



Tuesday 3 June 2014 – Afternoon

GCSE ECONOMICS

A593/01 The UK Economy and Globalisation

Candidates answer on the Question Paper.

**OCR supplied materials:**

- Stimulus material (A593/01/SM)

**Other materials required:**

- Calculators may be used

**Duration:** 1 hour 30 minutes



Candidate forename		Candidate surname	
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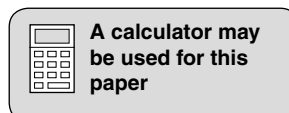
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**INSTRUCTIONS TO CANDIDATES**

- Refer to the Stimulus Material in the separate booklet. You must **not** bring your original copy into the examination.
- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

**INFORMATION FOR CANDIDATES**

- The number of marks is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is **80**.
- The quality of your written communication will be taken into account in the marking of your answer to question 5.
- This document consists of **16** pages. Any blank pages are indicated.



Answer **all** questions.

Using your knowledge of economics and with reference to the given figures in the Stimulus Material, answer the following questions in the spaces provided.

Use Figs 1 and 2 in answering the following question.

1 (a) Using Fig. 2, identify **one** country which is a member of the European Union (EU).

..... [1]

(b) What is meant by ‘capital’ as a factor of production?

.....  
..... [1]

(c) In the table below, place a tick (✓) against the **two** features involved in the creation of the EU Single Market.

Features	Tick (✓)
Removal of protectionist measures between EU countries.	
The adoption of a single currency for all EU countries.	
All EU countries adopting the same interest rate.	
Free movement of people throughout the EU.	

[2]



Use Figs 3, 4 and 5 in answering the following question.

- 2 (a) (i)** Identify the country which was the largest export market for UK goods.  
..... [1]
- (ii)** Identify the country with the largest percentage rise in exports from the UK.  
..... [1]
- (b) (i)** Explain what is meant by a 'trade deficit'.  
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..... [2]
- (ii)** Using Figs 3 and 4, calculate the UK's balance of trade with Germany. Show your working.  
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..... [3]
- (c)** Using Fig. 5, compare the UK's balance of trade in goods and services in 2010 and 2011.  
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..... [3]



Use Figs 6 and 7 in answering the following question.

- 3 (a) (i) In the table below, place a tick (✓) against the **two** arguments used in favour of free trade.

Arguments	Tick (✓)
Firms may benefit from economies of scale.	
It guarantees a more equal distribution of income across the world.	
It encourages firms to be more efficient.	
It reduces the level of negative externalities.	

[2]

- (ii) Explain what is meant by ‘absolute advantage’.

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..... [2]

- (iii) State and explain **two** benefits to UK consumers arising from free trade.

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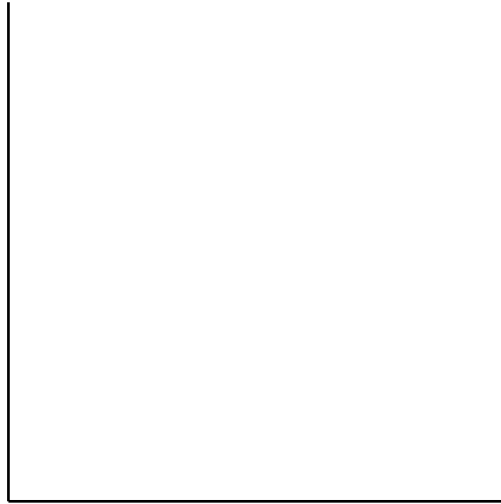
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..... [4]

(b) Fig. 7 states that the EU has an annual quota which allows 48 200 tonnes of beef from the USA and Canada into the EU each year.

With the aid of a supply and demand diagram, explain the impact of a quota on the equilibrium price and quantity bought of an imported good.



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[6]

(c) Discuss the effectiveness of tariffs as a form of protectionism.

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[8]



Use Figs 8, 9 and 10 in answering the following question.

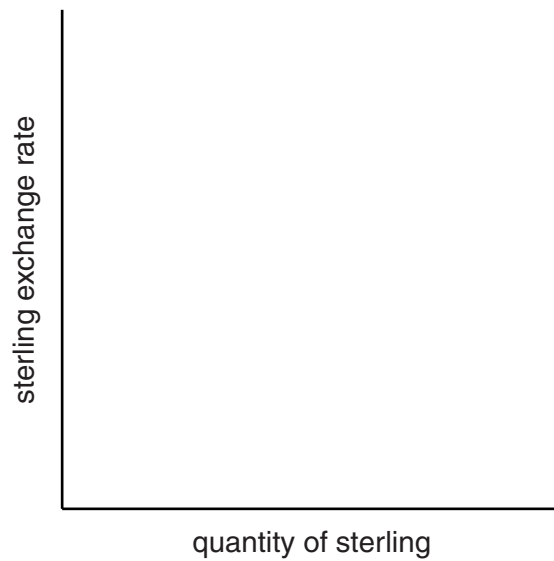
4 (a) (i) Explain what is meant by the term 'exchange rate'.

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..... [2]

(ii) Using Fig. 8, describe what happened to the value of the pound against the euro between June 2011 and June 2012.

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(b) Using a supply and demand diagram, explain the impact of a rise in UK interest rates on the value of the pound.



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(c) State and explain **two** advantages of the euro as a single currency.

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[6]

5 Using the information in the case study and your own knowledge of economics, discuss the effectiveness of:

- government policies to maintain price stability
- government policies to improve productivity

in improving the UK's international competitiveness.

**[12]**

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**END OF QUESTION PAPER**

**ADDITIONAL ANSWER SPACE**

If additional answer space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margins.

A large area of lined paper for writing. It consists of a vertical solid line on the left side, creating a margin. To the right of this line, there are numerous horizontal dotted lines spaced evenly down the page, providing a guide for handwriting.



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**Tuesday 3 June 2014 – Afternoon**

**GCSE ECONOMICS**

**A593/01/SM** The UK Economy and Globalisation

**STIMULUS MATERIAL**

**Duration:** 1 hour 30 minutes



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- You may **not** take notes into the examination.

**INFORMATION FOR CANDIDATES**

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## The changing face of UK trade

Over the past 40 years the pattern of trade between the UK and the rest of the world has changed significantly.

In 1973 the UK joined what is now known as the European Union (EU) and this saw an expansion of UK trade with other EU countries. These countries now buy over 50% of UK exports.

In the 1980s, for the first time in decades, the total value of imports of goods into the UK exceeded the value of UK exports of goods to other countries. Some economists explained that this change was due to increased globalisation which continues to put UK manufacturers under pressure because they have to compete against other countries with much higher productivity and lower labour costs.

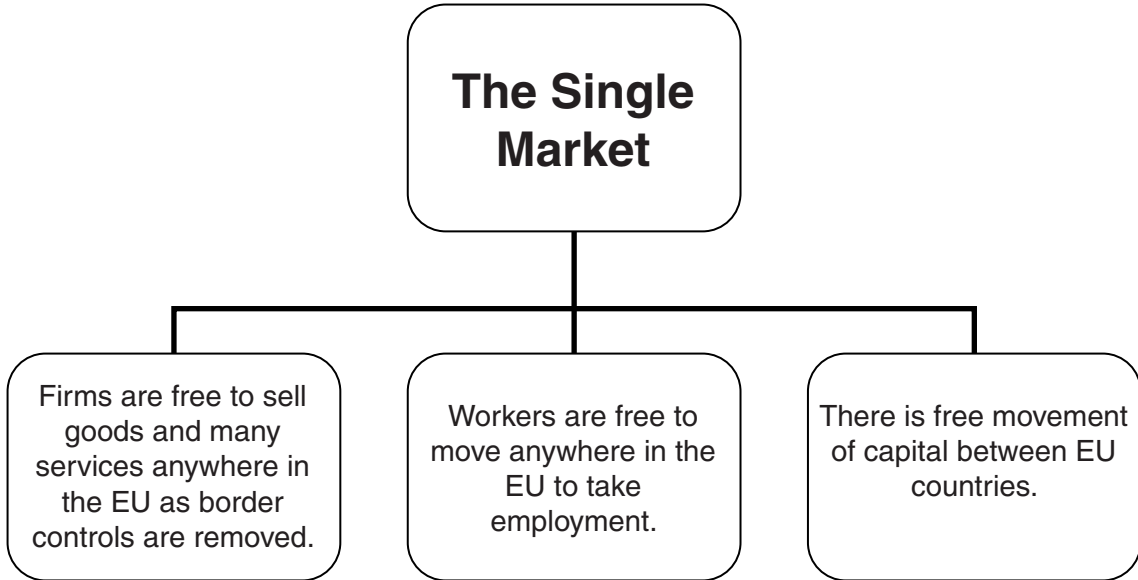
Other short term changes, such as fluctuations in the value of the exchange rate and the level of inflation in the UK, also impact on the UK's trading performance.

As well as providing opportunities for the UK economy, these changes have also given rise to challenges.

A group of Year 11 students decided to investigate some of these issues. They then wrote a report about changes in UK trade over recent years and the factors which affect the international competitiveness of UK goods and services. Their aim was to consider what could be done to improve the UK's international competitiveness and trading performance.

Since joining the EU the UK has removed all tariffs, quotas and other forms of protectionism which existed between the UK and other EU countries.

By the end of 1992 the 'Single Market' between EU countries had been completed. This involved the following:



The effect of the Single Market has been to create one large market covering all EU countries. Economists disagree over the exact impact of the Single Market on the UK economy.

**Fig. 1 – The EU Single Market**

“It’s a breeze doing business in Europe”, said the Managing Director of a West Midlands engineering company. This company has been transformed over the past ten years from one which sold mainly to the UK market to one which now relies on Europe for most of its sales. The Managing Director also said: “Paperwork is straightforward, there is lots of help and support. There are no trade barriers or customs issues and we have fewer problems shipping goods to Germany than we sometimes do shipping goods around the UK”.

One large market, which includes some of the world’s richest countries engaged in specialisation and trade, has made goods cheaper, labour cheaper and trade more secure and more competitive.

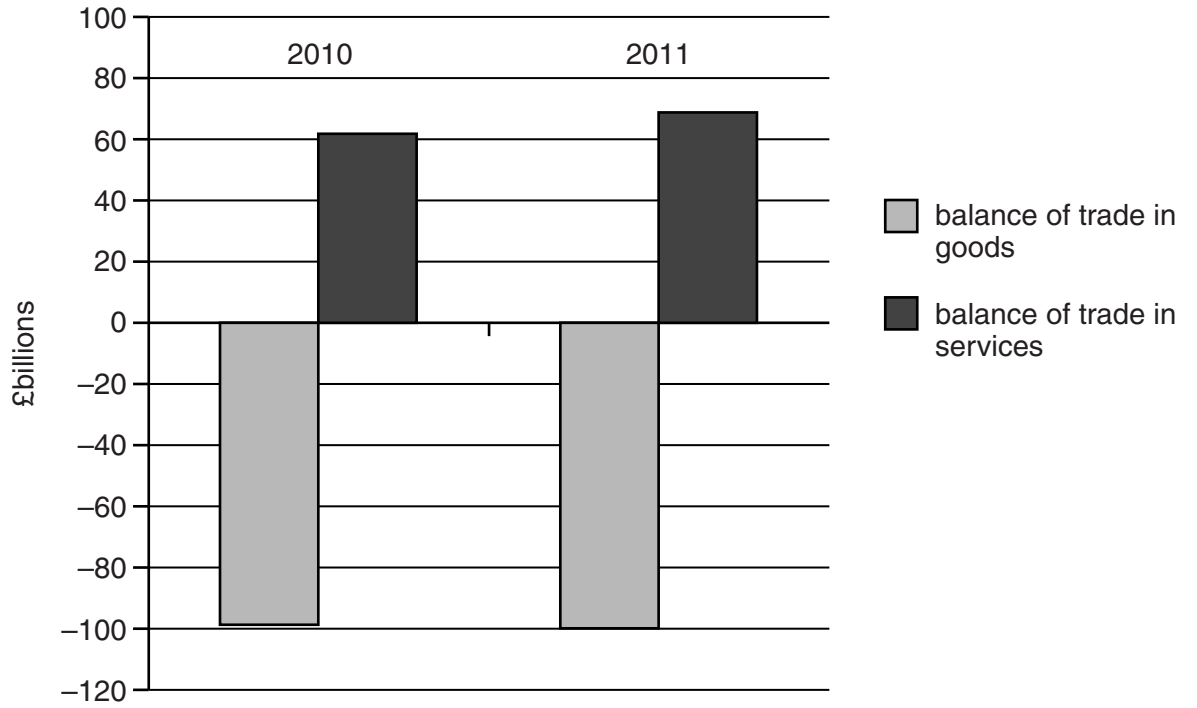
**Fig. 2 – Newspaper article on the impact of the Single Market, January 2012:  
‘West Midlands factory boss says it’s a breeze doing business in Europe’**

	<b>Exports 2010–11 (£millions)</b>	<b>% change on 2009–10</b>
<b>Belgium</b>	12 949	+19.5
<b>China</b>	7 055	+20.8
<b>France</b>	18 905	+14.3
<b>Germany</b>	27 539	+17.2
<b>Netherlands</b>	18 823	+9.5

**Fig. 3 – Value of UK exports to selected countries  
(1 November 2010–31 October 2011)**

	<b>Imports 2010–11 (£millions)</b>	<b>% change on 2009–10</b>
<b>Belgium</b>	15 729	+11.9
<b>China</b>	24 828	+7.1
<b>France</b>	19 138	+5.5
<b>Germany</b>	41 107	+8.7
<b>Netherlands</b>	23 019	+7.6

**Fig. 4 – Value of UK imports from selected countries  
(1 November 2010–31 October 2011)**



**Fig. 5 – UK balance of trade in goods and services, 2010 and 2011**



**Fig. 6 – The benefits of international trade for the UK**

The European Parliament has backed an agreement which will increase EU imports of beef from the USA and Canada, as well as helping EU food exporters. This ends a trade war which has lasted for over 20 years.

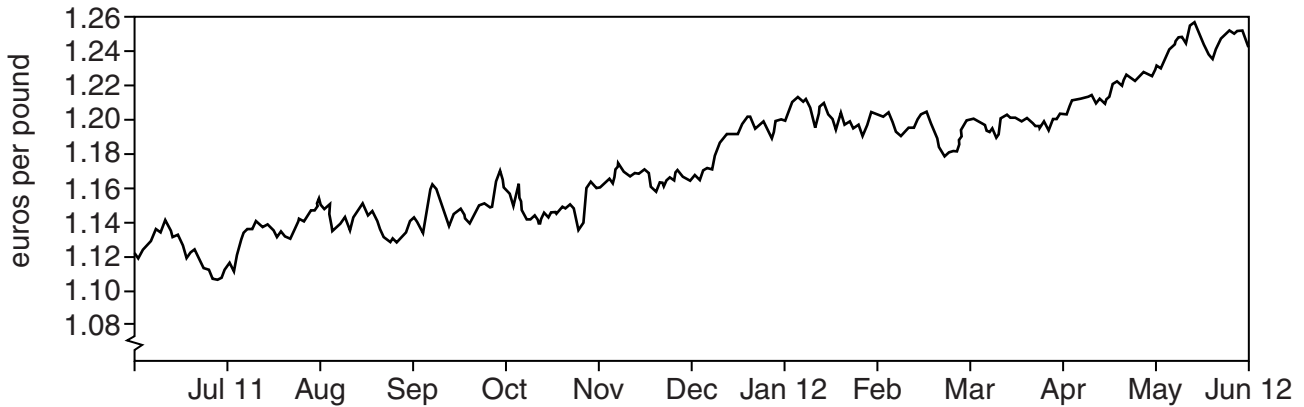
The new agreement sets an annual quota of 48 200 tonnes for high-quality beef imports from the USA and Canada from cattle which have not been treated with growth hormones. In exchange, the USA and Canada will lift import tariffs on a range of European farm produce, including some dairy products.

It leaves in place an EU ban on hormone-treated meat from the USA and Canada, even though the World Trade Organization ruled in 1997 that such a ban was illegal.

**Fig. 7 – News article on the end of EU-US trade war, March 2012:  
‘Agreement eases EU-US trade war over beef’**

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The Year 11 students discovered that one major factor determining the competitiveness of UK goods and services was the UK's Exchange Rate against the euro.



**Fig. 8 – The value of the UK pound in euros**

UK tourists travelling to eurozone countries in 2012 have benefited from the changes in the value of the pound, with the pound being worth more than 1.20 euros for the first time in over three and a half years. This means that these tourists are getting more for their money than they did in 2010 and in 2011.

One foreign currency expert predicts that this trend will continue: "It could reach 1.27 or 1.28 euros," he said. Another expert agreed with this and added: "We've seen the pound climb this year as the eurozone debt crisis has come to a head".

Another factor which has helped the pound to strengthen against the euro has been the decision of the European Central Bank to cut interest rates which has made the euro less attractive to investors.

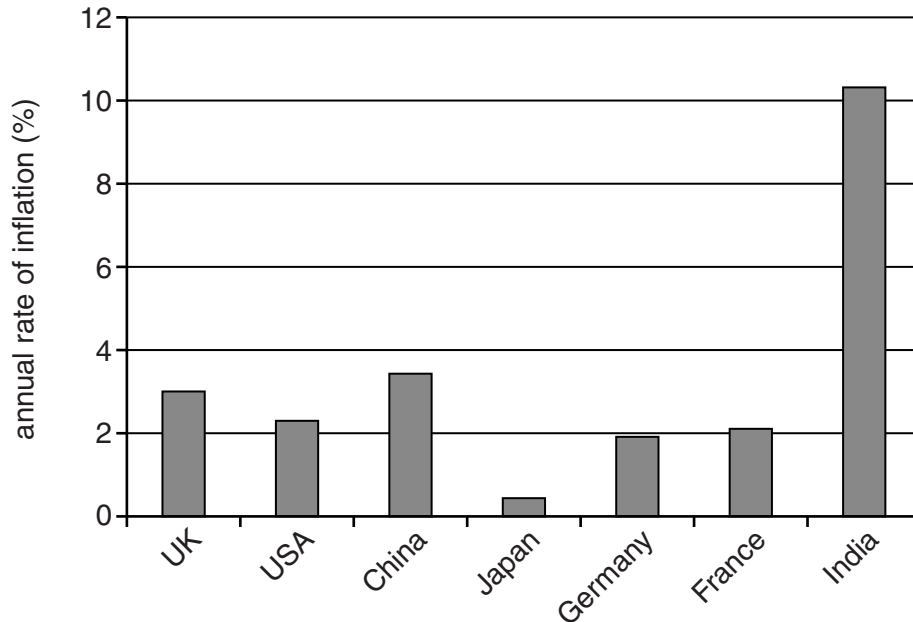
Whilst good for UK tourists travelling to eurozone countries on holiday, changes in the value of the pound are a mixed blessing to firms trying to compete in world markets.

**Fig. 9 – News article, May 2012:  
'Pound at 1.20 euros for tourists'**



Whilst the students found that the exchange rate was one important determinant of the competitiveness of UK exports, their research also found that the rate of inflation was another major factor. Furthermore, at the end of their project they realised that the need to improve international competitiveness was one of the main reasons why the UK government pursued economic policies aimed at reducing inflationary pressures in the economy and achieving 'price stability'.

The following data on the rates of inflation in selected countries was discovered by the students.



**Fig. 10 – Annual inflation rates in selected countries, May 2012**





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