Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel International Advanced Level

Centre Number | Candidate Number

Monday 29 October 2018

Afternoon (Time: 2 hours) | Paper Reference **WEC04/01**

Economics

International Advanced Level
Unit 4: Developments in the Global Economy

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.*
- You should take care in your responses 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.
- 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 'While globalisation has led to an increase in average incomes, it has also increased income inequality within some countries.'

(a) Discuss whether globalisation always increases income inequality within countries. Refer to specific examples of countries in your answer.

(15)

(b) Evaluate the economic impact of a significant increase in income inequality within a country.

(25)

(Total for Question 1 = 40 marks)

2 (a) It is estimated that the $6.8 trillion of external debts owed by developing countries cost them more than $2.1 billion a day in interest repayments.

Assess the case for promoting economic development through debt relief. Refer to examples of developing countries in your answer.

(15)

(b) According to the 2016 International Property Rights Index, Venezuela and Myanmar are the two countries with the lowest ranking for the protection of property rights.

Discuss the view that the absence of property rights is the most significant constraint on economic growth in developing countries. Exclude reference to external debt in your answer.

(25)

(Total for Question 2 = 40 marks)

3 (a) The national debts of countries in the European Union (EU) increased on average from 62.2% to 84.8% of GDP between 2008 and 2016.

To what extent might the rise in the national debt of an EU country be a cause for concern?

(15)

(b) In November 2016, the Turkish President suggested he might hold a vote to decide whether to continue talks on joining the EU.

Examine the likely economic benefits to Turkey of joining a trading bloc.

(25)

(Total for Question 3 = 40 marks)

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Chosen question number: **Question 1** ☐ **Question 2** ☐ **Question 3** ☐

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TOTAL FOR SECTION A = 40 MARKS

SECTION B

Answer EITHER Question 4 OR Question 5.

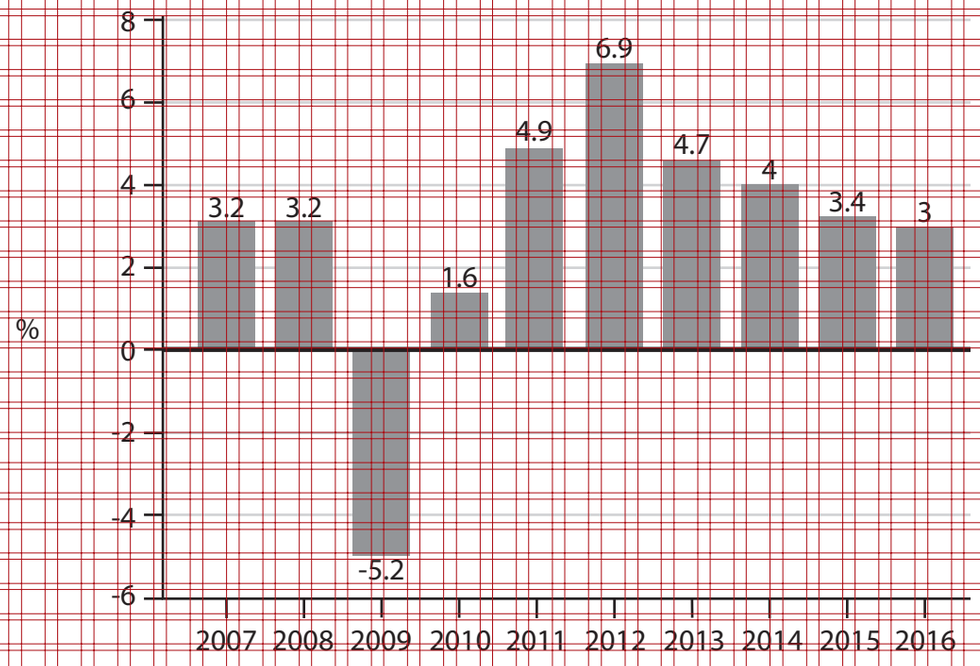
You should spend 60 minutes on this section.

If you answer Question 4 put a cross in the box ☒ .

Question 5 starts on page 28.

4 The economy of the United Arab Emirates (UAE)

Figure 1 Annual real GDP growth rate (%), 2007-2016



(Source: https://tradingeconomics.com/united-arab-emirates/gdp-growth-annual)

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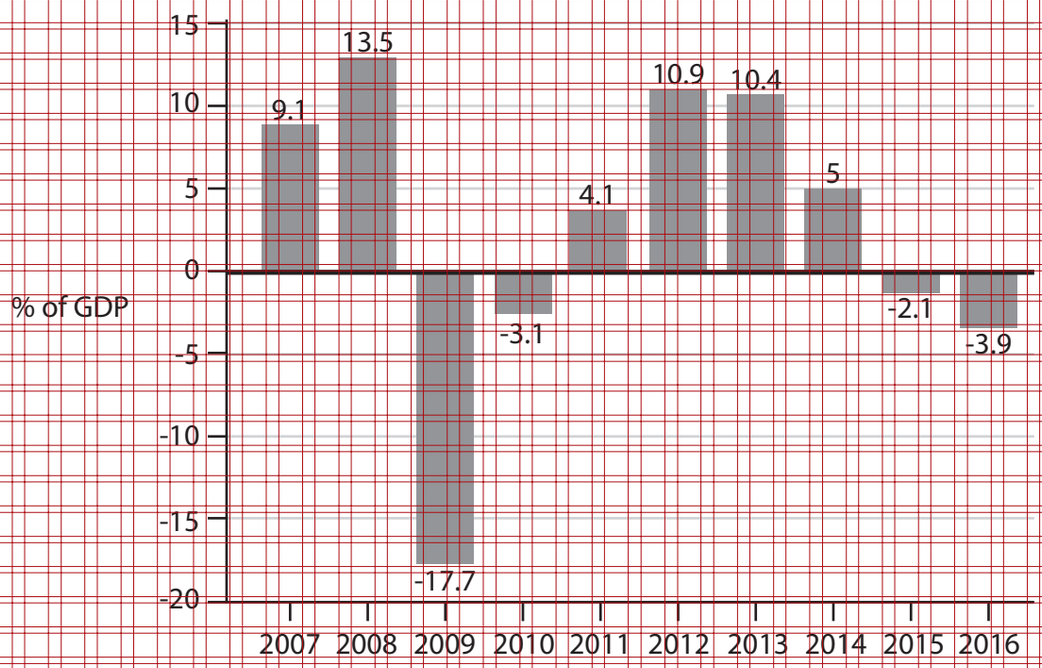
Figure 2 Budget balance (% of GDP), 2007-2016



(Source: https://tradingeconomics.com/united-arab-emirates/government-budget)

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Extract 1 Introduction of value-added tax (a sales tax)

The UAE is following a diversification strategy. This is allowing the economy to move away from its high dependency on oil, which accounts for more than 25% of its GDP. The UAE has suffered from falling oil prices. This contributed to the IMF's decision to reduce its forecast for the country's economic growth rate from 2.6% to 2.4% for 2017. The IMF praised the UAE's diversification efforts but it warned that decreasing government spending and cutting energy subsidies were important to the UAE's future growth and development.

The UAE Government will be introducing its first sales tax, value-added tax (VAT), in 2018. It will affect businesses with annual revenues of $1 million or more. VAT is expected to be set at 5% with some industries exempted. The Government expects to earn over $3.3 billion in revenue, or around 1% of the country's GDP. The country's inflation rate is expected to increase from 2.8% in 2017 to 4.8% in 2018.

The Government is also considering proposals to introduce corporation tax to help reduce its fiscal deficit.

Although the UAE still delivers projects on time, transportation infrastructure improvements are needed to keep the country's population mobile. It is estimated that congestion costs the UAE almost $790 million through wasted fuel and time. An additional one million immigrants are likely to arrive over the next three years. In response, the UAE is expected to have major road and rail developments. This could result in renewed activity in the construction sector and an increase in business tourism. A construction boom would support local manufacturing industries that produce construction materials, such as cement, ceramics and glass.

(Sources: adapted from 'United Arab Emirates', World Business Times INSIGHT: United Arab Emirates, http://world-businesstimes.com/2016-uae-insight-report/; 'Not Just Petrodollars: The UAE Economy', InterNations, https://www. internations.org/uae-expats/guide/18931-economy-finance/not-just-petrodollars-the-uae-economy-18916)

Extract 2 Structural reforms

The UAE Government has set up free trade zones to attract foreign direct investment. These zones enable foreign firms to trade without paying customs duties. However, there is no bankruptcy law that protects directors of failing businesses. International businesses that set up companies in the UAE can own only 49% of them. Only a few cities in the country have free trade zones, where complete foreign ownership is allowed. Many economists believe that allowing full foreign ownership would attract more businesses.

The IMF has suggested that the UAE carries out changes to its macroeconomic policies. It mentioned that the UAE's vision to diversify the economy away from oil is positive. Diversification requires further structural reforms that are targeted at developing the private sector and increasing the UAE's competitiveness. These reforms include improving access to finance for new businesses and for small and medium enterprises. It also involves increasing competition, promoting innovation and creating the right incentives for entrepreneurship.

(Sources: adapted from 'UAE deficit to widen to 7.2% in 2016, IMF says', Gulf News, http://gulfnews.com/ business/ economy/uae-deficit-to-widen-to-7-2-in-2016-imf-says-1.1822832; 'Improving business climate', The Economist, www.economist.com/news/business/21600986-draft-companies-law-emirates-bit-disappointing-improving-desert-climate)

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(a) With reference to the information provided, outline **two** roles of the IMF.

(4)

(b) With reference to the information provided and your own knowledge, evaluate the likely macroeconomic effects of the introduction of VAT on the UAE economy.

(16)

(c) With reference to the last paragraph of Extract 1, analyse **two** potential benefits of infrastructure improvements for the UAE economy.

(8)

(d) Discuss structural reforms, other than infrastructure improvements, that could help the UAE 'diversify the economy away from oil' (Extract 2, lines 10-11).

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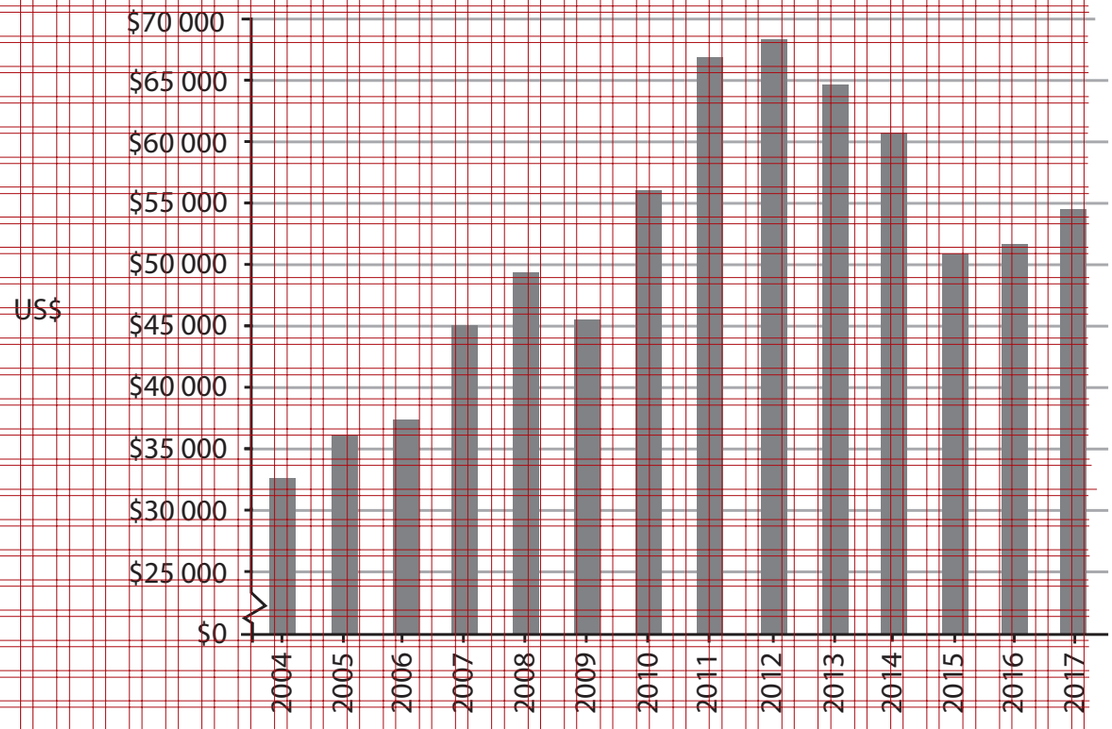
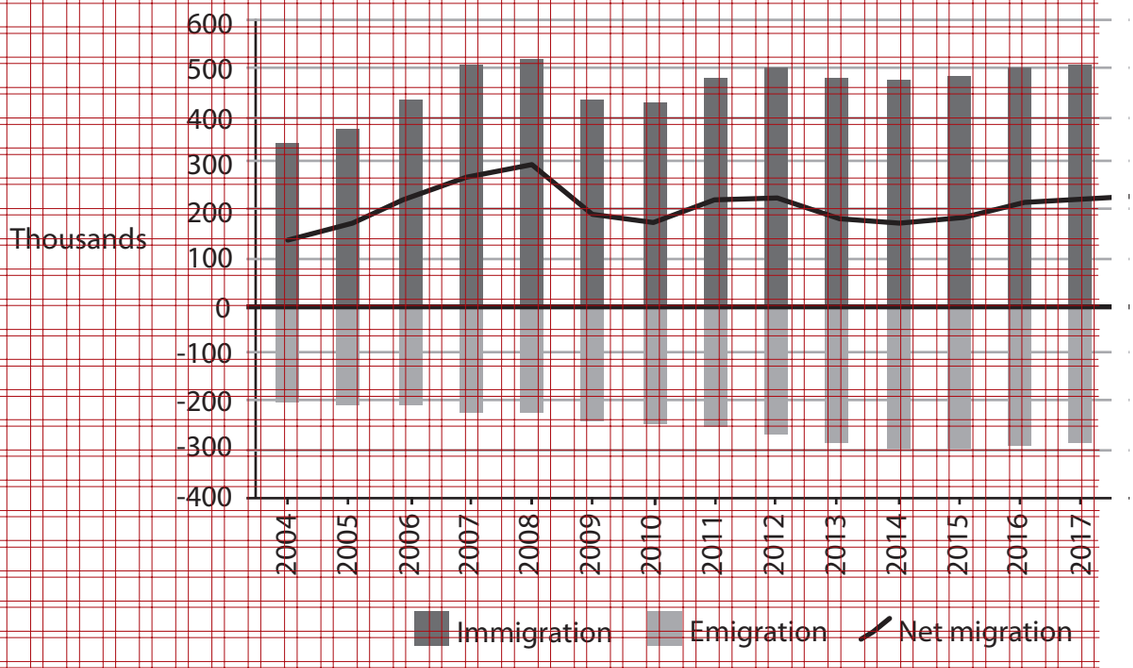
5 Australia's economy

Figure 1 Real GDP per capita (US$), 2004-2017



(Source: IMF World Economic Outlook Datasets)

Figure 2 Net migration (thousands), 2004–2017



(Source: https://www.border.gov.au/ReportsandPublications/Documents/statistics/nom-september-2016.pdf)

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Extract 1 Economic outlook

Australia has not had a recession for more than 25 years, a record that has raised living standards to amongst the highest in the world. Economists say luck and good management have enabled Australia to avoid global crises, including the 2008 financial crisis, which had unfavourably affected many other economies. "Much of the success is due to reforms that were put in place in the 1980s and 1990s, which have made the Australian economy more flexible," said a senior economist. These included a floating Australian dollar, and deregulation of financial and labour markets.

Australia is rich in natural resources. The mining sector employs nearly 2% of the workforce and accounts for 50% of its total export earnings. Rapidly growing demand for iron ore, coal and other minerals from China has improved Australia's national income. Several economists believe that there is no other country which has gained more from the rapid industrialisation and growth of China. China accounts for about 35% of Australian exports and Australia is the second most popular location for Chinese investment. The Australian economy is also more diverse and is enjoying a major boom in exports of services to China, including tourism and education. There are over 90 000 Chinese international students studying in Australia.

Some economists warn that Australia's economy is more exposed to external shocks now than at any time in the past 25 years. This is because the country is heavily reliant on China, which is reallocating investment in manufacturing industries to the service sector. The depreciation of the Chinese currency is also likely to have a negative impact on the Australian economy.

(Sources: adapted from 'Australia reaches milestone of a quarter-century of growth', FT, https://www.ft.com/content/c4fa9696-3e6a-11e6-8716-a4a71e8140b0; 'Australia's 'five pillar economy': mining', The Conversation, http://theconversation.com/australias-five-pillar-economy-mining-40701; '5 things to know about China's and Australia's economic ties', www.weforum.org/agenda/2016/04/5-things-to-know-about-china-and-australia-s-economic-ties)

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Extract 2 Net migration

Net migration, the difference between immigration and emigration, resulted in an increase in Australia's population of around 200 000 in 2016. However, it is still lower than the figure for 2008 when net migration was its highest at 300 000. Together with a fall in birth rates, this trend has caused a slowdown in population growth to 1.5% in 2016 compared with 2.2% in 2008. Many economists say that this could significantly reduce the annual rate of economic growth if the trend continues. The Reserve Bank of Australia claimed that a fall in net migration would reduce growth in demand for houses, goods and services.

Housing construction employs foreign labour and makes a key contribution to Australia's economy. Lower net migration has therefore raised questions over the ability to maintain the current rate of housing construction. This has led to lower availability and use of foreign labour in the housing construction sector. A slower net migration growth rate lowers the demand for new houses and discourages businesses to invest. Moreover, some economists have estimated that the depreciating Australian dollar against other currencies could also have reduced incentives for foreign skilled workers to move to Australia.

Critics of migration argue that the immigrants are taking jobs from local workers. In a few cities, investment in housing has not kept pace with a population growing at 1.5% a year. This shortage of housing, which many people blame on immigration, has resulted in a doubling of house prices in Australia's main cities.

(Sources: adapted from 'Immigration slowdown weighs on Australia's growth', FT, https://www.ft.com/content/f4ef0a0e-3cad-11e5-8613-07d16aad2152; 'Hardliner's resurgence stirs up Australia's immigration debate', FT, https://www.ft.com/content/ed94d328-f1f7-11e6-8758-6876151821a6)

(a) With reference to the information provided, outline **two** features of a floating exchange rate.

(4)

(b) Analyse how the deregulation of financial markets **and** labour markets might explain why 'Australia has not had a recession for more than 25 years' (Extract 1, line 2).

(8)

(c) Assess the economic benefits which the Australian economy gained 'from the rapid industrialisation and growth of China' (Extract 1, line 13).

(12)

(d) With reference to the information provided and your own knowledge, evaluate the likely economic costs of a fall in net migration to Australia.

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

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