General Certificate of Education
Advanced Level Examination
January 2012

Economics ECON4

Unit 4 The National and International Economy

Tuesday 31 January 2012 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: India: balance of payments on current account, quarterly (Q), 2009 ($bn)

	Q1	Q2	Q3	Q4
Exports of goods	38.5	57.5	53.6	39.4
Imports of goods	58.7	82.7	92.8	73.5
Invisible balance *	+19.0	+22.0	+26.5	+22.4
Balance of payments on current account	?			

* Invisibles comprise trade in services, investment income and transfers

Source: official statistics, accessed on 9 August 2010

Extract B: A passage to India

In July 2010, the UK Prime Minister led a Government delegation to India. The hope was that India's economic success could help to bring some relief to the UK economy and speed the recovery process through increased exports.

India's growth in 2010 is expected to be about 9%. Its GDP per capita is $3100, although over 400 million Indians live below the international poverty line of $1.25 per day. It has a labour force of almost 500 million but an official rate of unemployment of 11%. Quarterly sector growth is impressive: 1.8% in services, 2.2% in manufacturing and 1.7% in agriculture between January and March 2010.

For the Indian Government, inflation and economic growth are top of the agenda. Unfortunately, there is often a trade-off between these two macroeconomic indicators. Inflation jumped from 1.3% in October 2009 to almost 5% in November 2009. However, food inflation was 19%. As in other countries, rising oil costs are also amongst the causes of inflation for the Indian economy.

The UK Government still hopes to promote increased UK economic involvement in India. Certainly Indian business has become more involved in the UK. *Tata*, one of India's oldest companies, is now the UK's leading manufacturer through its ownership of *Corus Steel* and *Jaguar Land Rover*. India is now more likely to be creating jobs in the UK through direct investment rather than 'stealing' them, for example through call-centre activity relocated from the UK. UK business needs to rise to the challenges and opportunities presented in India. Companies such as *Vodafone* (telecommunications) and *BAE Systems* (defence and aerospace) are amongst the recent success stories and it is widely believed that India's increased demand for world-class services, for example financial and legal, can be met by the UK.

Infrastructure investment is urgent. Each year, about 40% of India's agricultural produce rots before arriving at market because of inadequate storage facilities and poor road and rail links. The Indian Government's plans to spend \$500bn between 2010 and 2013 on new ports, roads, rail links and airports will help to improve the situation. This investment is an export opportunity for UK firms specialising in infrastructure projects. The growth of the Indian economy will also help UK service exporters such as banking, education and health-care businesses. Currently, India accounts for only 1% of UK exports.

However, India remains fiercely protective, and investment and trade flows from the UK could remain limited. Progress will depend on whether a long-awaited EU-India trade deal becomes a reality and on the outcome of the *World Trade Organization*'s global trade talks. Many argue that India can only benefit from increased international trade.

The UK Government said at the time of the Prime Minister's July 2010 visit to India that the UK had a vital stake in India's rise to becoming a global power and in its future prosperity. At the same time, a view was also expressed that the UK needs India much more than India needs the UK. It is hoped that all aspects of the UK's macroeconomy can eventually benefit as India develops further.

Source: news reports, 2010

0 1 Using **Extract A**, calculate India's balance of payments on current account for the first quarter (Q1) of 2009 **and** identify **one** significant feature of the data for India's balance of payments on current account for 2009. *(5 marks)*

0 2 **Extract B** (line 10) suggests that 'there is often a trade-off' between inflation and economic growth.

Explain why there might be a trade-off between inflation and economic growth **and** analyse **one** cause of inflation. *(10 marks)*

0 3 **Extract B** (lines 2–3) states that 'India's economic success could help to bring some relief to the UK economy and speed the recovery process through increased exports'.

Using the data and your economic knowledge, assess the importance to the UK economy of continued economic growth in India. *(25 marks)*

Turn over ▶

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: Greece: GDP (€bn) 2006, and the annual % change in the components of GDP, 2007 – 2009 *

Components of GDP	GDP (€bn)	Annual % change in the components of GDP		
	2006	2007	2008	2009
Household consumption	153	3.0	2.0	–2.0
Investment	45	5.0	–7.0	–14.0
Government consumption	34	8.0	1.0	10.0
Exports of goods and services	48	6.0	4.0	–18.0
Imports of goods and services	70	7.0	0.0	–14.0
GDP (aggregate demand)	**?**	5.0	2.0	–2.0

* Figures rounded to nearest whole number

Source: official statistics, accessed on 9 August 2010

Extract D: The fiscal remedy for recession

The recession of 2009 brought renewed interest amongst EU governments in a so-called Keynesian approach to spending their way out of recession. They were desperate to avoid a prolonged period of negative growth and the accompanying mass unemployment.

In the UK, as well as within the eurozone, fiscal rules were abandoned as the fight for economic recovery began. The Stability and Growth Pact of the eurozone, to which the UK had also adhered in an informal way before the recession, limited budget deficits to 3% of GDP and a nation's debt to 60% of GDP. Such constraints were often far exceeded and increasing concerns were being expressed. In May 2010, the new UK Government became a prominent voice within Europe for a reversal of fiscal policy, with public spending cuts and tax increases.

The UK Government's policy was given some support by the economic crisis unfolding in Greece, a member of the eurozone. The Greek Government needed to be 'bailed out' by fellow member states if it was not to default on its debts. It had a budget deficit of 14% of GDP and a national debt of 115% of GDP in 2009, a year when its GDP also fell by 2%.

There was concern in the EU that such a situation had been allowed to develop, with increasing calls for EU-wide controls. France and Germany were pressing for an EU institution such as the European Commission to provide such a role, with the power to impose an EU-wide fiscal policy on all member states and not just the eurozone.

The UK Government opposed any such powers over member countries. However, it had gone as far as to establish an Office for Budget Responsibility (OBR), intended to keep the Government's tax and spending plans under control by providing a reality check on the state of the nation's finances. The OBR, however, does not have the powers that some were envisaging for the EU.

In a climate of greater stability in 2010, some still believed that an EU-wide fiscal policy needed to be a key part of the evolution towards a federal state. It cannot be denied that the best way forward must be that which delivers macroeconomic stability across the EU. Whether this comes about through member governments each developing a policy of fiscal responsibility or through a fiscal policy imposed by the EU on all member states remains open to debate.

Source: various sources, 2010

0 4 Using **Extract C**, calculate the value of GDP for Greece in 2006 **and** identify **one** significant feature of the data for the annual percentage change in the components of GDP for the period 2007 to 2009. *(5 marks)*

0 5 **Extract D** (lines 1–2) refers to EU governments 'spending their way out of recession'.

Explain the term 'spending their way out of recession' **and** analyse **two** reasons for government spending **other** than to influence the economic cycle. *(10 marks)*

0 6 **Extract D** (lines 16–18) suggests that France and Germany would like the EU to have 'the power to impose an EU-wide fiscal policy on all member states and not just the eurozone'.

Using the data and your economic knowledge, assess the possible economic consequences for the UK economy of an EU-wide fiscal policy requiring all member states to balance their budgets. *(25 marks)*

Turn over for the next question

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

UK exports of goods which, in 2002, were valued at £187 billion, had risen to £228 billion in 2009. The deficit on the UK balance of trade in goods rose from £48 billion in 2002 to £82 billion in 2009.

0 7 Explain **three** possible reasons for growth in the value of an economy's exports of goods. *(15 marks)*

0 8 Evaluate the view that an increasing deficit in UK trade in goods is a major problem for the UK economy. *(25 marks)*

OR

Essay 2

Sustained economic growth can often benefit a country's living standards through higher income per head. In the UK from 2001 to 2007, the annual average growth in real income per head was +3%. For 2008 and 2009, it was –3%.

0 9 Explain how supply-side factors might help to achieve sustained economic growth. *(15 marks)*

1 0 Discuss the view that the main reason for a country wanting to achieve sustained economic growth is to bring about an increase in private sector consumption. *(25 marks)*

OR

Essay 3

The global economic slowdown in recent years saw UK unemployment, as measured by the claimant count, rise from 870 000 in 2004 to 1.5 million in 2009.

1 1 As unemployment rises, explain **two** possible economic problems which might affect individuals in the UK **and two** possible economic problems which might affect the UK economy as a whole. *(15 marks)*

1 2 To what extent would a significant fall in the exchange rate of the pound sterling achieve a sustained reduction in unemployment in the UK? *(25 marks)*

END OF QUESTIONS

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