

**Modified Enlarged 36pt
OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

Thursday 23 May 2019 – Morning

A Level Economics

H460/02 Macroeconomics

Insert

**Time allowed: 2 hours
plus your additional time allowance**



SECTION A

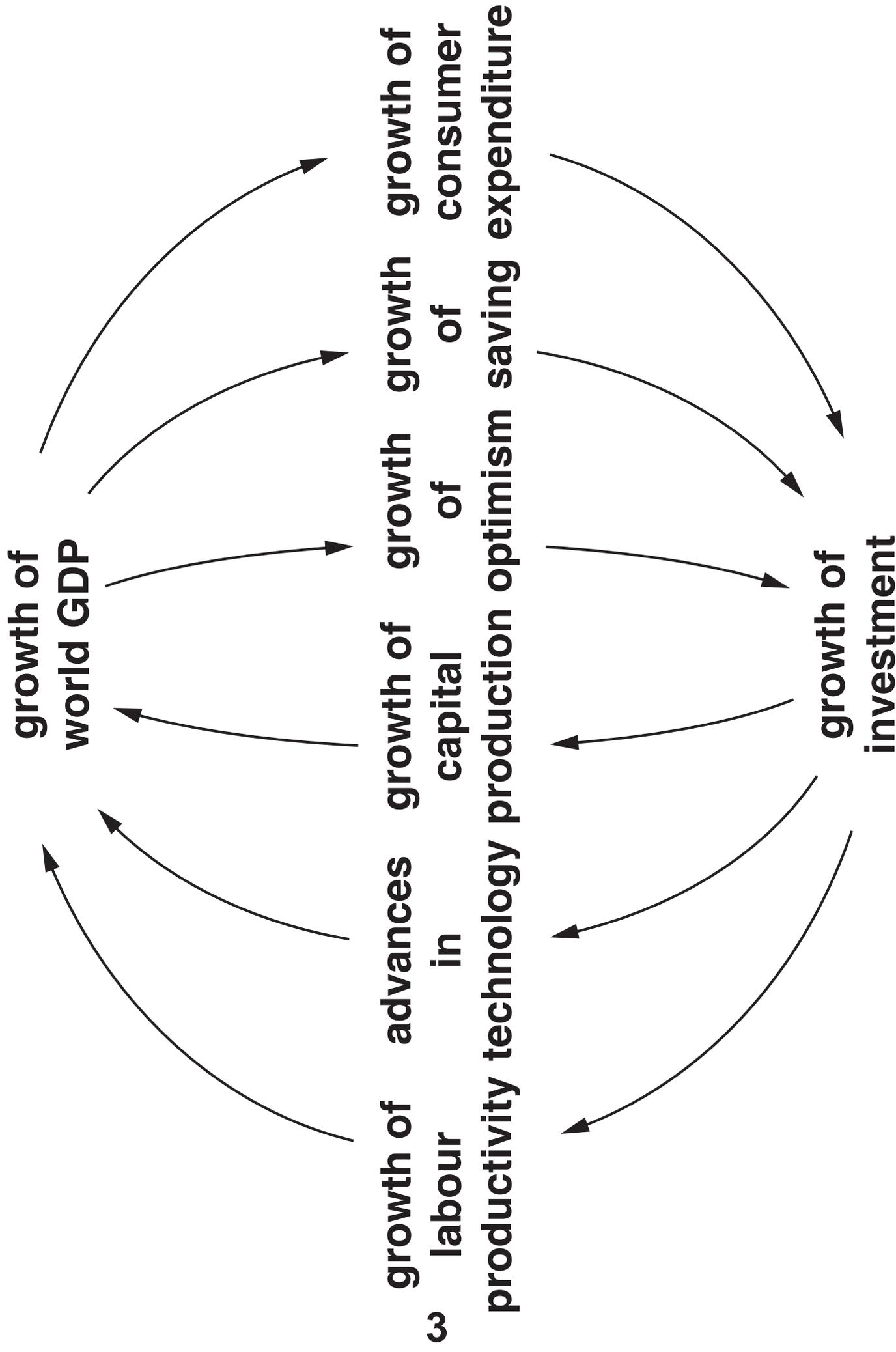
Read the following stimulus material and answer ALL parts of Question 1 in the Question paper.

Trade wars threaten globalisation

Trade wars were threatening the process of globalisation in 2018 and were restricting the ability of countries to exploit their comparative advantage and their absolute advantage. In the years before, advances in production and communication technology had lowered production and transport costs, had increased the ability of firms to move production around the world and increased the size of firms' markets.

World trade increased by 3.2% in 2017. This contributed to a growth in world GDP. Higher GDP can result in a virtuous circle as shown in FIG. 1.

FIGURE 1 A virtuous circle



While the benefits of globalisation are widespread, the costs are often concentrated in particular areas and among those unskilled workers who are geographically and occupationally immobile. One of the reasons why the US government imposed tariffs on steel imported from China was to protect the jobs of US steel workers.

Some economists are also concerned that globalisation can result in governments engaging in tax competition to keep firms and skilled workers in the country and to attract foreign MNCs and foreign skilled workers into the country. TABLE 1 shows government tax revenue and expenditure for selected countries in 2017.

TABLE 1 Government tax revenue and government expenditure 2017

| Country | Government tax revenue (US\$ billion) | Government tax revenue as a % of GDP | Government expenditure (US\$ billion) |
|----------------|--|---|--|
| China | 2672 | 22.4 | 3146 |
| Germany | 1598 | 43.8 | 1573 |
| India | 249 | 10.2 | 330 |
| Ireland | 85 | 26.2 | 87 |
| Russia | 254 | 17.3 | 288 |
| UK | 984 | 38.4 | 1076 |
| USA | 3336 | 22.0 | 3991 |

40 International competition may, on the other hand, encourage governments to spend more on education, training and health care to increase productivity and so attract foreign direct investment.

TABLE 2 shows the corporate tax rates and the foreign direct investment attracted by the same selected countries.

TABLE 2 Corporate tax rates and foreign direct investment 2017

| Country | Average corporate tax rate (%) | Foreign direct investment per head (US\$) |
|----------------|---------------------------------------|--|
| China | 25.0 | 1098 |
| Germany | 29.8 | 17 963 |
| India | 34.6 | 287 |
| Ireland | 12.5 | 295 400 |
| Russia | 20.0 | 3378 |
| UK | 19.0 | 30 852 |
| USA | 40.0 | 12 489 |

- 45 The UK economy is more affected by changes in the global economy than the USA. This is because it is a more open economy. The UK has a relatively high marginal propensity to import.**
- 50 Between 2016 and 2017, average UK household income rose from £26 300 to £27 400 while average household spending on imports rose from £4950 to £5280.**
- 55 The growth of the emerging economies, including China and India, is having an impact on the UK. For instance, Chinese steel firms have captured some of the UK's steel industry's**
- 60 market at home and abroad. Indian MNCs produced more than £26 billion of goods and services in the UK in 2016 and employed more than 100 000 workers in the UK.**



Copyright Information

OCR is committed to seeking permission to reproduce all third-party content that it uses in its assessment materials. OCR has attempted to identify and contact all copyright holders whose work is used in this paper. To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced in the OCR Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download from our public website (www.ocr.org.uk) after the live examination series.

If OCR has unwittingly failed to correctly acknowledge or clear any third-party content in this assessment material, OCR will be happy to correct its mistake at the earliest possible opportunity.

For queries or further information please contact The OCR Copyright Team, The Triangle Building, Shaftesbury Road, Cambridge CB2 8EA.

OCR is part of the Cambridge Assessment Group; Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.