanced

Unit 4: The Global Economy

Tuesday 11 June 2013 – Morning
Time: 2 hours

Paper Reference
6EC04/01

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 100.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
  – *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- You are advised to divide your time equally between Section A and Section B.
- Check your answers if you have time at the end.

Turn over ▶

1/1/1/1/1/1/1

PEARSON

SECTION A

Answer ONE question from this section.

You should spend 60 minutes on this section.

***1** (a) Assess possible reasons why the annual average growth rates of developing economies have been more than 4.5% higher than those of developed economies in recent years.

(20)

(b) To what extent is monetary policy the most effective way of stimulating economic growth? Refer to at least one example of a developed economy in your answer.

(30)

***2** (a) In 2011, Germany recorded a trade in goods surplus of €146.1 billion whereas the USA recorded a trade in goods deficit of $737 billion and the UK a deficit of £99.7 billion. Assess the possible causes of such differences in trade balances.

(20)

(b) Evaluate means by which trade imbalances could be reduced.

(30)

***3** (a) Assess the effect of globalisation on inequality in the world economy.

(20)

(b) Inequality within many developed countries is increasing. Evaluate the impact of policies designed to reduce inequality in a developed country of your choice.

(30)

Do not use pencil. Use black ink or ball-point pen.
Put a cross in the box indicating the question from Section A that you have chosen ☒.
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 = 50 MARKS

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SECTION B

Answer ONE question from this section.

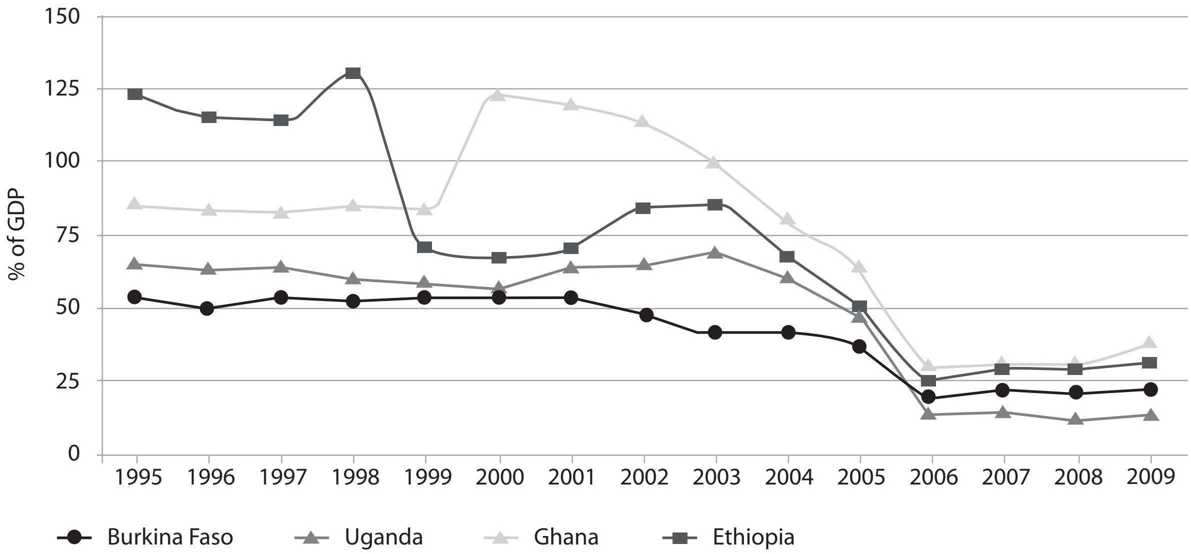
You should spend 60 minutes on this section.

If you answer Question 4 put a cross in this box ☒

Question 5 starts on page 28.

4 The Lion Kings

Figure 1 External debt of selected African countries as a % of Gross Domestic Product (GDP), 1995-2009



(Source: © 2012 African Economic Outlook)

Figure 2 The World's Fastest-Growing Economies 2001-2010: Annual Average GDP Growth (%)

Angola	11.1
China	10.5
Myanmar	10.3
Nigeria	8.9
Ethiopia	8.4
Kazakhstan	8.2
Chad	7.9
Mozambique	7.9
Cambodia	7.7
Rwanda	7.6

(African countries in bold italics)

Figure 3 Forecast Annual Average GDP Growth (%), 2011-2015

China	9.5
India	8.2
Ethiopia	8.1
Mozambique	7.7
Tanzania	7.2
Vietnam	7.2
Congo	7.0
Ghana	7.0
Zambia	6.9
Nigeria	6.8

(African countries in bold italics)

Extract 1 Africa on the point of take-off

The World Bank says Africa "could be on the brink of an economic takeoff much like China was thirty years ago". Jeffrey Sachs, one of the leading experts on developing countries, says the continent could become "the surprise winner of the coming decade". The scale and extent of Africa's economic boom is unprecedented: from 2001 - 2010 six out of the ten fastest growing countries were African. In eight of the last ten years, Africa's lion states have grown faster than Asia's tigers. The fastest-growing economy in the world in 2011 was Ghana at 13%, compared with barely 1% in most European countries and just over 1% in America. Thanks to external debt relief in Africa and the massive increase in borrowing in Europe, many European countries are now more indebted than African nations.

New African billionaires and multi-millionaires are being created at an astonishing rate and the wealth is trickling down. Some 313 million people, 34% of the continent's population, spend $2.20 a day, a 100% rise in less than 20 years, according to the African Development Bank Group (AfDB).

Some African firms are now so big they are buying global rivals. South African Breweries has bought America's Miller, to become SAB Miller, the world's second largest brewer. The world's leading multinationals are rushing to invest in Africa. For example, America's Walmart, the world's biggest retailer, recently spent $2.4 billion acquiring a majority stake in South African firm Massmart. Overall foreign investment in Africa has grown more than 600% in the last decade.

Why is Africa suddenly shaking off decades of decline? Traditional industries of mining and agriculture are now more valuable and more productive. Africa has about half of the world's gold deposits, 10% of its oil reserves, and a third of its diamonds, copper, platinum and "rare earth" minerals used in smartphones, tablet computers and flat-screen TVs. Prices for these commodities are high, having risen significantly over the last decade. Furthermore, some of the old problems which have held Africa back are easing: the birth rate is falling and infrastructure is slowly improving, largely thanks to investment from China. Thousands of miles of roads and railways, oil and gas pipelines and new ports are being built in Kenya, Ghana, Nigeria and Mozambique.

While many macro factors are creating the right conditions for growth, micro factors, such as technology, are also generating prosperity. Until as recently as 2005, Africa was almost isolated from a technological perspective with most countries only having a few ancient landline telephone systems. Today, thanks to vast new underground fibre-optic cables that run from the east and west coasts of Africa, and millions of mobile phone masts, the continent is plugged into the world. The 400 000 landline subscribers in Nigeria have become 60 million mobile phone subscribers. The continent is the world's fastest-growing mobile phone market, expanding by 20% per year since 2006. Internet speeds have risen 100-fold in the last few years while connection costs have fallen 40-fold. Internet usage grew by 2 527% between 2000 and 2011. The real effects of the technological boom are felt beyond the high-tech companies themselves. These improvements in communication have created the one thing Africa lacked: a consumer society. In Kenya, for example, around 41% of the population use mobile phones to pay for goods by transferring credits from one handset to another in seconds. McKinsey & Company, a research consultancy, predicts that African consumer spending will rise from $869 billion in 2008 to $1.3 trillion by 2020.

Nevertheless, Africa is still the poorest continent on earth. Most of its one billion population live on less than $2 a day and average life expectancy in some countries is as low as 46. Education may have improved but is very weak by international standards. Deforestation and desertification are rising, causing conflicts over access to land and water. South Africa, which used to be a model for the continent, is tainted with corruption – a problem common in many other African countries. Despite all the advances in technology, only 12% of Africans are regular internet users, compared with a world average of 30%. All the new infrastructure has done little to overcome the problems of excessive bureaucracy, congested roads and over-crowded ports and airports. Basic services, such as power supplies, are inadequate with power cuts a common occurrence. Internal security is a major problem in countries such as Nigeria.

(Source for Extract 1 and Figures 2 and 3: © The Sunday Times 26 February 2012)

(a) With reference to Figure 1 and the first paragraph of Extract 1, outline the effect of 'external debt relief' (line 8) on a country's balance of payments.

(5)

(b) With reference to the fifth paragraph of Extract 1 (lines 29-44), analyse **two** benefits of improved technology for Africa.

(8)

(c) Examine the possible impact on poverty of economic growth in Africa.

(10)

*(d) Apart from technology and debt relief, assess reasons why Africa is 'suddenly shaking off decades of decline' (Extract 1, line 20).

(12)

*(e) With reference to Extract 1, evaluate factors which continue to limit economic development in many African countries.

(15)

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(15)

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(Total for Question 4 = 50 marks)

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If you answer Question 5 put a cross in this box ☒

5 Brazil

Figure 1 Brazil's Gross Domestic Product (GDP) per capita (PPP) in US dollars ($)

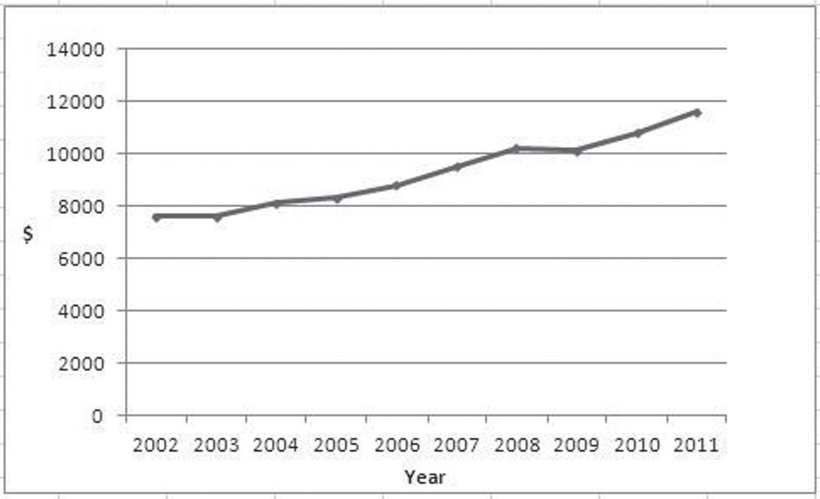
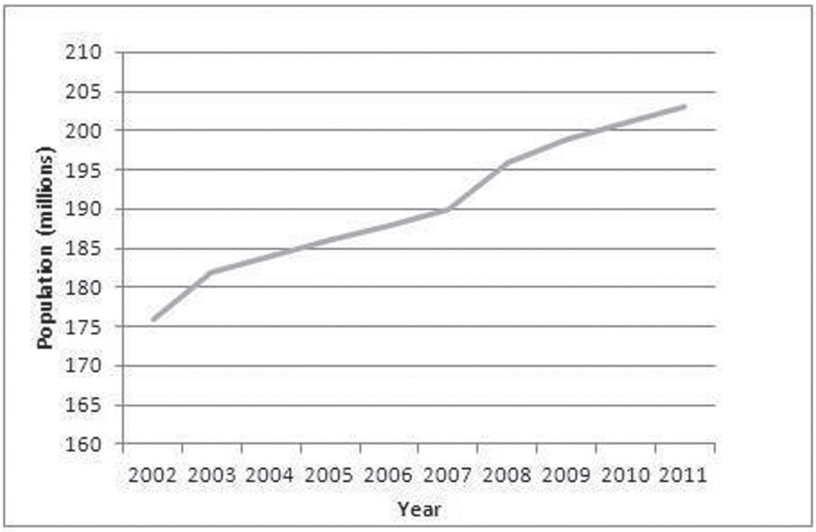
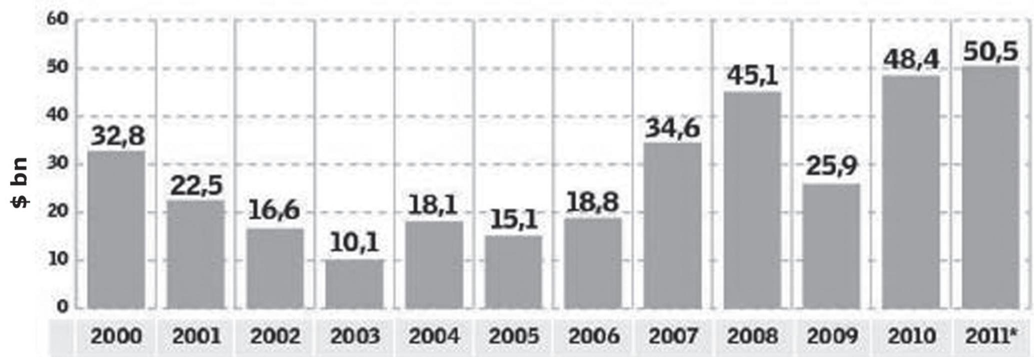


Figure 2 Population of Brazil (millions)



(Source for Figure 1 and Figure 2: © Index Mundi)

Figure 3 Annual Foreign Direct Investment in Brazil (billion US$)



*estimate

(Source: © Brasmari)

Extract 1 Brazil's economy overtakes UK

Brazil has claimed the UK's spot as the world's sixth largest economy after official figures showed its economy grew 2.7% in 2011 against the UK's 0.8%. France remains in fifth place behind Germany, Japan, China and the US. The per capita income of Brazilians remains less than a third of that enjoyed in the UK at approximately \$11 900 (£7 400) per head, but the gap is narrowing all the time while developed economies largely stagnate.

Brazil's dash for growth can be traced back to the mid-1990s when a series of privatisations ended the state's dominance of commercial life. China became a big customer, with a particular liking for soya beans and iron ore. The US also began to invest heavily in the country. Top of the list of economic attractions is agriculture and the processing of foodstuffs, which account for about a quarter of Brazilian GDP and 36% of exports. In the last 20 years it has become the world's largest producer of sugarcane, coffee and tropical fruits. It also has the world's largest commercial cattle herd (50% larger than that of the US) at 170 million animals, according to official figures. Oil is expected to become the next big commodity for export, especially if a way can be found to drill safely in the Atlantic's deep waters. Reserves are believed to equal those shared by Norway and the UK in the North Sea.

President Lula da Silva brought in social policies to raise the incomes of Brazil's poorest people after his election in 2002. Dilma Rousseff, his successor, oversees a country where most people are considered middle class. Absolute poverty has dropped dramatically from 10% of the population in 2004 to 2.2% in 2009 and inequality, as measured by the Gini coefficient, has fallen to a 50-year low of 0.519. Key factors in these trends have been low inflation, consistent economic growth, social programmes and real increases in the minimum wage.

Rousseff is a strong advocate of tackling corruption and increasing transparency in government. Within the first year of her government, several cabinet ministers resigned after accusations of bribery in awarding contracts. Yet bribery and the politicisation of the civil service continue to cause problems, with many overseas companies complaining that contracts are only signed and completed after bribes have been paid to civil servants.

The combination of huge natural resources and significant growth in manufacturing and services has attracted foreign direct investment while high interest rates have meant Brazil is one of the most attractive places for the world's super-rich to save their money. One of the knock-on effects has been to push up the value of the *real*, Brazil's currency, which has appreciated 40% since the financial crisis of 2008. For Brazil's wealthy it is a bonus because it increases their wealth and foreign buying power. It has also allowed the government to embark on a spending spree.

But for exporters it is a huge headache because if the commodity boom ends, the high value of the *real* could mean the country has little in the way of business to fall back on. Guido Mantega, Brazil's finance minister, blames the US, UK and continental Europe for driving investors towards Brazil. He argues that quantitative easing schemes have cheapened the world's major currencies, leaving his as one of the few attractive ones around. However, he is trapped because domestic savings are not sufficient to sustain long-term high growth rates. That means Brazil must continue to attract foreign investment, especially as the government plans to cover the cost of oil extraction, nuclear power and other infrastructure sectors over the next few years.

(Source: Adapted from Philip Inman, © Guardian News and Media Limited, 6 March 2012 and © World Bank)

(a) With reference to Figures 1 and 2, what might be inferred about the change in Brazil's GDP between 2002 and 2011?

(5)

(b) With reference to Extract 1, analyse **two** reasons why the value of the *real*, Brazil's currency, has appreciated.

(8)

(c) Examine the likely effects of the appreciation of the *real*, Brazil's currency, on its Balance of Payments accounts.

(10)

*(d) Assess the potential problems associated with primary product dependency for a country such as Brazil.

(12)

*(e) Evaluate the benefits of inward foreign direct investment for a country such as Brazil.

(15)

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(Total for Question 5 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS
TOTAL FOR PAPER = 100 MARKS

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