



Rewarding Learning

ADVANCED

General Certificate of Education

Economics

Assessment Unit A2 2

assessing

Managing the Economy in a Global World



AEC21

[AEC21]

Assessment

Assessment Level of Control:

Tick the relevant box (✓)

TIME

2 hours.

Controlled Conditions	
Other	

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided. Answer **all** questions in Section **A** and **B** and **one** question in Section **C**.

INFORMATION FOR CANDIDATES

The total mark for this paper is 90.

- Section A: 20 marks
- Section B: 40 marks
- Section C: 30 marks

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 for each part question in allocating the available examination time. In questions involving calculations, you are advised to show your workings. Quality of written communication will be assessed in Questions **6(b)**, **(c)** and **(d)**, **7** and **8**. Quantitative skills will be assessed where appropriate.

Section A (20 marks)

Answer all questions

- 1 The table below shows some data adapted from the United Kingdom balance of payments accounts for 2018.

Item in accounts	Net value (£ billion)
Trade in goods	-138
Trade in services	107
Primary income	-27
Secondary income	-24

- (a) Using the data in the table above, calculate the UK's current account balance in 2018. [2]
- (b) Along with the **current account balance** and **net errors and omissions**, identify the two other sections which make up the UK's balance of payments accounts. [2]
- 2 The table below shows the Gross National Income (GNI) per capita of Malaysia in 2018 measured in
- Malaysian national currency, the ringgit (MYR)
 - US dollars (US\$) at the prevailing market exchange rate
 - US dollars (US\$) using a Purchasing Power Parity (PPP) exchange rate

GNI per capita (MYR)	GNI per capita US\$ market exchange rate	GNI per capita US\$ PPP exchange rate
41 840	10 460	30 600

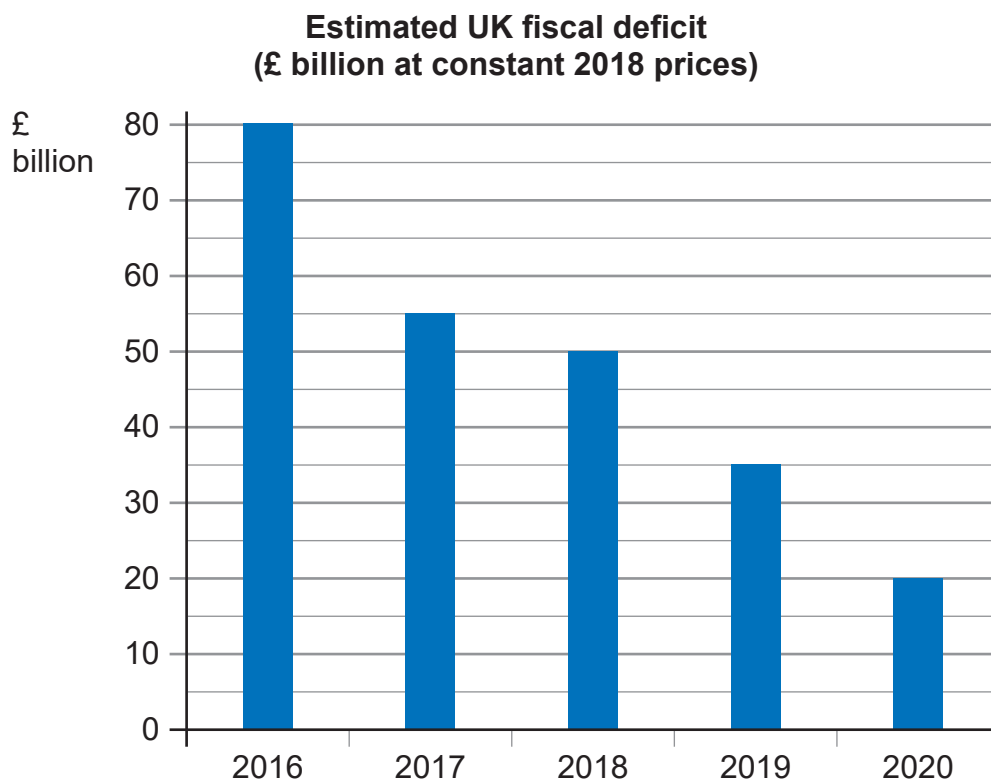
- (a) Explain what is meant by a Purchasing Power Parity exchange rate. [2]
- (b) Using the information in the table above, calculate the Purchasing Power Parity exchange rate between the Malaysian ringgit and the US dollar. [2]

- 3 The table below shows the Human Development Index (HDI) and Gross National Income (GNI) per person in US dollars (US\$) at Purchasing Power Parity (PPP) exchange rates for Cuba and South Africa in 2018.

Country	HDI 2018	GNI per capita, US\$ at PPP 2018
Cuba	0.777	7524
South Africa	0.699	11 923

- (a) Identify one piece of data that is used by the United Nations to calculate the Human Development Index. [2]
- (b) Explain what the information in the table above tells us about the relative development of Cuba and South Africa. [3]
- 4 The chart below shows estimates of the UK fiscal deficit, including the costs of servicing the national debt, for the period 2016 to 2020. UK national debt was £1660 billion in 2015.

These estimates were made in 2018 and all figures are at constant prices.



- Using the information in the chart above, calculate the level of UK national debt that economists had predicted by the end of 2020. [3]

- 5 The currency of a country is the South Pacific dollar (SP\$). The effective exchange rate for the SP\$ is measured by a trade-weighted index.

Some details of this are shown in the table below:

Trading area	Relative importance in the country's trade (%)	Exchange rates for SP\$ on 2 July 2019 as a percentage of exchange rates on 2 July 2018
Africa and the Americas	15	120
Asia	50	108
Australia and New Zealand	20	95
Europe	15	100

Using the information in the table above, calculate the percentage change in the effective exchange rate of the South Pacific dollar between 2 July 2018 and 2 July 2019. [4]

Section B (40 marks)

Answer all questions

The following passages were compiled during 2019. Read them carefully and answer the questions which follow.

6 Case study: “For better, for worse, for richer, for poorer”

Source 1: Economic expansion, geographical contraction

In a document prepared for the United Nations Department of Economic and Social Affairs in 2000, Professor Gao Shangquan of Beijing University stated that “economic globalisation is an irreversible trend”.

He defined globalisation as “the increasing interdependence of world economies”, and suggested that increasing levels of co-operation were “making the concept of national boundaries and distance for certain economic activities meaningless”. Globalisation has resulted in a wider range of goods and services being available for consumers, and at lower prices. It is also considered to have led to higher rates of growth and improved living standards. **Fig. 1**, below, shows rates of growth in Gross Domestic Product (GDP) globally and in the UK over the past two decades.

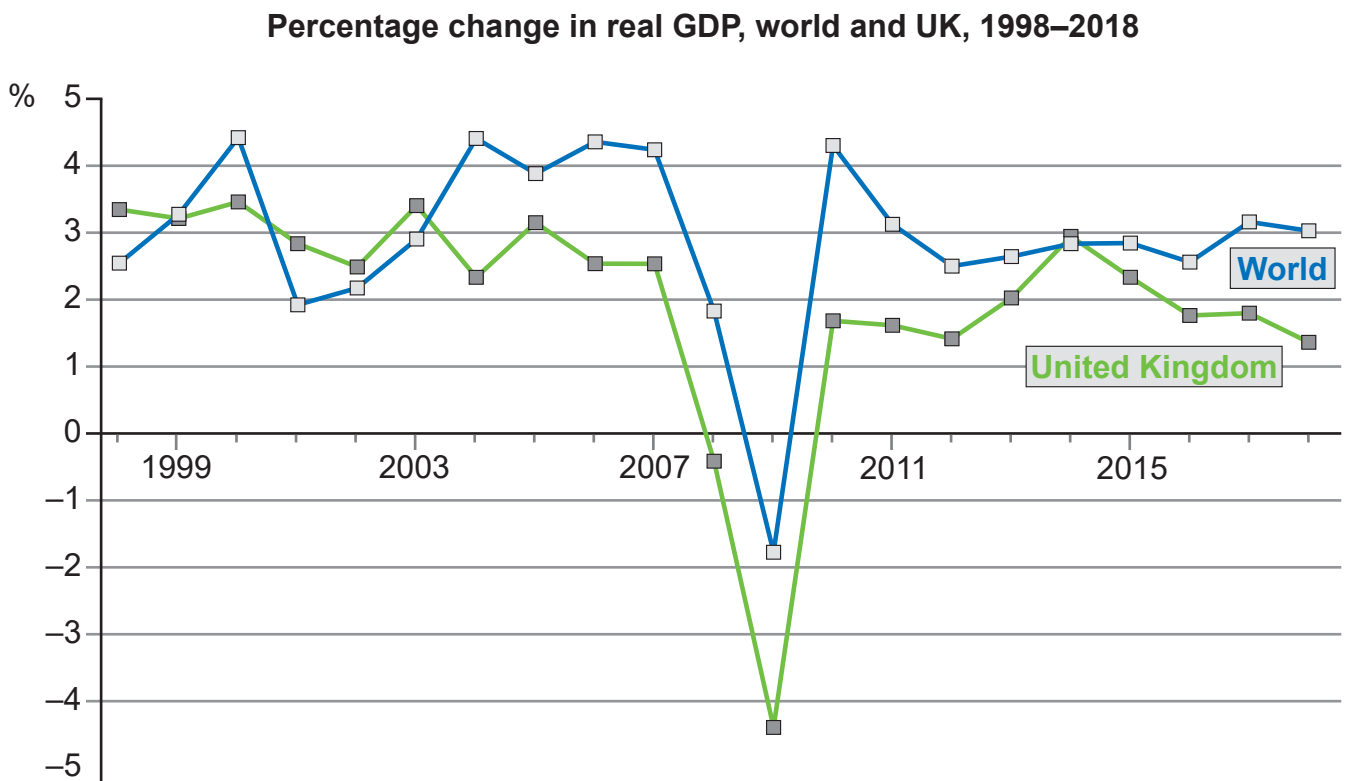


Fig. 1

An important driver of globalisation is what Professor Shangquan describes as “marketisation”. Organisations such as the International Monetary Fund have been influential in discouraging interference by national governments with the market forces of demand and supply. The process has been further accelerated due to global streamlining

and co-ordination of production, which have yielded economies of scale and specialisation. There has been rapid progress in science and technology, communications and transport, health and international relations. The World Trade Organisation has also helped in promoting international trade by encouraging the dismantling of tariffs and other trade barriers.

Source 2: “Nothing comes without opportunity costs”

Even enthusiasts for globalisation agree that there are losers as well as winners. Critics claim that removing restrictions on the operation of markets risks many of the undesirable consequences of market failure. Stakeholders in industries unable to survive in conditions of intense global competition are among the most adversely affected.

The theme of a report published by Dr Joan Thompson, entitled *Why Economics Stopped Working*, is that the irresistible momentum of globalisation must be harnessed as a solution to economic and social problems, rather than mismanaged to make them worse.

She feels that people need to participate in, and benefit from, the economic prosperity of the place where they live. When people feel side-lined, social cohesion is threatened. Dr Thompson fears that politics in developed countries is moving away from broad agreement on social issues towards extremism and conflict. She is concerned about protest movements such as the “yellow vests” in France and “Extinction Rebellion” in the UK.

One of the issues raised in the report is that political pressure to reduce the numbers of people coming from abroad to make the UK their home may well lead to significant and harmful reductions in the UK workforce.

As in nearly all developed countries, people in the UK are living longer. This can lead to an imbalance in the distribution by age of the population, with higher ratios of dependants to working people. Costlier pensions and welfare provision need to be funded by the wealth created and taxes paid by a shrinking proportion of the country’s residents. Another important consideration is that parts of the agricultural and healthcare sectors are extremely reliant on foreign workers.

In Dr Thompson’s opinion, politicians, having tried and failed to control immigration, should instead be convincing people that an expanded workforce is essential for economic renewal.

Source 3: Prosperity today – problems tomorrow?

Activist Kitty White is an outspoken critic of multinational companies (MNCs) and their operations. She argues that these organisations exploit the dismantling of international barriers to the movement of goods and services; information; capital and labour, by moving production facilities to countries where costs of production are lowest.

“It’s not just a question of sweatshops in Less Developed Countries,” she told delegates at a fair trade conference in May 2019. “Giant corporations are at least as powerful as national governments. They use their vast wealth to buy control of manufacturers in the UK and elsewhere. Then they break all their promises and move production offshore. This weakens the secondary sectors of developed economies by eroding their industrial base, and forces them to develop new and possibly more volatile areas of comparative advantage.”

She also condemns “MNCs’ cunning shuffling of their resources to avoid paying taxes and to bypass inconvenient legislation designed to protect workers or national environments”.

Ms White believes that long-term deficits on the UK’s current account are not sustainable. “Reserves are finite; inward flows of foreign funds only offset consumption expenditure abroad in the short term. They not only incur liabilities in terms of outward flows of interest, profits and dividends in the future, but also are reversible at virtually any time. In fact,” she asserts, “inward Foreign Direct Investment (FDI) is generally more damaging than beneficial.”

- (a) Compare the trends in the growth rate of world and UK GDP during the period illustrated in **Fig. 1**. [4]
- (b) Analyse some of the factors which led to the accelerating process of globalisation. [9]
- (c) Examine the possible consequences for the United Kingdom of a significant reduction in immigration. [12]
- (d) Evaluate Kitty White’s assertion that inflows of Foreign Direct Investment are generally more damaging than beneficial. [15]

Section C (30 marks)

Answer one question

- 7 Financial services such as banking, investment and insurance contribute significantly to UK exports, GDP and employment. The success of the sector and its complexity have been cited as justification by successive UK governments for a policy of minimal intervention. However, a former Chancellor of the Exchequer, Alistair Darling, speaking on the tenth anniversary of the start of the global banking crisis, warned that rising levels of both debt and asset prices still threatened financial stability.

Critically examine the view that government intervention in financial markets is likely to make matters worse rather than better. [30]

- 8 Over the past 10 years, the exchange rate for the UK pound has fluctuated sharply, creating uncertainty for consumers, manufacturers and holidaymakers. Some economists feel that the instability associated with floating exchange rates will have an increasingly negative effect on living standards in the future.

Evaluate the case for the introduction of an international system of fixed exchange rates. [30]

THIS IS THE END OF THE QUESTION PAPER

Sources

Q1.....© Adapted from www.ons.gov.uk

<https://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/>

Q2.....Source: World Bank Open Data

Q3.....Source: <https://hdr.undp.org/>

<https://creativecommons.org/licenses/by/3.0/igo/legalcode>

Q4.....Adapted from © Office for National Statistics

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Q6.....Graph - Adapted from © Office for National Statistics. Contains public sector information licensed under the Open Government Licence v3.0 and Adapted from © The World Bank. Datasets are provided to you under a Creative Commons Attribution 4.0 International License (CC BY 4.0)

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