

ECONOMICS

Higher Level

Friday 12 November 1999 (morning)

Paper 3

2 hours

This examination paper consists of 2 sections.

Section A consists of 2 Data-response questions.

Section B consists of 4 Essay questions.

The maximum mark for each question is 25.

The maximum mark for this paper is 50.

INSTRUCTIONS TO CANDIDATES

Do NOT open this examination paper until instructed to do so.

Answer ONE question from Section A and ONE question from Section B.

Use Diagrams where appropriate.

EXAMINATION MATERIALS

Required:

None

Allowed:

A simple translating dictionary for candidates not working in their own language

Calculator

889-042

6 pages

SECTION A

Answer ONE question from this section.

QUESTION 1

Examine the two tables and diagrams and answer the questions that follow.

Table 1 Annual Percentage Price Changes and Estimates (est)

	1991	1992	1993	1994 est	1995 est
Bulgaria	339	79	64	122	33
Hungary	32	22	21	21	28
Poland	60	44	38	29	22
Romania	223	199	296	62	28
Russia	144	2318	841	203	131
Ukraine	161	2000	10 155	401	180

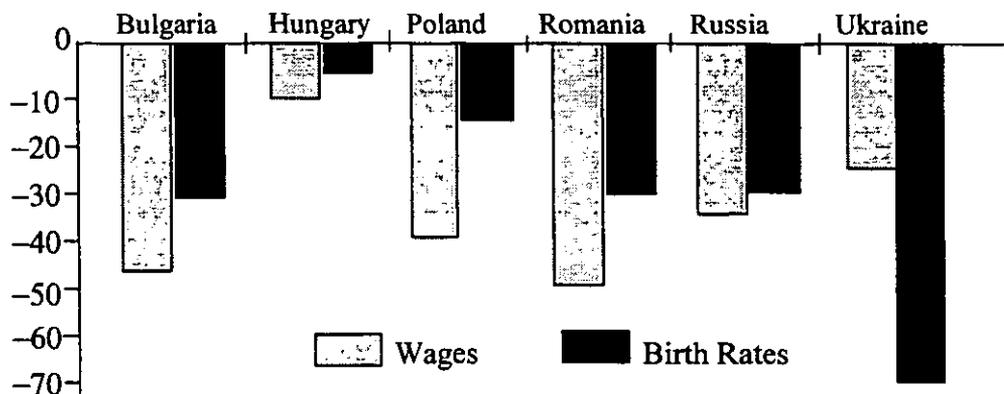
[Source: IMF]

Table 2 Annual Percentage Changes in Real GDP

	1991	1992	1993	1994	1995 est	Real GDP in 1995 1989 =100
Bulgaria	-12	-7	-2	1	3	75
Hungary	-12	-3	-1	3	2	86
Poland	-7	3	4	6	7	99
Romania	-13	-9	1	4	7	84
Russia	-13	-15	-9	-13	-41	55
Ukraine	-12	-17	-17	-23	-12	40

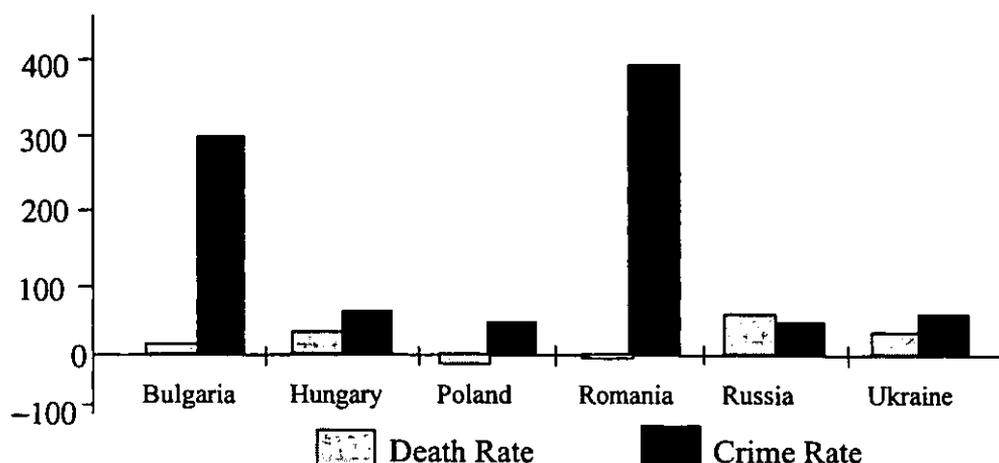
[Source: IMF]

Diagram 1 Percentage Change in Real Wages Rates and Birth Rates (1989 & 1995)



[Source: UNESCO]

Diagram 2 Percentage Changes in Death Rates and Crime Rates (1989 & 1995)



[Source: UNESCO]

- (a) (i) Which country recorded the highest annual inflation rate? *[1 mark]*
- (ii) Is it possible to say which country had the highest real GDP in 1995? Explain your answer. *[2 marks]*
- (b) Explain the technique used to show the change in GDP data in the right hand column (headed "Real GDP in 1995") of Table 2? *[3 marks]*
- (c) (i) From the data given in the tables and diagrams, what has happened to living standards in the six countries? *[5 marks]*
- (ii) What additional information would you require to be able to judge fully any changes in living standards? *[3 marks]*
- (d) From your knowledge of economic theory and the information given:
 - (i) What is likely to have happened to the level of unemployment in the six countries over this period? Explain your answer. *[4 marks]*
 - (ii) Explain why the changes shown in Table 1 and Table 2 have taken place. *[7 marks]*

QUESTION 2

Study the following data and answer the questions which follow.

Rich-poor divide could cause popular backlash, says UN

Charlotte Denny

(1) The growing gap between the world's rich and poor could unleash a popular backlash against global free trade according to a United Nations report.

(2) In a marked contrast to the upbeat assessment of global economic prospects delivered last week by the World Bank, the UN Conference on Trade and Development (UNCTAD) says in its report published last night that social and economic divisions among and within countries are growing. "There is no iron law of economics which says that poor countries will catch up with rich countries," the report says.

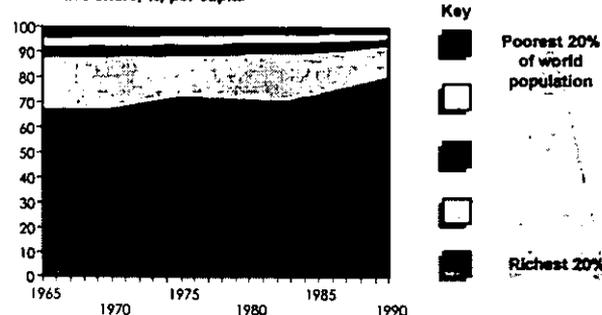
(3) Since 1990, growth in the global economy has averaged 2 per cent a year compared with 3 per cent in the turbulent 1980s and 5 per cent in the 1950s and 1960s. Growth in 1997 will be around 3 per cent, according to the trade body. "Such a relatively modest rate can solve neither the North's labour market problems nor the South's poverty problems, nor will it allow for the narrowing of the North-South divide."

(4) The report argues that developing countries should open their economies more gradually to world trade in order to reduce the costs of adjustment.

(5) Developed countries may need to introduce expansionary macroeconomic policies to offset the job losses caused

World income distribution

Cumulative share, %, per capita



View from the UN

On Globalization

Increased global competition does not automatically bring faster growth and development.

On impact of trade on wages for unskilled workers

In almost all developing countries that have undertaken rapid trade liberalisation, unemployment has increased and wages have fallen for unskilled workers.

On world growth

Growth in the world economy this year will again be too slow to make a significant dent on poverty in developing countries.

Trade and Development Report 1997, UNCTAD

by trade with the developing world.

(6) "A return to full employment policies is necessary to prevent a popular backlash against globalization," said Yilmaz Akyuz, chief macro-economist at UNCTAD.

(7) The rules of globalisation have been drawn up in favour of the world's richest countries, says UNCTAD. Trade in the areas where developing countries have a comparative advantage—

View from World Bank

On Globalization

There is a positive link between freeing markets and trade and the eradication of poverty in the long term.

On impact of trade on wages for unskilled workers

There is no evidence to justify fears that free trade pushes down wages for unskilled workers in developing countries.

On world growth

The prospects for the global economy are the most promising for many decades for growth and for poverty reduction in the developing countries.

Global Economic Prospects 1997, World Bank

agricultural products and labour-intensive manufacturing like clothing – is heavily protected, while trade barriers for high tech goods and services which rich countries produce are low.

(8) "Progressive redressing of these biases remains an important challenge... In future trade negotiations, it is necessary to restore balance to the agenda."

[Source: adapted from *The Guardian*, Tuesday, September 16 1997]

- (a) Define briefly the following terms mentioned in the text:
- (i) **globalization** (paragraph 6) *[2 marks]*
 - (ii) **comparative advantage** (paragraph 7) *[2 marks]*
- (b) (i) What is the main trend shown in the graph? *[2 marks]*
- (ii) Outline possible economic consequences of the main trend which you have identified in b (i). *[4 marks]*
- (c) Discuss the effects of
- (i) developing countries opening their economies more gradually (paragraph 4). *[4 marks]*
 - (ii) developed countries introducing expansionary macroeconomic policies (paragraph 5). *[4 marks]*
- (d) Identify the economic principles underlying the differing views of the UN and World Bank, and assess which view offers most to the world's poor. *[7 marks]*

SECTION B

Answer ONE question from this section.

QUESTION 3

- (a) Why do environmental issues cause problems to economists? *[10 marks]*
- (b) What solutions might an economist suggest for the problem of overfishing? *[15 marks]*

QUESTION 4

Is there a long term trade-off between inflation and unemployment? *[25 marks]*

QUESTION 5

“Most modern mass production processes can be performed in most countries and climates with almost equal efficiency.” Consider this statement with respect to the theories of comparative and absolute advantage. *[25 marks]*

QUESTION 6

A country decides to change from an inward orientated development strategy to an outward orientated development strategy.

- (a) What changes in economic policy would be made? *[12 marks]*
- (b) Discuss the likely consequences of this change in policy. *[13 marks]*
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