



Rewarding Learning

ADVANCED
General Certificate of Education
2024

Centre Number

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Candidate Number

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Economics

Assessment Unit A2 2

assessing

Managing the Economy in a
Global World



[AEC21]

AEC21

WEDNESDAY 29 MAY, AFTERNOON

TIME

2 hours.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number in the spaces provided at the top of this page. Answer **all** questions in Sections **A** and **B**, and **one** question in Section **C**.

You are permitted to use a calculator in this paper.

You must answer the questions in the spaces provided.

Do not write outside the boxed area on each page or on blank pages.

Complete in black ink only. **Do not write with a gel pen.**

INFORMATION FOR CANDIDATES

The total mark for this paper is 90.

- Section A: 20 marks
- Section B: 40 marks
- Section C: 30 marks

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question. This paper is accompanied by a Case Study Booklet.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time. In questions involving calculations, you are advised to show your workings.

Quality of written communication will be assessed in Questions **4**, **5(b)**, **(c)** and **(d)**, **6** and **7**.

Quantitative skills will be assessed where appropriate.

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2 In July 2022, the price of a tall Caffè Latte in Starbucks in London was £3.85. The same type of Caffè Latte cost US\$4.55 in New York City.

Using this information, calculate a Purchasing Power Parity exchange rate between the US dollar and the pound sterling. [2]

[Turn over



- 3 The table below shows the output of cheese and tomatoes in two countries which have each decided to be self-sufficient. They divide their resources equally between production of the two goods, and opportunity costs are constant.

Country	Cheese (millions of tonnes)	Tomatoes (millions of tonnes)
Drumland	25	50
Bassland	25	100

- (a) Using the information in the table above, identify which country has a comparative advantage in cheese, and which a comparative advantage in tomatoes. [2]





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[Turn over



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Section C

Answer **either** question 6 **or** question 7

Quality of written communication will be assessed in these questions.

- 6** In 2022, global Foreign Direct Investment (FDI) reached a value of almost \$1.6 trillion. This was almost 10 times the value of official overseas development aid. Some economists have argued that aid is inappropriate and leads to corruption. They argue that the path to development in less developed countries is through less aid and more FDI.

Critically examine the view that Foreign Direct Investment is a better way to promote economic development than overseas development aid. [30]

or

- 7** A think tank has claimed that globalisation has led to the loss of 3.7 million jobs in the United States since 2001. In response, one Senator called for the USA to withdraw from the World Trade Organization (WTO). This would allow the US government to impose restrictions on imports in order to protect American jobs and standards of living.

Critically examine the view that withdrawal from the WTO, and the imposition of restrictions on imports, will help protect jobs and living standards in the United States. [30]





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For Examiner's use only	
Question Number	Marks
Section A	
1	
2	
3	
4	
Section B	
5	
Section C	
6	
7	
Total Marks	

Examiner Number

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CASE STUDY BOOKLET

**For use with
Section B**

The following passages were compiled in September 2022.

Case Study: Is the UK the sick man of Europe?

Source 1: A sterling crisis?

In 2022, things looked bad for the UK economy. Between January and September, the pound depreciated by 14% against the dollar. This could be seen as a continuation of a long-term trend. In December 2007, before the financial crash, the pound was worth \$2.04; by September 2022 it was trading at \$1.08. Over the same period, sterling depreciated by over 20% against a basket of currencies of the UK's main trading partners.

There are many factors behind long-term falls in the value of sterling, but most economists agree that one of the most significant causes has been the UK's enduring trade deficit.

Fig. 1 below shows recent trends in the UK's trade in goods and services.

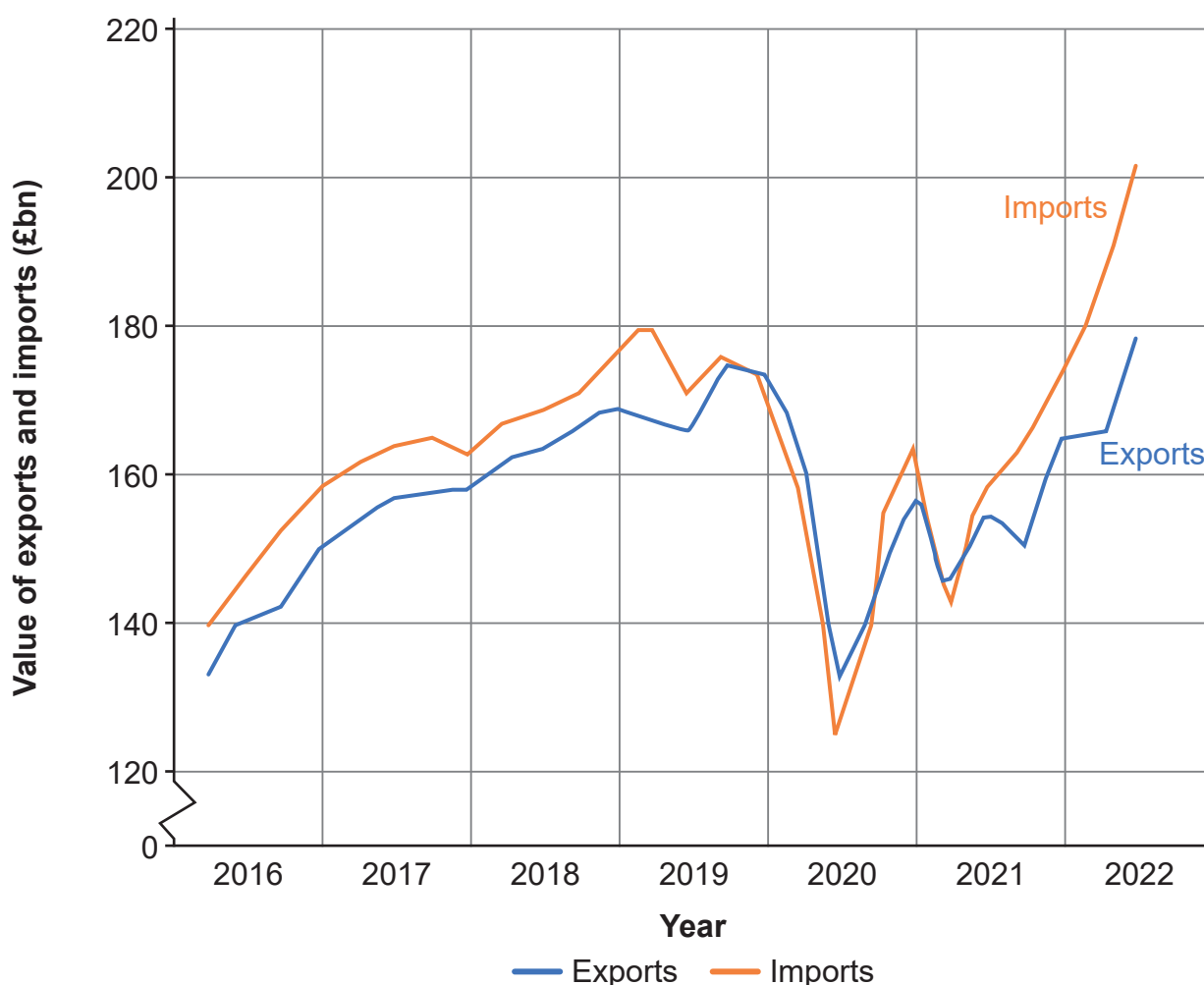


Fig. 1 UK exports and imports of goods and services, at market prices, Quarter 1 2016 to Quarter 2 2022

Source 2: Exports under threat

On 30 December 2020, the European Union (EU) and the UK government signed a Trade and Cooperation Agreement (TCA) to conclude the process of Brexit – Britain’s withdrawal from the EU. Under its terms, the UK ceased to be a member of the Customs Union and Single European Market from 1 January 2021, but British firms continue to have tariff-free access to the EU market.

Many economists worry that Brexit has had a significant negative effect on the competitiveness of the British economy. There are now many non-tariff and regulatory barriers which add to the cost, and lengthen shipping times, of British exports. Brexit disrupted long-standing supply chains, making it more difficult for British firms to import from the EU. Ending free movement of labour contributed to labour shortages in many industries. All of these factors increased business costs. The Office for Budget Responsibility (OBR) reported that “exports of goods to the EU in the fourth quarter of 2021 were down by almost 10% on their pre-pandemic levels”.

Proponents of Brexit believed that it could lead to the revival of British trade. Unrestricted by EU rules, Britain could lower taxes and deregulate its economy. Global Britain would be able to negotiate its own trade deals with other countries; it could realign away from Europe towards the faster-growing Asian economies. However, conflict with China over concerns about its human rights record was one setback to this plan.

Trade expert Rose Davis has been critical of some of these arguments. Her belief is that countries will carry out the most significant part of their trade with the largest economies closest to them, the so-called gravity theory. “The UK can’t be floated to the middle of the Pacific Ocean, so the EU will likely remain our single most important trading partner. To improve Britain’s trade competitiveness and boost exports, government needs to do the hard work of boosting productivity and improving the supply side of the economy.”

Source 3: The kindness of strangers

Falling exports to the EU have been one of the many problems faced by the UK economy. Due to the long-run deindustrialisation, Britain needs to import large amounts of manufactured goods. A fall in exports means less foreign currency is available to pay for these imports. Moreover, since the financial crash of 2007 to 2009, the UK economy has struggled. In the decade prior to the crash, UK GDP grew at an average annual rate of 2.7%. In the decade from 2009 to the start of the pandemic, that growth had fallen to 1.7%. Progress in productivity also slipped back, with the annual increase in output per hour falling from 1.7% in the first decade to 0.7% in the second. To make matters worse, 2022 saw the highest rates of inflation in the UK in recent history.

Former Governor of the Bank of England, Mark Carney, observed that the UK economy depends on the kindness of strangers. He meant that overseas investment into the UK economy was needed to create inflows to balance the huge trade deficit on the current account. For some time, investors from overseas have been buying shares in the service sector. It is overseas investors who own 75% of Premiership football clubs and 66% of UK-listed shares are foreign owned. At some point the UK may run out of assets to sell.

However, other economists are more relaxed. Patrick Heard, an economics professor, claimed “there is never a shortage of people eager to predict disaster for the UK economy. We have been able to operate successfully with a current account deficit for many years. The reality is the balance of payments must always balance, and changes in the exchange rate may help reduce the current account deficit. I have no doubt these prophets of doom will be proven wrong and our economy will grow strongly in the future”.

THIS IS THE END OF THE CASE STUDY BOOKLET

Sources

Source 1:

Adapted from How are our Brexit trade forecast assumptions performing? Office for Budget Responsibility.
<https://obr.uk/box/how-are-our-brexite-trade-forecast-assumptions-performing/>

Source 2:

Adapted from The latest evidence on the impact of Brexit on UK trade
<https://obr.uk/box/the-latest-evidence-on-the-impact-of-brexite-on-uk-trade/>

Source 3:

Adapted from UK will have to rely more on the kindness of strangers by Duncan Weldon
<https://www.ft.com/content/ace130b4-91fb-480f-b438-00d830491548>

Source 4:

Adapted from The initial impact of Brexit on UK trade with the EU. Office for Budget Responsibility.
<https://obr.uk/box/the-initial-impact-of-brexite-on-uk-trade-with-the-eu/>

Data / Graph - Office for National Statistics

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