Write your name here

Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | Candidate Number

Economics

International Advanced Level
Unit 4: Developments in the Global Economy

Sample Assessment Material
Time: 2 hours

Paper Reference
SAM

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 80.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

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Section A: Answer ONE question from this section.

You should spend 60 minutes on this section.

You should include diagrams in your responses where appropriate.

1 (a) Between January 2005 and January 2011, The Economist's commodity price index increased from 100 to 230. Evaluate the likely economic effects of such a rise in commodity prices on the global economy.

(15)

(b) Assess macroeconomic policies which might be used to respond to rising commodity prices during a period of slow economic growth.

(25)

2 (a) Assess the effects of the growth of trading blocs on the global economy.

(15)

(b) The bolivar, the Venezuelan currency, was devalued by 32% in February 2013. Evaluate the likely effects of such a devaluation on the Venezuelan economy.

(25)

3 (a) Assess the view that the main cause of globalisation is the increased significance of transnational companies.

(15)

(b) To what extent do the costs of globalisation outweigh the benefits?

(25)

Do not use pencil. Use black ink or ball point pen.

Indicate which question you are answering by marking a cross in the box ☒. 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 = 40 MARKS

Section B: Answer either Question 4 or Question 5.

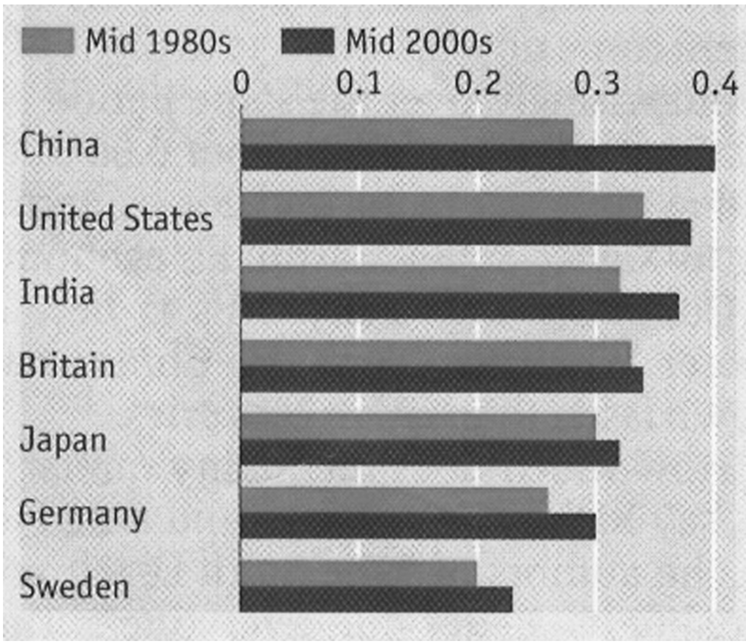
If you answer Question 4 put a cross in this box ☐ .

Question 5 starts on page 22.

You should spend 60 minutes on this section.

4 Inequality

Figure 1 Inequality within selected countries as measured by the Gini Coefficient



(Source: © The Economist Newspaper Special report on global leaders, 22 January 2011, page 8)

Extract 1 Changes in income inequality

Globally, the income gap *between* the rich and poor countries has been narrowing as some poorer countries are achieving faster rates of economic growth. However, the gap between the rich and the poor has increased *within* many emerging economies (notably India and China) as well as *within* many rich countries. This is true not only in the United States, but also in countries with a reputation for being more focused on equality, such as Sweden.

In China increased inequality has been associated with the drive towards capitalism, helping to enrich the growing entrepreneurial class. The continued industrialisation of regions bordering the sea has helped to increase incomes of urban workers. Consequently relative poverty is increasing. Poverty is becoming increasingly difficult to address, as the rural poor are now concentrated in remote regions with difficult natural conditions.

However, at the same time, China's rapid economic development in the past two decades has generated the most rapid decline in absolute poverty ever witnessed. It has already achieved the goal of halving the number of people in extreme poverty by 2015, set by the UN as one of eight Millennium Development Goals.

In the United States, income inequality began to widen in the 1980s largely because the poor fell behind those in the middle income group. More recently, the shift has been overwhelmingly due to a rise in the share of income going to the very top – the highest 1% of earners and above – particularly those working in the financial sector.

Analysis by The Economist suggests that the gap between poorer and richer regions of a country increased during the recession of 2008–09 in some developed economies. In Britain, the income gap between richer and poorer regions is likely to widen further as government spending cuts fall disproportionately on less prosperous parts of the country. GDP per head in the poorest quarter of Britain's regions is now lower than the richest region of China.

Extract 2 Attempts to reduce inequality

The European Union's "structural funds", more than a third of the EU's budget, are designed to shift cash from the richer to the poorer regions of the single market. The United States Government has invested federal dollars into deprived regions such as West Virginia.

Unfortunately, the regional development strategies have a poor record. Despite massive transfers, the gap in participation rates between Italy's richer north and its poorer south is still huge: only 40% of people in Calabria have a job compared with 65–70% in Lombardy and Bolzano. Even policies that, in principle, should be helpful, such as improving infrastructure, provide no simple solutions. West Virginia now has an extensive road network, but is still poor.

The best ways to combat inequality are as follows. First, governments should invest in and remove barriers to education, and refocus government spending on those that need it most. Oddly, the urgency of these kinds of reform is greatest in rich countries, where prospects for the less-skilled are poor and falling. Second, governments should eliminate subsidies for uncompetitive industries. In the emerging economies the policies should be aimed at eliminating monopolies and reducing trade barriers. Third, governments should make it easier for people to move from declining regions to prospering regions.

(Source for Extract 1 and Extract 2: © *The Economist Newspaper*, 22 January 2011, page 11 and 12 March 2011, pages 14–15)

(a) With reference to Extract 1, explain the difference between absolute and relative poverty.

(4)

(b) With reference to Figure 1, explain how income inequality is measured. Illustrate your answer with a Lorenz curve diagram.

(8)

(c) With reference to the information provided and your own knowledge, assess the likely reasons for the change in inequality **within** countries.

(12)

(d) Evaluate policies which a government could employ to reduce inequality within its economy.

(16)

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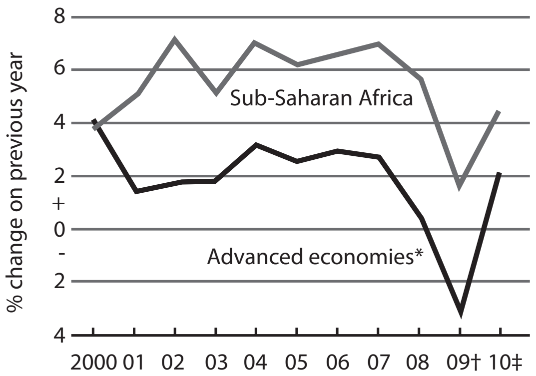
(16)

(Total for Question 4 = 40 marks)

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

5 Sub-Saharan Africa and the Global Recession

Figure 1 GDP, % change on previous year



*33 countries †Estimate ‡Forecast Source IMF

Extract 1 The Impact of the World Recession on Sub-Saharan Africa

The global recession was slow to hit Africa. Its banks and stock exchanges were isolated enough from the wider capital markets to suffer few shocks. Foreign investment remained steady. Oil-rich countries such as Angola continued to boom. However, reduced demand for African exports in 2009, together with the shrinking of private investment flows, has hit the continent hard after a long period of unusually strong growth. It is estimated that countries south of the Sahara (Sub-Saharan Africa) on average grew by less than 2% in 2009. In many countries income has started to fall and unemployment to rise.

Therefore, the confidence of Dominique Strauss-Kahn, the IMF's head, who has been touring Africa, struck some as strange. He went out of his way to praise Africa's central banks. He even said Africa's economies were more dynamic than most of Asia's. The main point, he said, was that Africa was recovering from the global crisis faster than expected.

According to the IMF, Sub-Saharan Africa's economy will grow overall by 4.5% in 2010. But this may be distorted by a large boost from oil and gold, as well as from the guaranteed aid which makes up half the budget in some countries. Kenya will struggle to grow by 3% in 2010 and even that depends on an upswing in tourism. Nearly every African country will grow more slowly than the 6% that many development economists consider is the minimum necessary to allow countries with rapidly increasing populations to maintain living standards.

(Source (for both Figure 1 and Extract 1): *The Economist*, 11 March 2010, http://www.economist.com/world/middle-east/displaystory.cfm?story_id=15679939)

Extract 2 Emerging Economies and Sub-Saharan Africa

As poor countries emerge from recession and the rich world struggles to recover, the BRIC countries – Brazil, Russia, India and China – see an opportunity to increase their influence. A new study by the Overseas Development Institute (ODI), says the emerging countries, such as the BRIC countries, increasingly affect the growth of poorer countries. China has a huge list of pledges to Africa: it has promised $10 billion of cheap loans over 3 years; it has also offered debt forgiveness, new hospitals, professional training for 15,000 Africans and a doubling of aid. When Sudan ran into trouble repaying $34 billion foreign debt, it turned to China, India and regional development funds in the Gulf. India helped to bail out Tanzania's financial institutions.

Trade and foreign direct investment (FDI) from the West are already falling, but the middle-income countries are filling the gap. While total FDI in Africa fell by about a third between 2008 and 2009, the flow from China rose by 80% (admittedly from a low base). Brazil says it has invested $10 billion in the continent since 2003. Since 2009, the BRIC countries' investments and loans have increased rapidly (see Figure 2).

Aid agencies consider that China and others are "rogue donors" because they give to and support corrupt regimes. Aid from China is usually 'tied' to hospitals, roads and equipment built or sold by Chinese companies. Further, much 'aid' is loans at near-commercial rates of interest. African governments have had their debts to the West mostly forgiven and are accumulating new loans elsewhere.

Trade with the BRIC countries may be a trap. The BRIC countries import raw materials like copper and cotton from poor countries; rich countries tend to buy manufactured goods such as garments. So more trade with the BRIC countries and less with the developed world offers less chance of growth in the secondary sector – the opposite of how China grew richer. Eswar Prasad of Cornell University says that China and India's enormous appetite for raw materials may help poor countries diversify their export markets but not their industry, leaving them more dependent on volatile commodities than before.

Figure 2 Examples of Foreign Direct Investment (FDI) and loans by BRIC countries in Africa since January 2010

COUNTRY	SECTOR	$m	TYPE
BRAZIL			
Angola	Oil	800	FDI
Mozambique	Mining	1 300	FDI
Nigeria	Oil	2 000	FDI
RUSSIA			
Angola	Construction	500	FDI
Nigeria	Gas	2 500	FDI
INDIA			
Chad	Textiles	25	Loan
Malawi	Development Projects	50	Loan
Zambia	Hydro Power	50	Loan
CHINA			
Liberia	Mining	2 600	FDI
Tanzania	ICT	180	Loan
Zambia	Development	1 000	Loan

(Source (for both Extract 2 and Figure 2): *The Economist*, 20 March 2010)

(a) With reference to lines 18-19 of Extract 1, explain why many development economists think that a growth rate of 6% per annum is the minimum desirable in many African countries.

(4)

(b) With reference to Figure 1 and Extract 1, analyse why the growth rate of the Sub-Saharan African economies was higher than that of Advanced Economies between 2000 and 2010.

(8)

(c) With reference to Figure 2 and Extract 2, assess the benefits of foreign direct investment in primary sector industries of countries in Sub-Saharan Africa.

(12)

(d) With reference to Extract 2, to what extent might aid from the 'BRIC' economies promote development in Sub-Saharan Africa?

(16)

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(Total for Question 5 = 40 marks)

TOTAL FOR SECTION B = 40 MARKS
TOTAL FOR PAPER = 80 MARKS

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