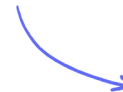


14. The International Economy

Globalisation / International Trade / The Benefits & Costs of Trade / Protectionist Policies: An Introduction / Protectionist Policies: Tariffs / Protectionist Policies: Quotas & Export Subsidies / Types of Economic Integration / The Balance of Payments / Correcting Balance of Payment Deficits & Surpluses / Floating Exchange Rate Systems / Fixed Exchange Rate Systems / Currency Unions / Economic Grow...

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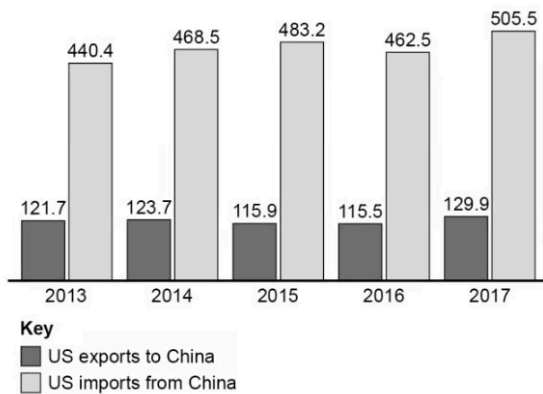


Total Marks

/305

1 Extract D

Figure 3: US trade in goods with China (\$bn), 2013–2017



Source: US Census Bureau, 2018

Figure 4: US trade in goods with China (\$bn), 2018

Month	Exports	Imports
January	9.8	45.8
February	9.8	39.0
March	12.4	38.3
April	10.3	38.2
May	10.6	43.8
June	11.1	44.6
July	10.3	47.1
August	9.3	47.9
September	9.8	50.0
October	9.1	52.2
November	8.7	46.6
December	9.2	46.0
TOTAL	120.4	539.5

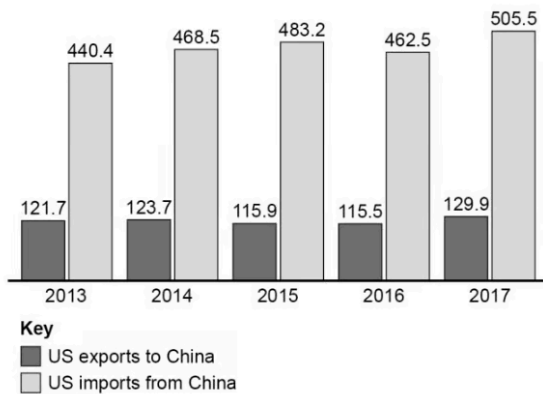
Source: US Census Bureau, 2019

Using the data in **Extract D** (Figure 4), calculate how much was spent by the US on imports from China for every \$1 it received from exports to China in 2018. Give your answer to two decimal places.

(2 marks)

2 Extract D

Figure 3: US trade in goods with China (\$bn), 2013–2017



Source: US Census Bureau, 2018

Figure 4: US trade in goods with China (\$bn), 2018

Month	Exports	Imports
January	9.8	45.8
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September	9.8	50.0
October	9.1	52.2
November	8.7	46.6
December	9.2	46.0
TOTAL	120.4	539.5

Source: US Census Bureau, 2019

Explain how the data in **Extract D** (Figure 3) and (Figure 4) show why the US may have decided to implement protectionist policies.

(4 marks)

3 Extract E: US and China trade wars

The International Monetary Fund (IMF) has warned that a trade war between the US and China risks making the world a 'poorer and more dangerous place' and it has lowered its forecast for global growth this year and next. The IMF's chief economist said that further trade barriers would hit households, businesses and the wider economy. Downgrades to global growth also reflected predictions of a slower expansion in the eurozone as well as problems in a number of emerging economies.

China recently announced new trade tariffs on \$60bn of US goods, including products such as liquefied natural gas, produced in states loyal to the US President, Donald Trump. In a tweet, Mr Trump warned that 'there will be great and fast economic retaliation against China if our farmers, ranchers and/or industrial workers are targeted'. US tariffs on \$200bn of Chinese imports came into effect in September.

The US and China's escalation of trade tariffs is expected to hit growth in both countries in 2019, when the boost from President Trump's sweeping tax cuts announced in 2017 will also start to fade. The IMF warned that the world faced further damage to growth if the US followed through on a threat to impose a 25% tariff on all imported cars. Additional tariffs would raise prices, hit business confidence and discourage investment. Unless world leaders respond by working together to raise living standards, improve education and reduce inequality, world development will be seriously hampered.

Extract E (lines 10–11) states: 'US tariffs on \$200bn of Chinese imports came into effect in September.' With the help of a diagram, explain how the imposition of a tariff may affect the volume of imports.

4 Extract F: Protectionism in Brazil

Protectionism is on the rise this year, but those who support free trade say increased tariffs will lead to higher prices, less choice and lower living standards. Others maintain that protectionism can help economic development. Roberto Azevedo, Director General of the World Trade Organization (WTO), concedes that trade barriers which keep foreign rivals out will encourage domestic industries to grow.

Many countries in Latin America are in favour of tariffs to protect their infant industries. Tariffs can support the growth of domestic firms that may otherwise be crushed by foreign competition. Much of modern Brazil was built with the help of protectionist policies. Since the 1950s, foreign companies have been motivated to set up production in Brazil to avoid high tariff barriers. Government subsidies have also been used, for example, to encourage major car manufacturers, including Volkswagen, Ford, Fiat and Mercedes, to set up factories in the country. This inward investment has created jobs, growth and improved living standards for the Brazilian population.

In Brazil, many uncompetitive industries, from textiles to computers, were able to grow due to protectionist trade policies that made foreign goods too expensive to import. Current tariffs on imported trucks or buses more than double the original price. The price of an Apple iPhone in Brazil is on average 50% more than in the US, again due to tariffs. Some argue that many developed countries that now champion free trade, only achieved economic prosperity through protectionist policies. They believe free trade is a way in which developed economies keep developing nations poor.

However, the Director of the Brazilian branch of the International Chamber of Commerce (ICC), an organisation that supports free trade, argued that 'because Brazil is such a closed economy, it ends up having very low productivity compared to more developed countries. If you are more competitive you become more productive – and for that you need to be more open and more integrated into global supply chains'.

Extract F (lines 17–19) states: 'Some argue that many developed countries that now champion free trade, only achieved economic prosperity through protectionist policies.'

Using the data in the extracts and your knowledge of economics, assess the view that developing economies, such as Brazil and China, should pursue protectionist policies to achieve greater economic development.

Blank lined area for writing.

(1 mark)

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

(15 marks)

- 7 Evaluate the costs and benefits for a country of joining a currency union, such as the eurozone.

(25 marks)

8 Which one of the following combinations, A, B, C or D, shows the essential characteristics of a customs union?

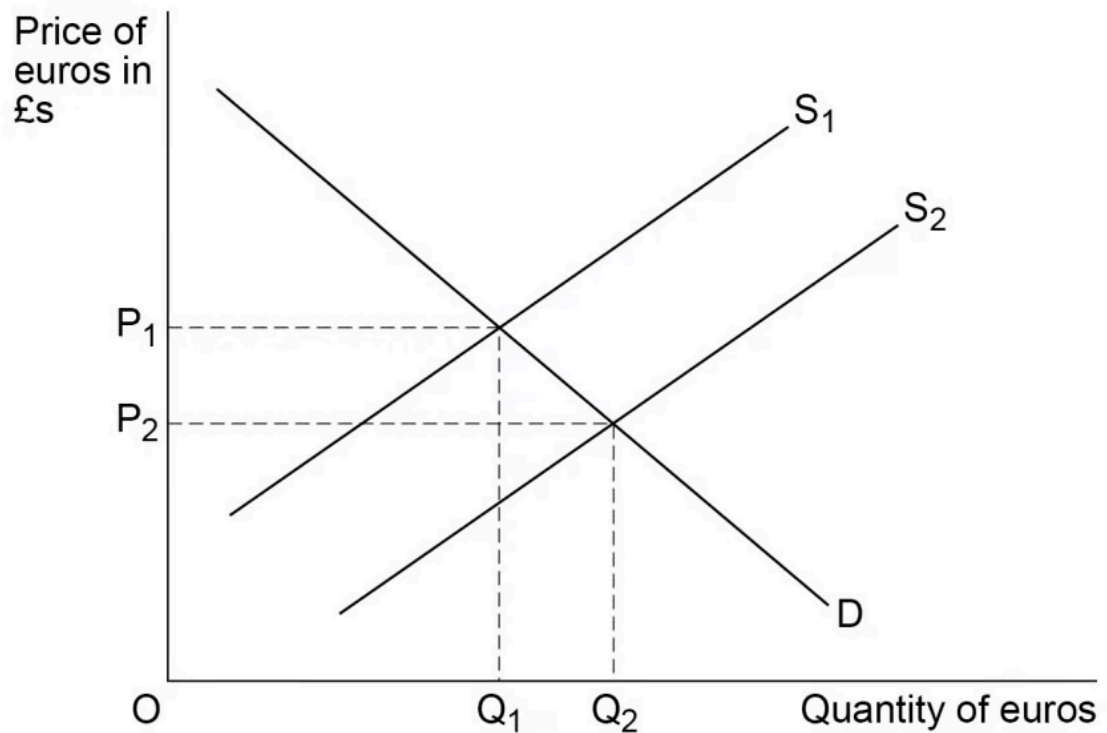
	Internal trade barriers	Common external tariffs	Common currency
A	Yes	No	Yes
B	No	Yes	No
C	Yes	Yes	No
D	No	No	Yes

(1 mark)

9 Figure 8 shows two supply (S1 and S2) curves and the demand (D) curve for euros on the

foreign exchange market and the price of euros in terms of pounds sterling.

Figure 8



Which one of the following is the most likely explanation for the change in the exchange rate shown in Figure 8? An increase in eurozone

- A.** companies buying factories in the UK.
- B.** exports of manufactured goods to the UK.
- C.** interest rates relative to those in the UK.
- D.** productivity growth relative to that in the UK.

(1 mark)

10 Explain why the value of a currency may fall in a floating exchange rate system.

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(15 marks)

11 Assess the view that a depreciation of the pound against other currencies is likely to improve the UK's macroeconomic performance.

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(25 marks)

12 A large Asian steel-producing country dumps its surplus steel on the world market. All other things being equal, if the demand for steel is price elastic, the most likely consequence for the EU market for steel will be to

- A.** reduce excess capacity in the EU steel-making industry.
- B.** reduce the value of steel imports into the EU.
- C.** shift the demand curve for EU steel workers to the left.
- D.** shift the supply curve of EU steel workers to the left.

(1 mark)

13 A country experiences a large net capital outflow. All other things being equal, the most likely consequence of this in the short run will be a decrease in

- A.** its exchange rate.
- B.** its net income from overseas investments.
- C.** its rate of interest.
- D.** the value of exports and imports.

(1 mark)

14

Extract A

Figure 1: Sterling effective exchange rate index, November 2015 to November 2016

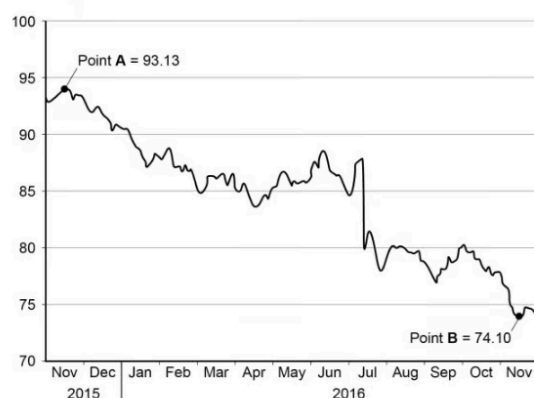
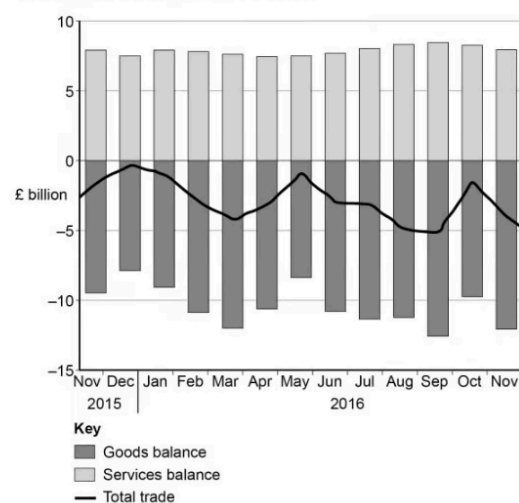


Figure 2: Balance of UK trade, November 2015 to November 2016



Source: ONS

Using the data in Extract A (Figure 1), calculate the change in the effective exchange rate index, as a percentage, between November 2015 (point A) and November 2016 (point B).

Give your answer to two decimal places.

(2 marks)

15

Extract A

Figure 1: Sterling effective exchange rate index, November 2015 to November 2016

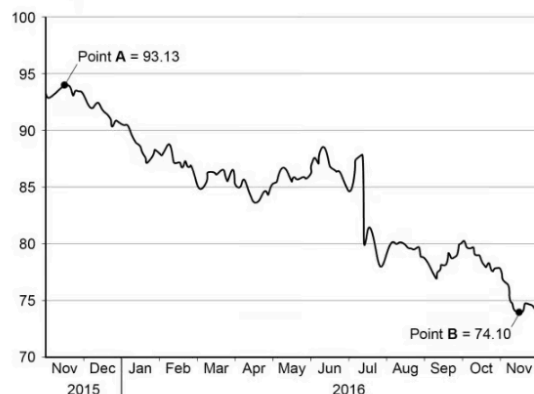
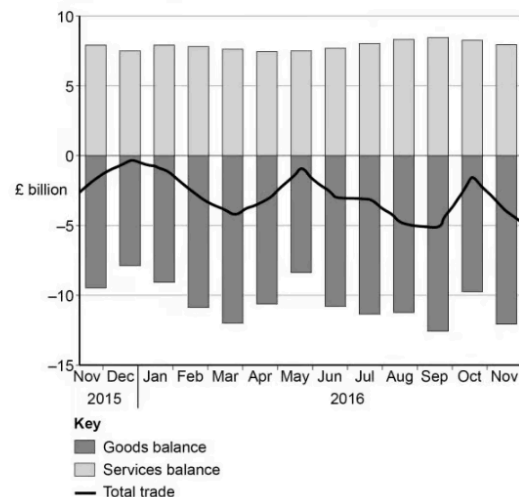


Figure 2: Balance of UK trade, November 2015 to November 2016



Source: ONS

Extract B: The UK's trade deficit

In September 2016, the UK's trade deficit with the rest of the world widened unexpectedly. Exports fell, despite a sharp fall in the value of the pound. The trade deficit in goods alone rose to £12.7bn. The value of imports increased by £1.3bn to £38.8bn, while exports fell by £0.2bn to £26.1bn. The rebalancing of the UK economy to achieve export-led growth has not happened yet.

The disappointing trade figures suggest that the 16% fall in the value of the pound since the EU referendum in June 2016 has failed to lift exports significantly. An economist at Scotiabank, said "If we are lucky, the weak pound may boost exports, but export growth tends to be driven more by the strength of overseas demand, rather than the exchange rate." Others point to a lack of competitiveness and low productivity as being central to the UK's poor export performance.

In Quarter 3 of 2016, the UK economy grew much faster than many economists had initially expected, with signs that the growth had been supported by rising consumer spending. This may be one of the reasons why imports of goods have increased. A

statistician at the ONS, said that “In this first full quarter since the EU referendum, there is little evidence of the lower pound feeding through into trade volumes or prices.”

In recent years, the UK’s earnings on assets overseas have fallen relative to the earnings of foreign investors in the UK. This contributed to the deterioration in the current account balance, leading to a record deficit of 5.4% of GDP in 2015. Although some argue that a current account deficit is not a problem, others point to the worryingly large and persistent nature of the deficit. The effects on employment, the need to attract inward investment and the possible negative effects on growth and living standards are among the causes for concern.

Source: News reports, 2016

Extract B describes the trade figures as ‘disappointing’.

Explain how the data in **Extract A (Figure 2)** show that the UK’s trade performance has been ‘disappointing’ given the fall in the value of the pound since November 2015.

(4 marks)

16 Extract C: Germany's trade surplus

Germany's surplus on the current account of its balance of payments surged to a record level in 2015, at 8.5% of GDP. It has now overtaken the Chinese surplus as the largest imbalance in the world. This imbalance is clearly causing problems inside the eurozone and globally. If the German current account is in surplus, it implies that other nations are in deficit.

Although the German government views the surplus as evidence of economic success, there is growing pressure from other countries and the European Commission for Germany to take steps to reduce the surplus. Trade deficits and surpluses may be self-correcting in a floating exchange rate system, but as Germany is part of the eurozone, its currency does not fluctuate against those of other member countries, since they all use the euro.

Germany's surplus has been increased by low oil prices and the relatively low value of the euro. Healthy growth in other European nations has also contributed to strong demand for German exports. Whatever the reason for Germany's surplus, the UK may only look on in envy.

Extract C (lines 8–9) states 'Trade deficits and surpluses may be self-correcting in a floating exchange rate system.'

With the help of a diagram showing the supply of and demand for a currency, explain how a floating exchange rate may help to correct a trade surplus.

17 Extract B: The UK's trade deficit

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Source: News reports, 2016

Extract B (lines 19–21) states 'Although some argue that a current account deficit is not a problem, others point to the worryingly large and persistent nature of the deficit.'

Using the data in the extracts and your knowledge of economics, assess the impact of a persistent current account deficit on the macroeconomic performance of the UK economy.

Blank lined area for writing.

(25 marks)

- 18** An African Development Bank report showed that Angola received more direct foreign investment than any other African country in 2015. Angola is a less economically developed country (LEDC) that has had fluctuating economic growth in the past. Despite having suffered from a long civil war which ended in 2002, many multinational corporations (MNCs) are now investing heavily in Angola's growing economy.

Explain the main barriers that LEDCs face when attempting to achieve stable, long-term economic growth.

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Evaluate the view that MNCs play a positive role in the development of LEDCs.

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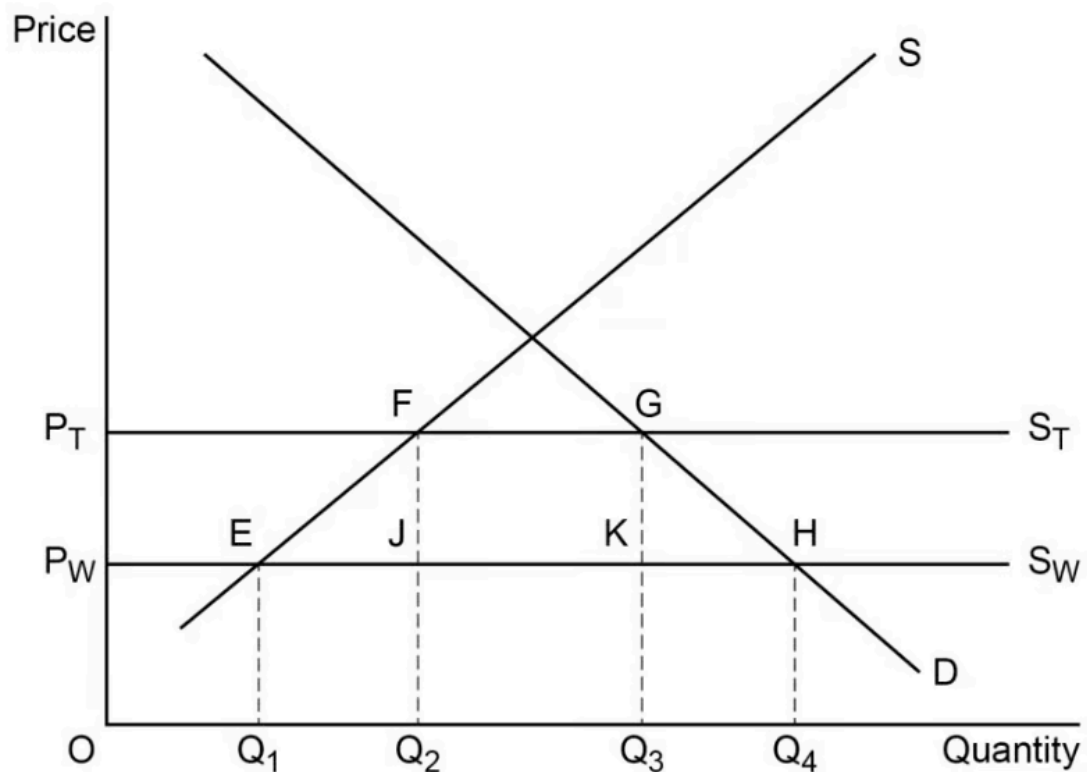
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(25 marks)

20 The diagram below shows the market demand curve (D), the market supply curve (S) for solar panels produced in a country, and the world market supply curve (S_W) for solar

panels.



To protect domestic producers of solar panels the country introduces a tariff on imports. The imposition of the tariff increases the price of solar panels from the world market price (P_W) to the higher price (P_T). Following the imposition of the tariff, the amount of tariff revenue collected by the government is shown by the area

- A. EFGH
- B. JFGK
- C. $P_W P_T GK$
- D. $Q_2 FG Q_3$

(1 mark)

- 21 The table below shows the average exchange rate and currency valuation estimates for four nations in comparison to the US Dollar in January 2016.

	Average exchange rate to US \$1	Currency valuation estimate
Australian Dollar	1.46	Undervalued by 24%
Brazilian Real	4.05	Undervalued by 32%
Chinese Yuan	6.57	Undervalued by 46%
Danish Krone	6.84	Undervalued by 12%

Which one of the following can be concluded from the data?

- A.** The Australian Dollar has appreciated by 24% against the US Dollar.
- B.** The Brazilian Real has been devalued by 32% against the US Dollar.
- C.** The Chinese Yuan has depreciated the most against the US Dollar.
- D.** The Danish Krone has the closest purchasing power parity to the US Dollar.

(1 mark)

- 22** The table below shows selected components of the UK balance of payments on current account as a percentage of GDP between 2011 and 2014.

Year	Balance of trade in goods and services	Primary income balance	Secondary income balance	Current account balance
2011	-1.6	1.3	-1.3	-1.6
2012	-2.0	0.1	-1.3	-3.2
2013	-2.0	-1.0	-1.5	-4.5
2014	-1.9	-1.8	-1.4	-5.1

It can be concluded from the data that between 2011 and 2014 the main reason for the rise in the current account deficit as a percentage of GDP was

- A.** GDP growing faster than the deficit on the current account.
- B.** the deficit on trade in goods increasing by more than the surplus on trade in services.
- C.** the deterioration in the primary income balance.
- D.** the growth in the deficit on the secondary income balance.

(1 mark)

23 Globalisation can make some product markets more contestable. Which one of the following characteristics of globalisation is the most likely explanation for such an increase in contestability?

- A.** A reduction in protectionism
- B.** Greater synchronisation of economic cycles between countries
- C.** Higher levels of labour migration
- D.** The growth of employment in emerging market economies

(1 mark)

24 Extract D: Falling oil prices hit the oil-exporting countries hard

In 2014, despite the rapid fall in the price of oil, Saudi Arabia and the other OPEC countries did not cut production. Some believe that they wanted to make shale oil production in the US unprofitable to weaken a growing threat to OPEC's domination of the world oil market.

A fall in oil prices leads to a contraction of the oil sector in oil-exporting countries and also has other effects on their economies. For example, in the Middle East and North Africa, oil-based revenues often account for more than half of government revenue. A significant loss of government revenue may require a substantial reduction in public spending. A decline in oil prices reduces export revenues, leading to a deterioration in the current account of their balance of payments, usually causing a depreciation in their exchange rates. This is an important mechanism through which the economy can adjust, but it makes imports more expensive, adds to inflationary pressures and is likely to reduce living standards. It may also make it difficult to attract capital inflows and to finance both the balance of payments and budget deficits.

The Nigerian economy has been hit hard by low oil prices and falling oil production. The country went into recession in 2016, with real national income contracting by 1.5%. The annual inflation rate doubled to 18.6%, reflecting the weakness of the Nigerian currency. Even after cuts in capital spending, the budget deficit increased from 3.5% of GDP in 2015 to 4.7% of GDP in 2016.

Venezuela derives over 95% of its export earnings and almost half of government revenue from oil-related sectors. Falling oil prices aggravated Venezuela's economic crisis and it is estimated that the economy contracted by 10% in 2016 after a similar fall in real GDP in 2015. In 2016, its inflation rate was around 275%. Worsening shortages of food, medicines and other consumer goods are a symptom of the country's very fragile economy. Deteriorating public finances mean that Venezuela is a high-risk debtor, making it hard for the country to attract foreign capital. These difficulties are not all down to the fall in the price of oil. Nevertheless, a fall in the oil price makes it harder to deal with problems that are common to many less economically developed countries.

Source: News reports, April 2017

Explain how a sustained low world market price for oil would be likely to affect the economic development of a less economically developed oil-producing country such as Nigeria or Venezuela.

(15 marks)

25 Extract C: 'Make in India' – the road to development?

India has steadily opened up its economy and reduced regulations that have sometimes held it back. More recently, India has begun to use more market-based strategies to help its development, including liberalising trade and privatisation. These may be risky strategies as India lacks the infrastructure that most of its global competitors have.

Trade reforms do appear to have produced remarkable results. India's trade, as a percentage of GDP, has increased from 15% to 40% between 1990 and 2014, and the economy is now among the fastest growing in the world. In more recent years, the Indian government's stand on trade and investment policy has displayed a shift from protecting producers to benefiting consumers. 'Make in India' is an initiative to encourage multinational companies to manufacture their products in India and shift Indian employment from the unstable primary sector to the secondary sector.

Recently, there has been a promise by foreign companies to invest \$222 billion in India. When foreign companies come to a 'Make in India' event, they see an economy that is growing at 7% annually with a large well-educated and skilled workforce. However, problems persist with regulation and tax. In the World Bank's Doing Business Index, which indicates how easy it is to set up and run a business, India is ranked 130th out of 189 countries. The question still remains, is the road to a more developed India one which involves the free market and liberalisation of trade, or one which involves government intervention and protectionism?

Extract C (lines 2–3) states 'More recently, India has begun to use more market-based strategies to help its development, including liberalising trade and privatisation.'

Using the data in the extracts and your knowledge of economics, evaluate the view that greater use of market-based strategies is the best way to improve the economic development of India.

- 26** The UK has seen significant changes in its pattern of trade with the rest of the world in terms of what we trade and with whom. The UK's current account deficit widened from £29.1bn in 2011 to £100.2bn in 2015. The deficit in 2015 was 5.4% of GDP, the largest annual deficit as a percentage of GDP since records began in 1948.

Explain the possible reasons for changes in the pattern of trade between the UK and the rest of the world.

This image shows a full page of white paper with horizontal dashed lines, typical of primary school writing paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

(15 marks)

- 27** The UK has seen significant changes in its pattern of trade with the rest of the world in terms of what we trade and with whom. The UK's current account deficit widened from £29.1bn in 2011 to £100.2bn in 2015. The deficit in 2015 was 5.4% of GDP, the largest annual deficit as a percentage of GDP since records began in 1948.

Evaluate the measures that might be taken to reduce a deficit on the current account of the UK's balance of payments.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

(25 marks)

28 The table below shows how much of each of two products can be produced by two countries with the same amount of resources.

	Motorbikes		Cars
Brazil	10	or	5
United States	6	or	2

Which one of the following statements is correct?

- A. Brazil has a comparative advantage in the production of both motorbikes and cars.
 - B. Brazil has a comparative advantage in the production of cars.
 - C. The opportunity cost of producing motorbikes is higher in the United States than Brazil.
 - D. Trade will not take place because Brazil is better at producing both goods.
- (1 mark)

29 Explain why, in advanced economies, economic growth is usually accompanied by a fall in employment in manufacturing but an increase in employment in the service sector.

