



General Certificate of Education
Advanced Level Examination
June 2013

Economics

ECON4

Unit 4 The National and International Economy

Tuesday 11 June 2013 9.00 am to 11.00 am

For this paper you must have:

- an AQA 12-page answer book
- a calculator.

Time allowed

- 2 hours

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
 - use good English
 - organise information clearly
 - use specialist vocabulary where appropriate.

Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER

Total for this Context: 40 marks

Context 1

THE GLOBAL CONTEXT

Study **Extracts A and B**, and then answer **all** parts of Context 1 which follow.

Extract A: Real GDP growth, unemployment rate, and inflation, selected Middle Eastern economies, 2010

Economy	Real GDP growth (%)	Unemployment rate (% of labour force)	Inflation (%)
Egypt	5.1	9.0	11.7
Iran	3.2	13.2	12.4
Iraq	0.8	15.3	2.4
Jordan	2.3	12.5	5.0
Qatar	16.6	0.5	– 2.4
Saudi Arabia	4.1	10.8	4.1

Source: official statistics, 2011

Extract B: A decade of change, challenge and opportunity

This year, ten years will have passed since the downfall of Saddam Hussein in Iraq. Over these years the Middle East and North African countries (MENA) have continued to witness economic and political instability, culminating in the recent so-called 'Arab Spring' uprisings in countries such as Egypt, Libya and Syria. 1

The *Organisation for Economic Cooperation and Development (OECD)* distinguishes two groups within the MENA region. The resource-rich economies, such as Iraq, Saudi Arabia and Dubai, are recognised as being different from those seen as resource-deficient, such as Egypt and Jordan. For both groups, however, and despite the political problems for some, the OECD is optimistic about future growth. 5

The OECD argues that, as the global economy recovers, demand for goods and services from European and emerging markets in particular will encourage development of MENA's manufacturing and service sectors. Just as the UK, for example, enjoys a comparative advantage in financial services, some MENA economies are now developing attractively priced manufactured goods. Tourism is also ripe for further development. 10

Do **not** answer Context 2 if you have answered Context 1.

OR

Total for this Context: 40 marks

Context 2

THE EUROPEAN UNION CONTEXT

Study **Extracts C and D**, and then answer **all** parts of Context 2 which follow.

Extract C: Real GDP (annual % change), the European Union and selected EU economies, 2010–2013

	Actual	Actual	Forecast	Forecast
	2010	2011	2012	2013
France	1.4	1.6	0.2	1.0
Germany	3.6	3.0	0.3	1.5
Italy	1.5	0.4	– 2.2	– 0.6
Spain	– 0.1	0.7	– 1.7	– 0.3
UK	2.1	0.9	0.6	2.0
Euro area	1.9	1.6	– 0.5	0.8
European Union	2.0	1.6	– 0.1	1.2

Source: adapted from OECD (2012), "Gross domestic product in US dollars", Economics: Key Tables from OECD, No 5. <http://dx.doi.org/10.1787/gdp-cusd-table-2012-1-en>

Extract D: Economic growth or a double-dip recession?

In the third quarter of 2011, UK real GDP rose by 0.6%. Within this, manufacturing output increased by just 0.1%, while services such as banking and finance showed a 0.7% increase. Unemployment was around 8% of the labour force.

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Such weak growth figures are a reflection of the economic situation within the European Union (EU) as a whole. The likelihood is that the next few years for the UK economy will be bleak. This pessimism is shared by other EU countries.

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Prospects do not look good for the EU economy as a whole but, of course, the detailed picture varies between member countries. There has been a general deterioration in confidence. Intense financial turmoil in money and capital markets is affecting both investment and consumption. Deficit-reduction programmes are also suppressing domestic demand. Weaknesses in the global economy are holding back UK and EU exports. In mid-2011, the hope had been expressed by some economists that exports would be a major driver of economic growth, but such optimism proved groundless.

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Attention has again turned to domestic demand within the EU. The projected decrease in inflation in the UK and in other member countries, coupled with limited wage growth, should at least limit any further significant erosion of real disposable income. However, there is continuing concern over the level of household debt which may yet constrain demand. Overall, the fears of a double-dip recession still loom large. 15

Within the UK, there is a debate over the relative importance of the various potential sources of growth in the next few years. There is a view that tightening of fiscal policy in the UK, together with similar policies in other EU countries, is damaging consumer demand and business confidence unnecessarily. The UK think-tank, the Institute for Public Policy Research (IPPR), argues for changes to be made to UK fiscal policy, and supports more severe spending cuts only when the economy improves. 20

The Institute therefore points to three possible solutions to the problem of slow UK and EU growth. These are: increases in government spending; substantial increases in global demand; and households and firms being given stronger incentives to spend more, for example through tax cuts. While growth in demand is seen as an important determinant of economic growth over the next few years, elements of government spending and incentives to business can make important contributions to the strengthening of the supply side of the economy. 25 30

None of the solutions offered by the IPPR seems likely to occur at the moment. The UK Government appears to be determined to maintain its tight fiscal policy, arguing that it is the only basis for sustained long-term growth. The global economy is far from stable, with increased talk by some of greater protectionism, although the emerging markets, such as India and Brazil, offer some hope for UK and EU exports. Households lack the confidence, and often the ability, to increase spending, while companies lack the optimism to invest. It needs to be borne in mind that the EU remains the UK's most important single trading partner by far. The best hope for stronger UK economic growth must therefore surely rest with the EU, but this requires the eurozone to be stabilised and macroeconomic conditions to improve throughout the EU. 35 40

Sources: news reports, 2012

0 4 Using the data in **Extract C**, calculate for Germany in 2011 the change in real GDP in €bn, given real GDP in 2010 of €2500bn, **and** identify **one** other significant feature of the data for the period 2010 to 2013. (5 marks)

0 5 **Extract D** (line 18) states: 'Overall, the fears of a double-dip recession still loom large.'
Explain the phrase 'double-dip recession' **and** analyse **two** possible reasons for unemployment rising in a recession. (10 marks)

0 6 **Extract D** (lines 39 – 41) argues that the 'best hope for stronger UK economic growth must therefore surely rest with the EU, but this requires the eurozone to be stabilised and macroeconomic conditions to improve throughout the EU'.
To what extent would you agree that the EU is likely to offer the 'best hope for stronger UK economic growth' over the next few years? Justify your answer, using the data and your economic knowledge. (25 marks)

Turn over for the next question

Turn over ►

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

In November 2011, the UK inflation rate was 4.8%, the rate of unemployment was 8.3%, while Bank Rate remained at 0.5%.

0 7 Explain **two** economic consequences for an individual **and two** economic consequences for an economy of an increase in its price level. *(15 marks)*

0 8 To what extent are low interest rates appropriate in the UK at a time of high inflation? *(25 marks)*

OR**Essay 2**

Weaknesses in the UK balance of trade in goods persist, with a deficit of £27.6 bn in the third quarter of 2011, compared, for example, to £23.3 bn in the same quarter in 2010.

0 9 Explain **three** reasons for a country such as the UK experiencing persistent deficits in the balance of trade in goods. *(15 marks)*

1 0 Discuss the possible contribution of supply-side reforms to achieving an improvement in the UK balance of trade in goods. *(25 marks)*

OR**Essay 3**

The formation of single markets by countries in various parts of the world, including within Europe, has shown that much is to be gained from increased economic cooperation.

1 1 Explain the main features of a single market, such as that which exists within the European Union (EU). *(15 marks)*

1 2 Evaluate the possible economic costs and benefits to an EU member state, such as the UK, of being part of the EU single market. *(25 marks)*

END OF QUESTIONS

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