Economics Questions By Topic:

Globalisation, Specialisation & Trade, Pattern of Trade, Terms of Trade (4.1.1, 4.1.2, 4.1.3, 4.1.4)

A-Level Edexcel Theme 4

0207 060 4494
www.expert-tuition.co.uk
online.expert-tuition.co.uk
enquiries@expert-tuition.co.uk
The Foundry, 77 Fulham Palace Road, W6 8JA

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SECTION A

Write your answers in the spaces provided.

1 The trade deal known as the Comprehensive Economic and Trade Agreement (CETA) is designed to eliminate or reduce trade barriers between the European Union (EU) and Canada. It is estimated that it will increase trade by 20% and boost EU GDP by 12 billion euros.

(Source: http://www.theguardian.com/business/2016/oct/30/eu-canada-sign-ceta-free-trade-deal-trudeau-juncker)

(a) Which **one** of the following is most likely to decrease as a result of CETA?

(1)

☒ **A** Economic growth in EU countries

☒ **B** Exports from EU countries to Canada

☒ **C** Imports from Canada to EU countries

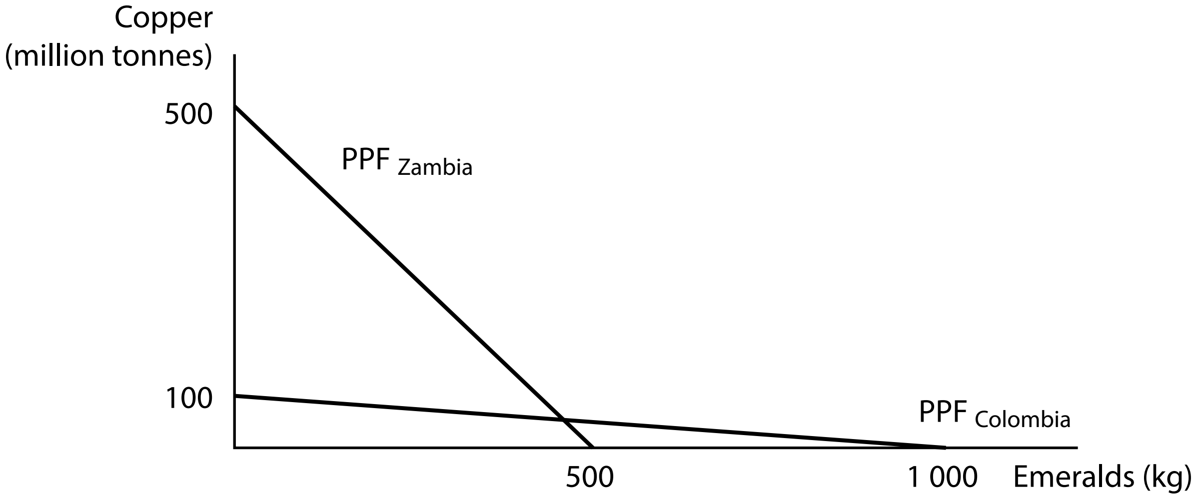
☒ **D** Tariffs on European exports to Canada

(b) With reference to the theory of comparative advantage, explain how CETA may increase the GDP of both the EU and Canada.

(4)

(Total for Question 1 = 5 marks)

2 Colombia and Zambia each produce copper and emeralds. The production possibility frontiers below show the two countries' productive capacities for these goods.



(a) With reference to the diagram above, which **one** of the following statements is correct?

(1)

A Colombia has an absolute advantage in the production of copper

B Zambia has an absolute advantage in the production of copper

C Zambia has an absolute advantage in the production of emeralds

D Neither Colombia nor Zambia has an absolute advantage in the production of emeralds

Answer ☐

(b) Using appropriate calculations, explain which country has a comparative advantage in the production of emeralds.

(4)

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(Total for Question 2 = 5 marks)

END OF SECTION A

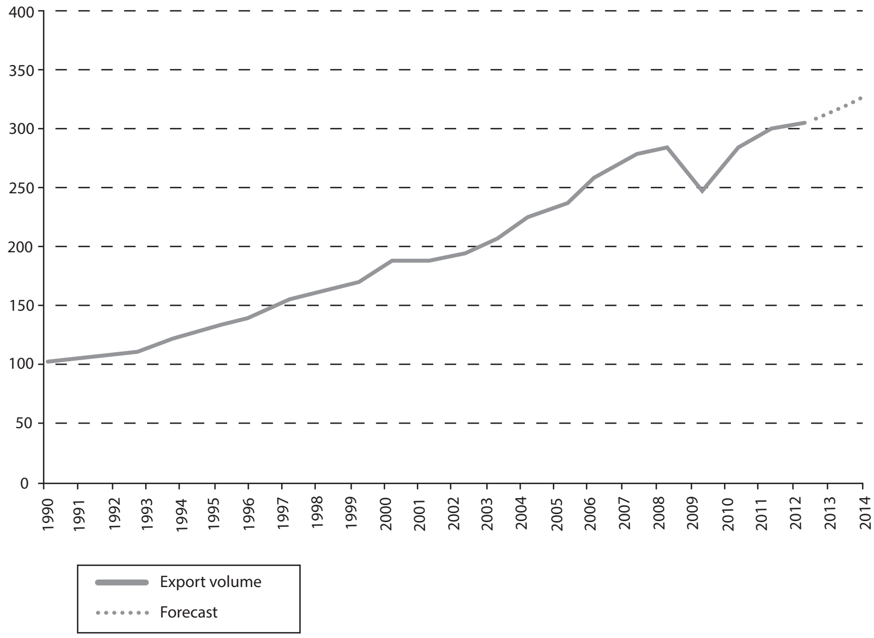
SECTION B

Read all extracts/figures before answering.

Write your answers in the spaces provided.

3 Globalisation

Figure 1 Volume of world exports of goods, 1990-2014. (Indices, 1990 =100)



(Source: WTO: 2013 PRESS RELEASES; PRESS/688; 10 April 2013 'Trade to remain subdued in 2013 after sluggish growth in 2012 as European economies continue to struggle' http://www.wto.org/english/news_e/pres13_e/pr688_e.htm)

Extract 1 Poverty decreases sharply in developing world

The United Nations Development Report published in 2013 says higher economic growth in at least 40 developing countries has helped lift hundreds of millions of people from absolute poverty, and pushed billions more into a new global middle class.

Helen Clark, a UN administrator, called such progress an "incredible success of emerging markets", praising governments for accompanying faster rates of economic growth with practical policies to help the poor. "These countries opened up to foreign direct investment and prioritised infrastructure but also invested in their people," she said. They targeted education and health, and put welfare programmes in place.

Underpinning the improvements in the Human Development Index (HDI) was rapid growth in countries such as China, India and Brazil, with China and India having doubled economic output per head in less than 20 years. But the report stressed that growth and improvements in HDI spread far beyond the four BRIC countries of Brazil, Russia, India and China, and included at least 40 countries that had accompanied greater economic dynamism with effective poverty-reduction policies.

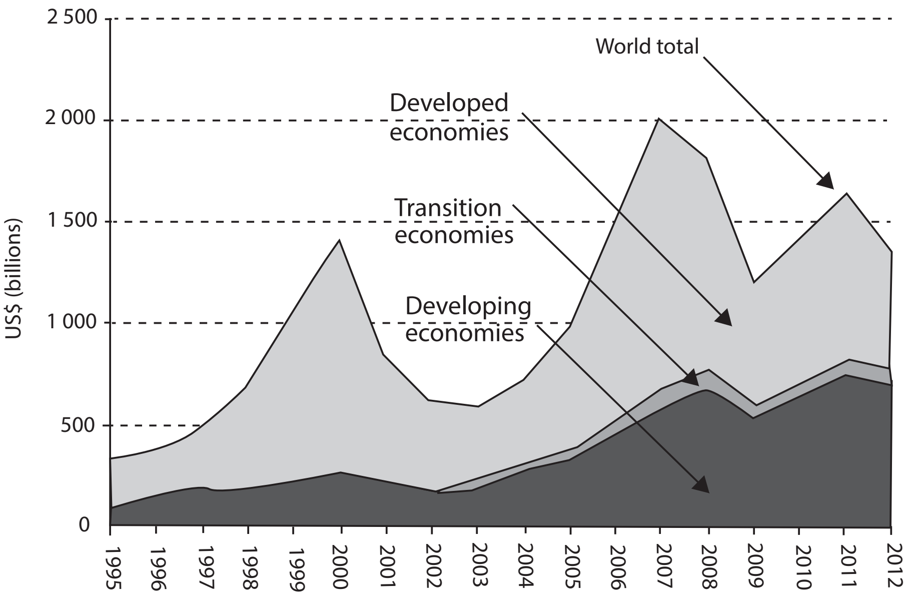
Partly as a result, the report found that worldwide absolute poverty has plunged from 43% in 1990 to just 22% in 2008, including more than 500 million people being lifted out of poverty in China alone.

Underpinning this poverty reduction was developing countries' increasing share of global trade, which grew from 25% to 47% between 1980 and 2010. The report found that trade between developing countries was the biggest factor in that expansion, increasing from less than 10% of total global trade to more than 30%.

By Adam Thomson in Mexico City, March 14, 2013

(Source: http://www.ft.com/cms/s/0/6d7a1c52-8cc5-11e2-8ee0-00144feabdc0.html#axzz2l0iwqz1p)

Figure 2 Foreign direct investment (FDI) inflows, global and by group of economies, 1995–2012 (billions of US dollars)



(Source: UNCTAD Global Investment Report 2013
http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

Figure 3 Percentage share in world FDI flows 2010–2012

'Transition economies' refers to former centrally planned economies

	FDI inflows %				**FDI outflows %**		
	2010	2011	2012		2010	2011	2012
Developed economies	49.4	49.7	41.5		68.4	70.5	65.4
Developing economies	45.2	44.5	52.0		27.5	25.2	30.6
Transition economies	5.3	5.8	6.5		4.1	4.3	4.0

(Source: UNCTAD Global Investment Report 2013
http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

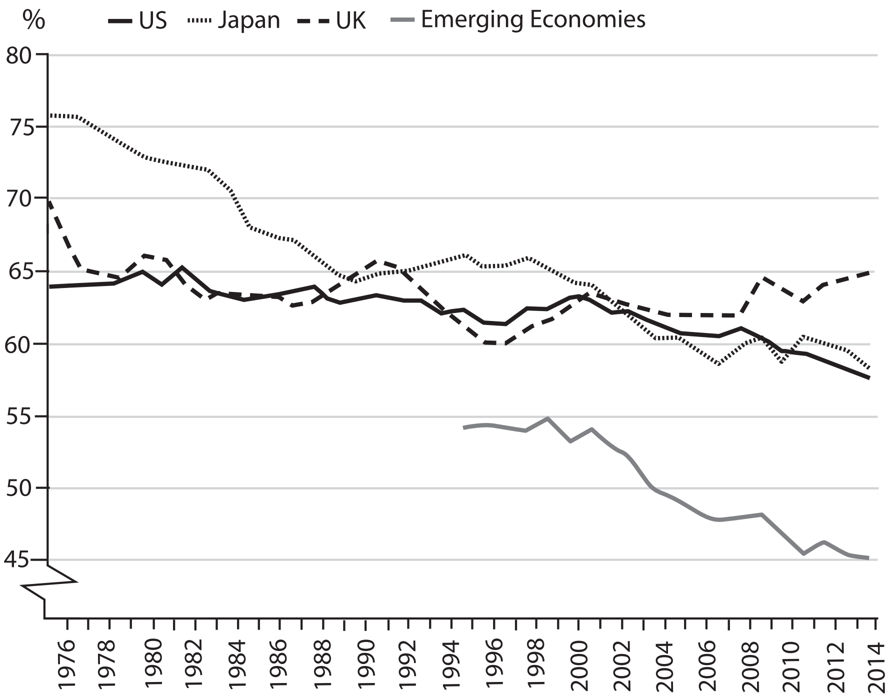
Extract 2 Trends in FDI flows

FDI flows to developing economies recorded their second highest level in 2012. They accounted for a record 52% of global FDI inflows, exceeding flows to developed economies for the first time ever. The global rankings of the largest recipients of FDI also reflect changing patterns of investment flows: nine of the twenty largest recipients were developing countries.

FDI inflows to developed economies declined by 32% to $561 billion – a level last seen in 2004. The European Union alone accounted for almost two thirds of the global FDI decline.

(Source: UNCTAD Global Investment Report 2013
http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

Figure 4 Share of wages as a proportion of GDP 1976–2013



(Source: http://blogs.r.ftdata.co.uk/gavyndavies/files/2013/06/ftblog478.png)

Extract 3 Changes in the distribution of national income

Between 1999 and 2011 average labour productivity in developed economies increased more than twice as much as average wages. For example, in the USA, real hourly labour productivity in the non-farm business sector has increased by about 85% since 1980, while real hourly earnings increased by only around 35%.

The global trend has resulted in a change in the distribution of national income. In many countries, the share of wages as a proportion of GDP is falling and the share of profits is rising. Even in China, a country where wages roughly tripled over the last decade, GDP increased at a faster rate than the total wage bill causing the labour share to decrease.

The drop in the labour share is due to technological progress, trade globalisation, entry of labour-abundant economies into the global economy, decreasing trade union density (the proportion of paid workers who are trade union members) and an increased pressure on firms to increase profits enhanced by the rise of private equity funds, hedge funds and institutional investors.

(Source: Global wage report 2012–13 www.ilo.org/wage12http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_194843.pdf)

***3** 'Globalisation is solely responsible for the trend in the share of wages as a proportion of GDP.'

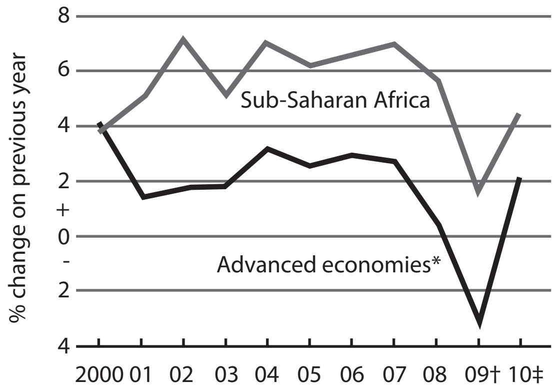
To what extent do you agree with this statement? Use the information provided and your own knowledge in your answer.

(15)

(Total for Question 3 = 15 marks)

4 Sub- Saharan Africa and the Global Recession

Figure 1: GDP, % change on previous year



*33 countries †Estimate ‡Forecast Source IMF

Extract 1: The Impact of the World Recession on Sub-Saharan Africa

The global recession was slow to hit Africa. Its banks and stock exchanges were isolated enough from the wider capital markets to suffer few shocks. Foreign investment remained steady. Oil-rich countries such as Angola continued to boom. However, reduced demand for African exports in 2009, together with the shrinking of private investment flows, has hit the continent hard after a long period of unusually strong growth. It is estimated that countries south of the Sahara (Sub-Saharan Africa) on average grew by less than 2% in 2009. In many countries income has started to fall and unemployment to rise.

Therefore, the confidence of Dominique Strauss-Kahn, the IMF's head, who has been touring Africa, struck some as strange. He went out of his way to praise Africa's central banks. He even said Africa's economies were more dynamic than most of Asia's. The main point, he said, was that Africa was recovering from the global crisis faster than expected.

According to the IMF, Sub-Saharan Africa's economy will grow overall by 4.5% in 2010. But this may be distorted by a large boost from oil and gold, as well as from the guaranteed aid which makes up half the budget in some countries. Kenya will struggle to grow by 3% in 2010 and even that depends on an upswing in tourism. Nearly every African country will grow more slowly than the 6% that many development economists consider is the minimum necessary to allow countries with rapidly increasing populations to maintain living standards.

Source (for both figure 1 and extract 1): *The Economist*, 11 March 2010, http://www.economist.com/world/middle-east/displaystory.cfm?story_id=15679939

Extract 2: Emerging Economies and Sub-Saharan Africa

As poor countries emerge from recession and the rich world struggles to recover, the BRIC countries – Brazil, Russia, India and China – see an opportunity to increase their influence. A new study by the Overseas Development Institute (ODI), says the emerging countries, such as the BRIC countries, increasingly affect the growth of poorer countries. China has a huge list of pledges to Africa: it has promised $10 billion of cheap loans over 3 years; it has also offered debt forgiveness, new hospitals, professional training for 15,000 Africans and a doubling of aid. When Sudan ran into trouble repaying $34 billion foreign debt, it turned to China, India and regional development funds in the Gulf. India helped to bail out Tanzania's financial institutions.

Trade and foreign direct investment (FDI) from the West are already falling, but the middle-income countries are filling the gap. While total FDI in Africa fell by about a third between 2008 and 2009, the flow from China rose by 80% (admittedly from a low base). Brazil says it has invested $10 billion in the continent since 2003. Since 2009, the BRIC countries' investments and loans have increased rapidly (see Figure 2).

Aid agencies consider that China and others are "rogue donors" because they give to and support corrupt regimes. Aid from China is usually 'tied' to hospitals, roads and equipment built or sold by Chinese companies. Further, much 'aid' is loans at near-commercial rates of interest. African governments have had their debts to the West mostly forgiven and are accumulating new loans elsewhere.

Trade with the BRIC countries may be a trap. The BRIC countries import raw materials like copper and cotton from poor countries; rich countries tend to buy manufactured goods such as garments. So more trade with the BRIC countries and less with the developed world offers less chance of growth in the secondary sector – the opposite of how China grew richer. Eswar Prasad of Cornell University says that China and India's enormous appetite for raw materials may help poor countries diversify their export markets but not their industry, leaving them more dependent on volatile commodities than before.

Figure 2: Examples of Foreign Direct Investment (FDI) and loans by BRIC countries in Africa since January 2010

COUNTRY	SECTOR	$m	TYPE
BRAZIL			
Angola	Oil	800	FDI
Mozambique	Mining	1 300	FDI
Nigeria	Oil	2 000	FDI
RUSSIA			
Angola	Construction	500	FDI
Nigeria	Gas	2 500	FDI
INDIA			
Chad	Textiles	25	Loan
Malawi	Development Projects	50	Loan
Zambia	Hydro Power	50	Loan
CHINA			
Liberia	Mining	2 600	FDI
Tanzania	ICT	180	Loan
Zambia	Development	1 000	Loan

Source (for both Extract 2 and Figure 2): *The Economist*, 20 March 2010

4 With reference to Extract 2, evaluate the benefits to African countries of increased trade with the BRIC economies.

(12)

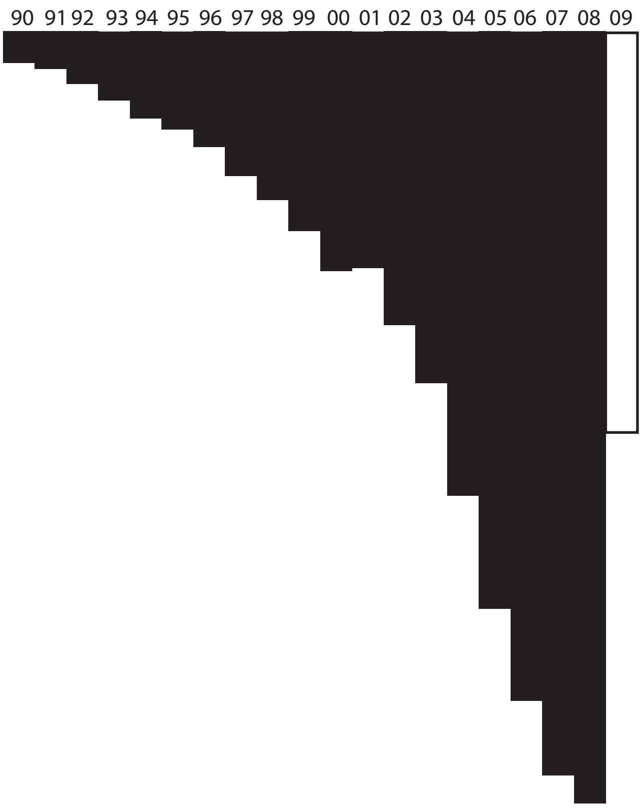
(Total for Question 4 = 12 marks)

5 Trade Imbalances

Figure 1: Value of Chinese renminbi against the US Dollar

Source: http://www.marketskeptics.com/2010/04/cracks-appearing-in-us-financial-system.html

Figure 2: US trade deficits with China since 1990



1990: $10 billion.
1991: $13 billion.
1992: $18 billion.
1993: $23 billion.
1994: $30 billion.
1995: $34 billion.
1996: $40 billion.
1997: $50 billion.
1998: $57 billion.
1999: $69 billion.
2000: $84 billion.
2001: $83 billion.
2002: $103 billion.
2003: $124 billion.
2004: $162 billion.
2005: $202 billion.
2006: $234 billion.
2007: $259 billion.
2008: $268 billion.
2009 (until August): $144 billion.

TOTAL: $2,009 billion

Source: http://www.census.gov/foreign-trade/balance/c5700.html

Extract 1 US trade disputes

President Obama has promised that two million of the jobs which America needs to create in the next five years are to come from doubling US exports. The US is to have a National Export Initiative which will include an export promotion cabinet and a policy of getting tough with trading partners who "have not played by the same set of rules" as the US. A major problem is the undervaluation of China's currency, the renminbi, against the dollar.

President Obama will also have to settle several trade disputes, especially the one with Mexico. Mexico imported $129 billion in American exports in 2009. In response to trade union pressure, the US Congress cancelled a trial programme that allowed Mexican trucks to travel more freely into the US. In retaliation, Mexico imposed $2.4 billion in tariffs on a variety of American goods, resulting in a loss of $2.6 billion in US exports and 25 000 jobs.

Additionally, in 2009, Brazil persuaded the World Trade Organisation (WTO) that American government subsidies and loan guarantees to cotton growers violated WTO rules. This ruling allows Brazil to impose $560m in retaliatory tariffs on cotton goods, beauty products and cars. More importantly, Brazil is free to impose other penalties, most notably ignoring US patents in the media, pharmaceutical and technology industries. This retaliation by Brazil could result in thousands of American workers losing their jobs.

Source: *The Sunday Times*, 14 March 2010 and the *Financial Times*, 12 March 2010.

Extract 2 The Chinese currency

The undervaluation of China's currency, the renminbi, against the dollar has been a source of tension between the US and China for some time. The Chinese government has kept the renminbi at 6.83 per dollar since mid-2008 to protect its exporters from the global recession and a contraction in world trade. China has accumulated a record $2.4 trillion of reserves and $889 billion of US government debt, partly as a result of its exchange rate policy. Global growth would be about 1.5% higher if China stopped undervaluing its currency and running trade surpluses, according to Paul Krugman, a leading economist. If China did not start to appreciate the renminbi over the next few weeks, there was a good chance that the US would label China a 'currency manipulator'. That could allow the US to impose new tariffs on Chinese products.

Stephen Roach, Chairman of Morgan Stanley Asia said Paul Krugman's call for a stronger renminbi is "very bad" advice because the US trade deficit is due to a low level of savings in the US. Boosting Chinese spending and increasing savings in the US is a better way of reducing trade imbalances, according to Roach.

Source: http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aaDhEg_mZprU

5 With reference to Extract 1, explain the role of the World Trade Organisation (WTO). **(5)**

(Total for Question 5 = 5 marks)

6 The Global Financial Crisis

Figure 1: Real GDP: % Change on Previous Year

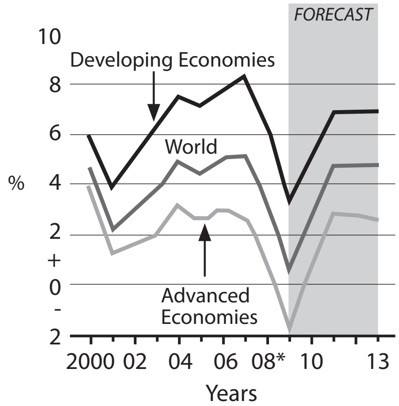
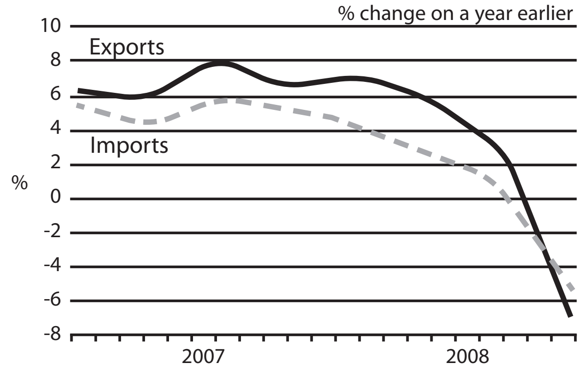
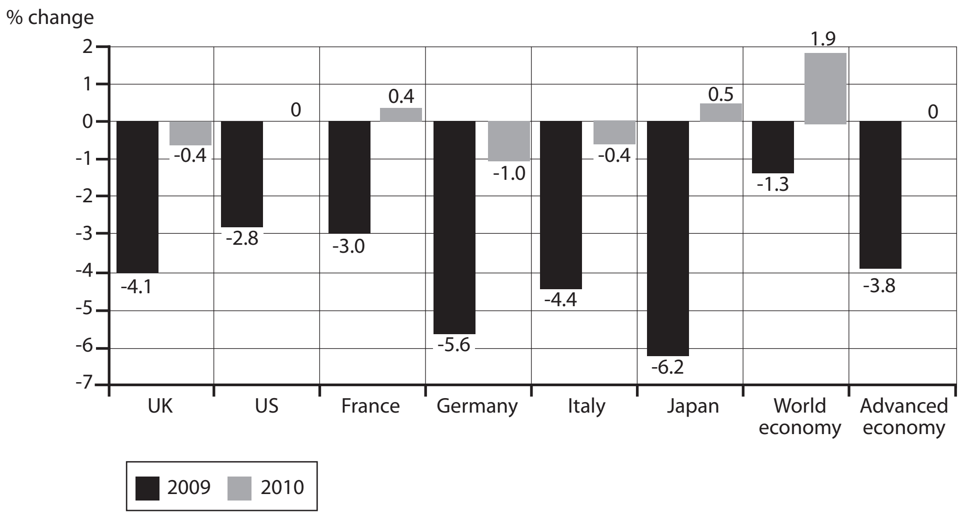


Figure 2: Value of World Exports and Imports: % Change on a Year Earlier



Source for Figure 1: The *Economist*, 21 February 2009 (Turning their backs on the world).
Source for Figure 2: *The Sunday Times*, 29 March 2009 (Export Giants sink most as World Trade Slumps by David Smith).

Figure 3: Real GDP Forecasts in 2009 and 2010, selected countries (% change)



Source: IMF.

Extract 1: Globalisation in retreat?

Between 2000 and 2008 the value of world trade in goods and services rose by 12% a year. Free trade has made the biggest contribution to more than 60 years of global prosperity. However, a golden age of global trade has come to an abrupt end. The economic meltdown has popularised a new term: deglobalisation. For the first time for many years, trade and investment flows are declining, but is globalisation really ending? At the end of 2008, the International Monetary Fund (IMF) said the world economy would grow at 2.2% in 2009, but by March 2009 it expected negative growth of between 0.5% and 1% over the year. Moreover, this recession appears to be affecting most economies simultaneously.

Falling trade has been the transmission mechanism from the financial crisis to the world's factories. In the second half of 2008 the value of trade fell: Pascal Lamy, the World Trade Organisation's (WTO) director-general estimates that world trade dropped by 5% in November 2008, by a further 7% in December and another 7% in January 2009.

The downturn has been sharpest in the countries which opened up most to world trade, especially East Asia's tiger economies. Singapore's exports are 186% of GDP; its economy shrank at an annualised rate of 17% in the last three months of 2008. Taiwan's exports are 60% of its GDP and its economy may fall as much as 11% this year. The downturn will also hurt rich countries which specialise in manufacturing: the IMF forecasts a contraction of about 2%, but Germany and Japan, who are big exporters of capital goods, cars and electronics are expected to shrink by much more (see Figure 3).

In contrast, the biggest emerging economies are doing less badly so far. In India, where exports are only around 15% of GDP, growth is expected to be 5% for 2009 and China was still growing by 6.8% in 2008.

There are several reasons why the banking system's problems have affected trade so quickly. First, the global recession is more severe than most thought possible. Secondly, according to the World Bank, global supply chains mean that a downturn quickly spreads. The trade interdependence of economies has rapidly transmitted the recession around the globe. Another problem is that trade finance has dried up. Firms have found it difficult to get export credits, without which they cannot do business.

A further issue is that the world recession is leading to protectionism. Lamy identifies several types, including import tariffs and subsidies to support industries which have faced difficulties.

Financial deglobalisation is hitting countries in a variety of ways. Foreign direct investment (FDI) fell by 21% in 2008 and is expected to fall a further 12%-15% in 2009. Rich countries seem to have suffered most so far. They have seen FDI falls of 33% on average and by 50% or more in Britain, Italy and Germany while Finland and Ireland have seen net outflows. FDI flows to developing countries were still growing in 2008, but by only 4%, after a rise of 20% in 2007. Flows to big South American countries were up by about 20% and those to India more than 100%.

Meanwhile, small countries that developed industries such as tourism, which grew as a result of globalisation, are also suffering. The WTO says international tourist numbers fell 1% in the second half of 2008, which may not sound bad, but this compares with growth of more than 5% per annum in the previous four years. In the Caribbean, visitors may fall by 33% this season: hotels are half empty, flights are being cancelled and fiscal deficits are rising.

Source: adapted from *The Economist*, 21 February 2009 'Turning their backs on the world' and *The Sunday Times*, 29 March 2009 'Export giants sink most as world trade slumps' by David Smith.

(a) Explain the characteristics of 'deglobalisation' (*Extract 1, line 4*).

(5)

(b) Explain why some countries may experience a more severe recession than others.

(8)

(c) Examine the possible effects of the global recession on countries with well-established tourist industries.

(10)

*(d) With reference to lines 26–34 of Extract 1, evaluate reasons why the banking crisis has hit world trade so severely.

(12)

END OF SECTION B **(Total for Question 6 = 35 marks)**

SECTION C

Write your answers in the spaces provided.

7 Three of Africa's main trading blocs have agreed to form the Tripartite Free Trade Agreement (TFTA). This will create one of the world's largest free trade areas, stretching across 26 countries with a combined GDP of around £1trillion.

(Source: https://uk.reuters.com/article/uk-africa-trade/mega-african-trade-bloc-paves-way-for-continental-commerce-idUKKBN0OR28M20150611)

Evaluate the effects of the growth of trading blocs such as the TFTA on global trading patterns. **(25)**

(Total for Question 7 = 25 marks)

***8** In Nigeria, a 70% tariff has been applied to imports of fully assembled motor vehicles. In addition, increased tariffs of between 20% and 100% have been applied on certain agricultural goods, such as wheat and rice.

Apart from increasing trade barriers, assess factors which might explain changes in a country's pattern of trade with other countries. Refer to the principle of comparative advantage in your answer.

(30)

(Total for Question 8 = 30 marks)

***9** In the early 1970s, the USA, Germany and Japan accounted for over one-third of world trade but, by the 1990s, global trade had become more diversified. By 2012, China was the world's second largest trading country after the USA.

Assess the factors that may cause changes in a country's pattern of trade with other countries.

(20)

(Total for Question 9 = 20 marks)

***10** (a) Assess the view that the main cause of globalisation is the increased significance of transnational companies.

(20)

(b) To what extent do the costs of globalisation outweigh the benefits?

(30)

END OF SECTION C **(Total for Question 10 = 50 marks)**