Rewarding Learning

ADVANCED

General Certificate of Education

2023

Economics

Assessment Unit A2 2

assessing

Managing the Economy in a Global World

AEC21

[AEC21]

MONDAY 5 JUNE, MORNING

TIME

2 hours.

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**.
You are permitted to use a calculator in this paper.

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 including calculations, you are advised to show your workings.
Quality of written communication will be assessed in Questions **4(b)**, **5(b)**, **(c)** and **(d)**, **6** and **7**.
Quantitative skills will be assessed where appropriate.

Section A (20 marks)

Answer all questions

1 The table below shows selected information from Balance of Payments accounts for a country in 2020.

Item of account	Value of balance £bn
Trade in goods	5
Trade in services	–9
Primary income	–14
Secondary income	2
Financial account	
Capital account	–2
Net errors and omissions	3

(a) Calculate the value of the Balance on Current Account. [2]

(b) Calculate the value of the Balance on the Financial Account. [1]

2 The table below gives the level of government revenue, government spending and GDP for a country for the four years between 2018 and 2021. All figures are in US $ billions. At the end of 2018 the value of the National Debt was equal to 90% of GDP.

Year	Government revenue	Government spending	GDP
2018	760	730	1,800
2019	770	780	1,870
2020	780	800	1,910
2021	800	840	2,000

Using the information in the table above, calculate the value of National Debt as a percentage of GDP at the end of 2021. [3]

3 A country had a fixed exchange rate of one pound equal to 4 US dollars. A devaluation of the currency occurs, so that one pound equals 3.6 US dollars. This has led to a 5 per cent rise in exports.

Using the concept of price elasticity of demand, explain the likely impact of this change on the value of export earnings. [4]

4 In a fictional world, Stormlands trades with three other countries: Reach, Riverlands and Vale.

The table below shows the percentage change in the value of the Stormlands Lira against the currencies of the other three countries over two years and the weighting of trade with each country.

Country	% change in exchange rate	Weighting
Reach	4	30
Riverlands	–10	60
Vale	12	10

(a) Using the information in the table above, calculate the percentage change in the trade-weighted exchange rate. [4]

(b) Analyse the likely impact of a fall in the exchange rate on the rate of inflation in Stormlands. [6]

Section B (40 marks)

Answer all questions

The case study which follows was compiled in December 2020. Read it carefully and answer the questions which follow.

5 Case study: The Global World

Source 1: The Rise of Globalisation

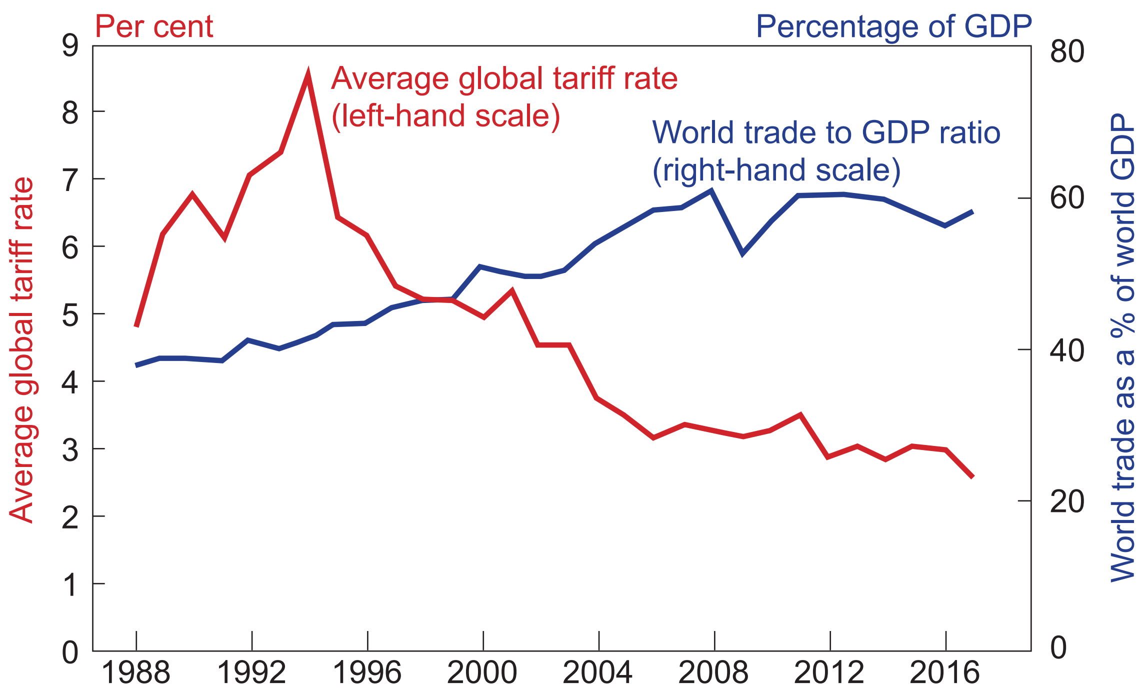
Globalisation has been one of the most important phenomena of the last three decades. Described by *The Economist* as the "Death of distance", globalisation marks a major integration of the world economy with

- global trade increasing faster than GDP
- the growth of large multinational corporations which integrate manufacturing operations across the globe
- the large-scale movement of both people and capital.

All of this has been accompanied by significant economic dislocation as old patterns of trade, production and employment have changed.

A significant milestone in the process of globalisation was the creation of the World Trade Organization (WTO) which became operational on January 1st, 1995. It was the successor to the General Agreement on Tariffs and Trade (GATT) which had worked through a succession of "rounds" to reduce tariffs on traded goods. Those tariffs had fallen considerably, and the WTO was designed to take that process further by facilitating the agreement of further reductions and adjudicating trade disputes.

As can be seen in **Fig. 1** below, these falls in tariffs contributed to an increase in trade. It is widely argued that this has benefited consumers.



Source: © Bank of England

Fig. 1: Global tariffs and world trade

However, falls in tariffs were not the only factor driving globalisation. The use of standard containers to transport goods has led to significant falls in transport costs and these have been further reduced by economies of scale in shipping. Improvements in technology have reduced diseconomies of scale, allowing the growth of large multinational companies.

It is this latter development which is one of the most striking features of modern globalisation. Brands like Nike or McDonald's are recognised worldwide. Multinationals have also sprung from developing or recently developing countries: China's Ali Baba, India's INFOSYS and South Korea's Samsung are three of the more prominent examples. These corporations integrate production on a global scale. Apple employs 187 000 workers, but it subcontracts a significant proportion of its production to Taiwanese firm Foxconn, which operates plants across East Asia from Vietnam to the Philippines. The components of an iPhone are sourced from over 20 different companies, each with plants in many different countries.

Some economists praise multinational investment as being always a good thing. Others are more critical, arguing that multinationals invest for their own selfish reasons. Ha Joon Chang, a Korean economist, has pointed to multinationals engaging in social and environmental dumping, setting up in less developed countries so they can avoid environmental regulations and take advantage of low-paid workers with few rights. They manipulate prices so that they make no profits in countries with higher tax rates and instead declare their profits in tax havens. A significant part of multinational investment is the takeover of already existing firms in less developed countries such as telecommunications companies or airlines. This often leads to job losses and the sale of assets in those industries.

Source 2: Globalisation and Global Poverty

Globalisation has had a significant impact on world poverty. The proportion of people living in extreme poverty has fallen from 36% of the world's population in 1990 to just 9.9% in 2015. While this is to be celebrated, it should be noted that the gains from globalisation have not been evenly distributed either geographically or across the income distribution.

South Asia and East Asia, particularly, have experienced rapid economic growth over this period and, as a result, have seen massive falls in extreme poverty. Sub-Saharan Africa, on the other hand, has experienced much lower levels of growth and, consequently, extreme poverty remains a significant issue there.

When we look at the distribution of income we can see that globalisation has contributed to widening inequality, both within countries and across countries. According to Oxfam, the wealthiest 2153 billionaires have more wealth than 4.6 billion people, or 60% of the world's population. Economist Branco Milanovic has pointed out that globalisation has benefitted the super-rich and the middle classes in developing countries. However, the world's poorest have gained nothing at all, and middle and working class people in developed countries have actually seen their incomes decline in real terms.

Source 3: The Death of Globalisation?

Globalisation has always had its critics. In the 1990s there was a significant anti-globalisation movement focused on the unethical practices allegedly pursued by large multinationals such as Gap and Nike, including pollution and exploitation of their labour force. More recently, people have been concerned that companies such as Amazon, Apple and Google have exploited the system by claiming that their profits are earned in low-tax regimes.

Critics have also focused on the COVID-19 pandemic and the Financial Crash of 2008, arguing that globalisation exacerbated these crises.

In the field of trade, reductions in tariffs have slowed down. The Doha round which began in 2001 has failed to reach a conclusion. More countries have started to use non-tariff barriers to restrict trade. During his presidency, Donald Trump was a vocal advocate of restricting trade and engaged in trade wars with China. Leading development economist Raymond Hammett said, "The trend of deglobalisation is very concerning. Actually, increased globalisation is the only way to ensure greater economic development in the poorest parts of the world."

(a) Compare the trends in average global tariff rates and the global trade to GDP ratio shown in **Fig. 1**. [4]

(b) Explain why large corporations may wish to expand their operations into other countries. [9]

(c) Examine the likely impact of a reduction in tariffs on economic welfare and the volume of world trade. [12]

(d) Critically examine the assertion by Raymond Hammett that increased globalisation is the only way to ensure greater economic development in the poorest parts of the world. [15]

Section C (30 marks)

Answer one question

6 As growth in world trade slows, some economists have called for the re-introduction of a system of fixed exchange rates to help boost trade and the global economy. However, on a typical day, the value of transactions in foreign currency markets is US $6.6 trillion. As a consequence, critics argue, it would be impossible to manage a system of fixed exchange rates without significant regulation of those markets.

Critically examine whether it would be possible or desirable to introduce a system of fixed exchange rates in the global economy. [30]

7 The COVID-19 pandemic caused a significant shock to the world economy. In response, governments slashed interest rates. This came after a decade of global interest rates being at already historic lows. Some economists claim that, with interest rates at this level, monetary policy is no longer effective and the only way to stimulate the economy is for governments to borrow substantially and spend the money quickly.

Critically examine the view that monetary policy is no longer effective, and governments need to borrow money and rapidly increase spending in order to boost economic growth. [30]

THIS IS THE END OF THE QUESTION PAPER