Write your name here

Surname	Other names

Pearson Edexcel GCE

Centre Number | Candidate Number

Economics

Advanced
Unit 4: The Global Economy

Monday - 27/03/2017
Time: 2 hours

Paper Reference

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 112
- 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.

Turn over ▶

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PEARSON

PART A:

Brazil

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

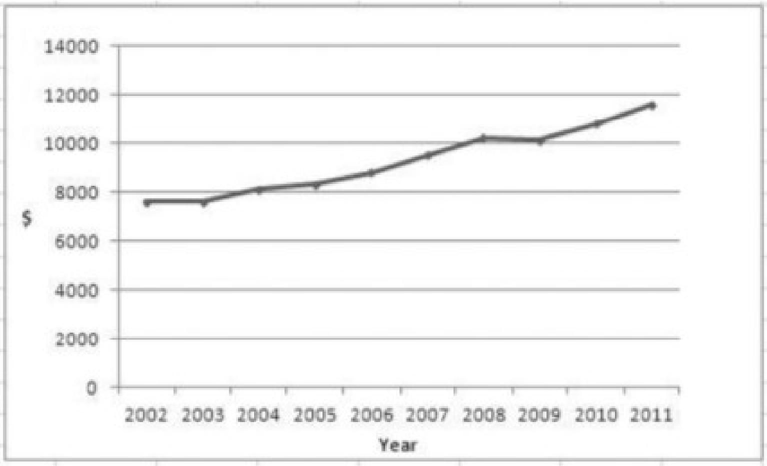
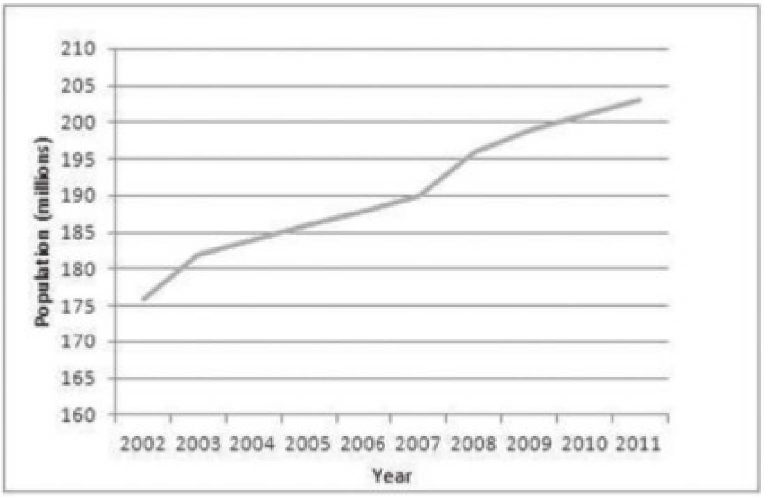
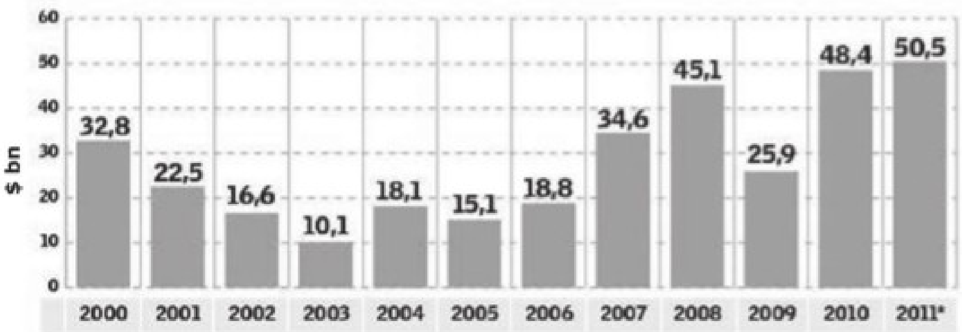


Figure 2 Population of Brazil (millions)



(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)

Question A.1. With reference to Figures 1 and 2, what might be inferred about the change in Brazil's GDP between 2002 and 2011? (**5 marks**)

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Question A.2. With reference to Extract 1, analyse two reasons why the value of the real, Brazil's currency, has appreciated. (**8 marks**)

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Question A.3. Examine the likely effects of the appreciation of the real, Brazil's currency, on its Balance of Payments accounts. (**10 marks**)

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Question A.4. Assess the potential problems associated with primary product dependency for a country such as Brazil. (**12 marks**)

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Question A.5. Evaluate the benefits of inward foreign direct investment for a country such as Brazil. (**15 marks**)

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PART B:

Tanzania's economy

Figure 1 Economic growth rates in Tanzania, Sub-Saharan Africa and the World 2000– 2012

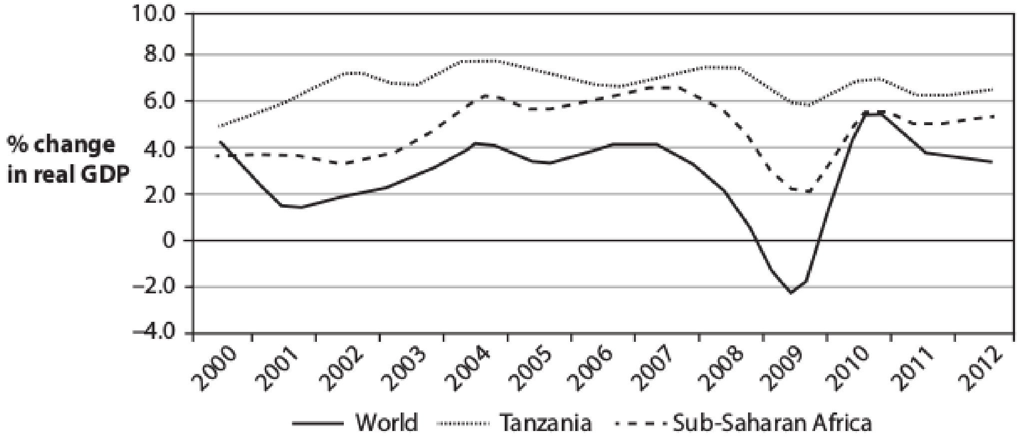


Figure 2 Inflation rates in Tanzania, Sub-Saharan Africa and the World 2000–2012

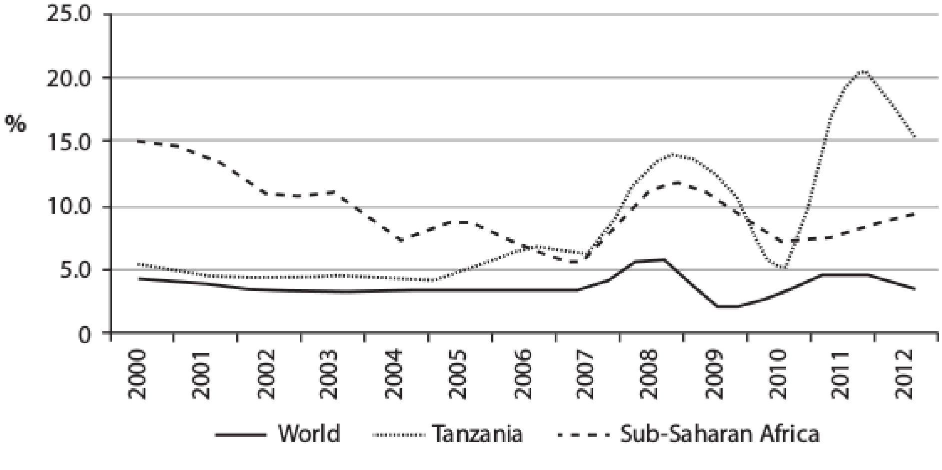
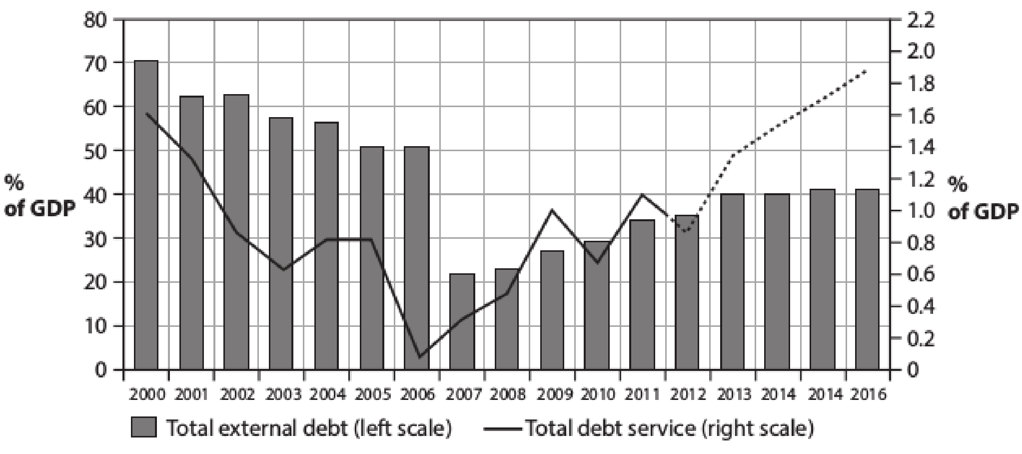


Figure 3 Tanzania's total external debt and annual external debt service as a % of GDP (2000–2011; forecast from 2012–2016)



Extract 1

The Tanzanian economy experienced rapid growth from 2000–2010. As a result, the country's per capita income increased from US$310 in 2000 to more than US$540 in 2010. Macroeconomic stability has brought significant dividends in terms of economic growth. Despite this, Tanzania is still a poor country, with approximately one third of its population living below the subsistence level. It is a predominantly rural country with approximately 30 million people, or about 75% of the total population, living in the countryside. Since 2001, the level of absolute poverty in rural areas has remained stagnant at around 37–40% of households. These poor rural households constitute 80% of the country's poor. Furthermore, the Gini coefficient has risen from 0.34 in 1992 to 0.38 in 2007, with signs that this trend is continuing.

After a brief dip in 2010/11, Tanzania's economy has bounced back. Partly driven by the high level of performance of the telecommunications, banking and mining sectors, the quarterly rate of growth in GDP was 7.1% for the period from January to March 2012. This is up from 6.1% for the same period in 2011. However, the agricultural, manufacturing and construction sectors recorded lower rates of growth than the overall economy.

The rate of growth is largely driven by increased demand from the public sector and not from the private sector or exports. The Government's contribution to aggregate demand accounted for more than half of economic growth during 2009–11. This compares to the period from 1998 to 2008 when the Government's contribution accounted for only one third of growth. In the same period, the contribution of the private sector declined significantly. A possible cause of this was crowding out resulting from extensive Government borrowing on the domestic market in 2009/10 and 2010/11.

Tanzania's remarkable macroeconomic performance has to be qualified on two counts. First, the increase in GDP appears less impressive when adjusted to take into account the rapid expansion of the population. Secondly, with the exception of the construction industry, economic growth has been concentrated in capital intensive rather than labour intensive sectors. The expansion of the telecommunications, banking, and transportation sectors has had a number of positive impacts on the economy. However, in total, these sectors employ less than 1% of Tanzania's workforce. By contrast, agricultural (including fisheries) and manufacturing sectors are relatively weak. Indeed, agriculture accounts for more than 25% of GDP, provides 85% of exports, and employs 80% of the work force. Cash crops, including coffee (its largest export), tea, cotton and cashews, account for the majority of export earnings. Geographical conditions, however, limit cultivated crops to only 4% of the land area.

For now, economic growth has not had a significant impact on reducing poverty rates especially in rural areas. Broadening the growth base will ensure that more Tanzanians benefit from economic growth. Therefore, diversification could involve the development of traditional activities other than crops, such as fishing and livestock; encouraging farmers to explore new high-value products and encouraging non-farm activities including tourism and mining, which offer new opportunities.

(Source for all figures and text: Tanzania Economic Update: From Growth to Shared Prosperity. October 2012. The World Bank Group Region: Africa Poverty Reduction and Economic Management Issue 2.)

Question B.1. With reference to Extract 1, explain the difference between absolute poverty and relative poverty. (**5 marks**)

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Question B.2. With reference to the first paragraph of Extract 1, outline the change in income inequality in Tanzania between 1992 and 2007. Illustrate your answer with a Lorenz curve diagram. (**8 marks**)

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Question B.3. With reference to Extract 1, examine the importance of agriculture to the Tanzanian economy. (**10 marks**)

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Question B.4. Assess the potential economic benefits of expanding tourism in Tanzania or in a developing country of your choice. (**12 marks**)

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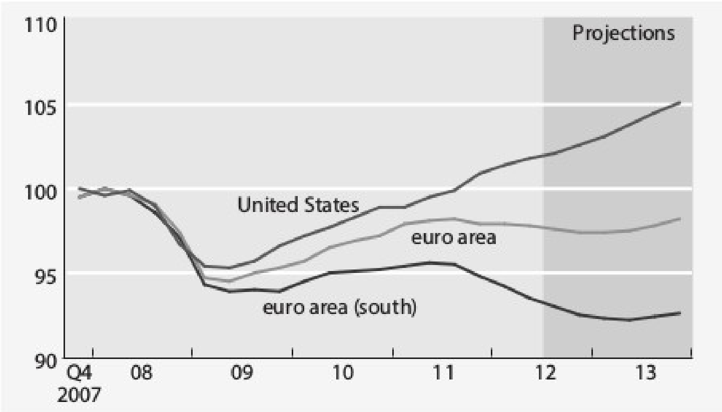
PART C:

Competitiveness

Figure 1 Changes in Real GDP in the United States, the euro area and in the euro area (south)* (2007 = 100)



*euro area (south) comprises Greece, Italy, Portugal and Spain

(Source: © IMF, 2012)

Figure 2 International competitiveness based on the Global Competitiveness Index 2012–2013

Rankings of selected countries

Country	Ranking (out of 144)
Singapore	2
United States	7
Hong Kong SAR	9
Taiwan	13
South Korea	19
Malaysia	25
Ireland	27
China	29
Spain	36
Italy	42
Portugal	49
Greece	96

(Source: World Economic Forum, 2013)

Figure 3 Unit labour costs in selected euro area countries (2000 = 100)

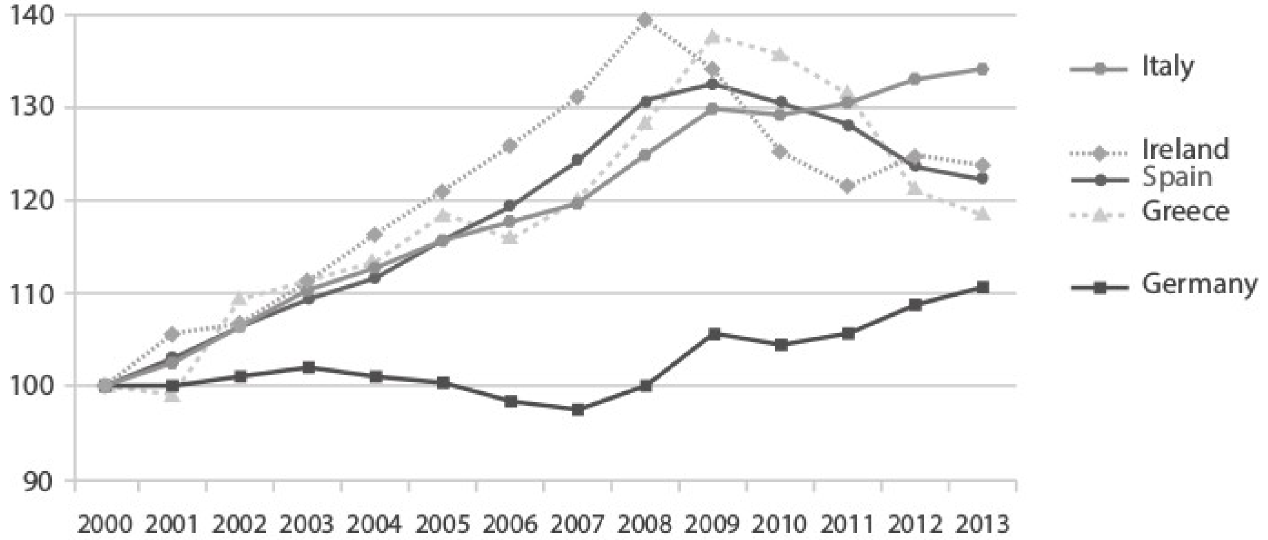
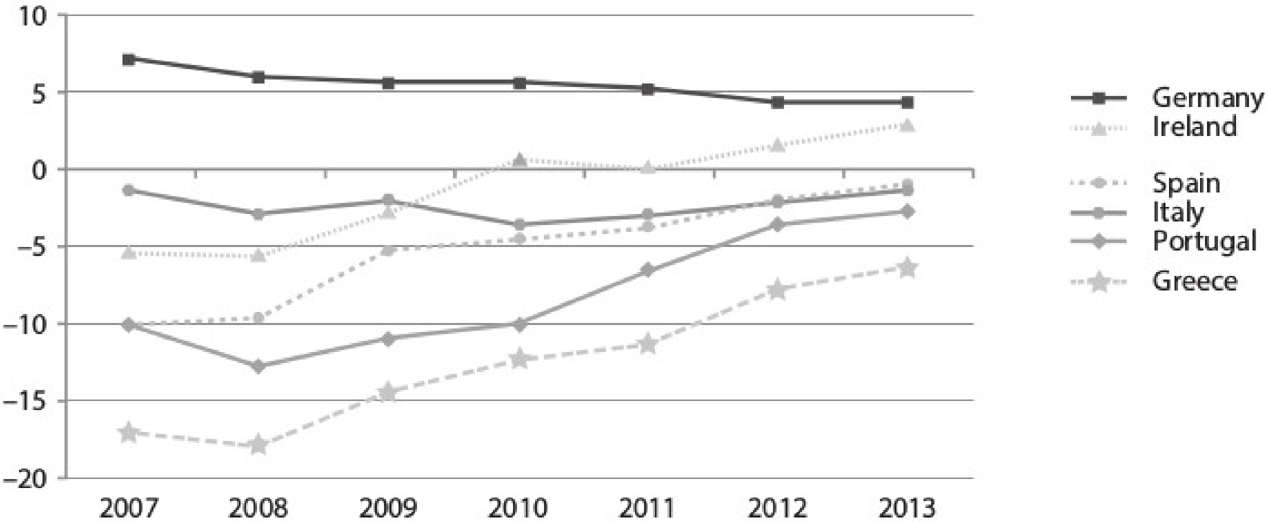


Figure 4 Current account balances in selected euro area countries (percentage of GDP)



(Source: © Bruegel 2013)

Extract 1 Stimulating growth in the euro area

The ongoing euro area crisis underlines the importance of reforms but also the increasing complexity of achieving them. Without an independent exchange rate, structural reforms must take the lead when it comes to increasing competitiveness.

Lack of growth in some parts of the euro area arose from both imbalances in trade and capital flows that built up after the adoption of the common currency. Further, this lack of growth resulted from weaknesses caused by poor competitiveness, particularly in the labour market, reinforced by higher price increases and higher labour costs in euro area (south) countries since the beginning of the monetary union. Problems in the labour market were caused by restrictions in hiring and firing workers, high minimum wages and centralised wage bargaining. Meanwhile, product markets were hampered by a lack of contestability.

Research shows that product market reforms, such as reducing barriers to competition and improving the business environment, can lift growth substantially. Labour market reforms, in addition to raising growth and employment in the long term, can restore countries' lost competitiveness by giving employers more flexibility in hiring and firing workers and keeping wage growth under control. However, such reforms are unlikely to deliver a sufficient boost to short-run activity during the current economic slump when aggregate demand is weak.

(Source: Adapted from IMF Finance and Development, December 2012)

Question C.1. With reference to Figure 2 and your own knowledge, explain what is meant by international competitiveness. (**5 marks**)

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Question C.2. Assess the likely reasons for the reductions in current account imbalances as shown in Figure 4. (**12 marks**)

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Question C.3. To what extent might labour market reforms be successful in stimulating economic growth and reducing unemployment in euro area (south) economies? (**15 marks**)

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