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OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Tuesday 2 June 2020 – Morning

A Level Economics

H460/02 Macroeconomics

Resource Booklet



SECTION A

Read the following stimulus material and answer ALL parts of question 1.

Are low-income countries playing catch up?

The global economy is changing. It is becoming more integrated and China is moving towards becoming the world's largest economy. Lower costs of transport continue to increase the volume of international trade.

5 Producing in different countries and buying products from anywhere in the world are being made easier by advances in communications.

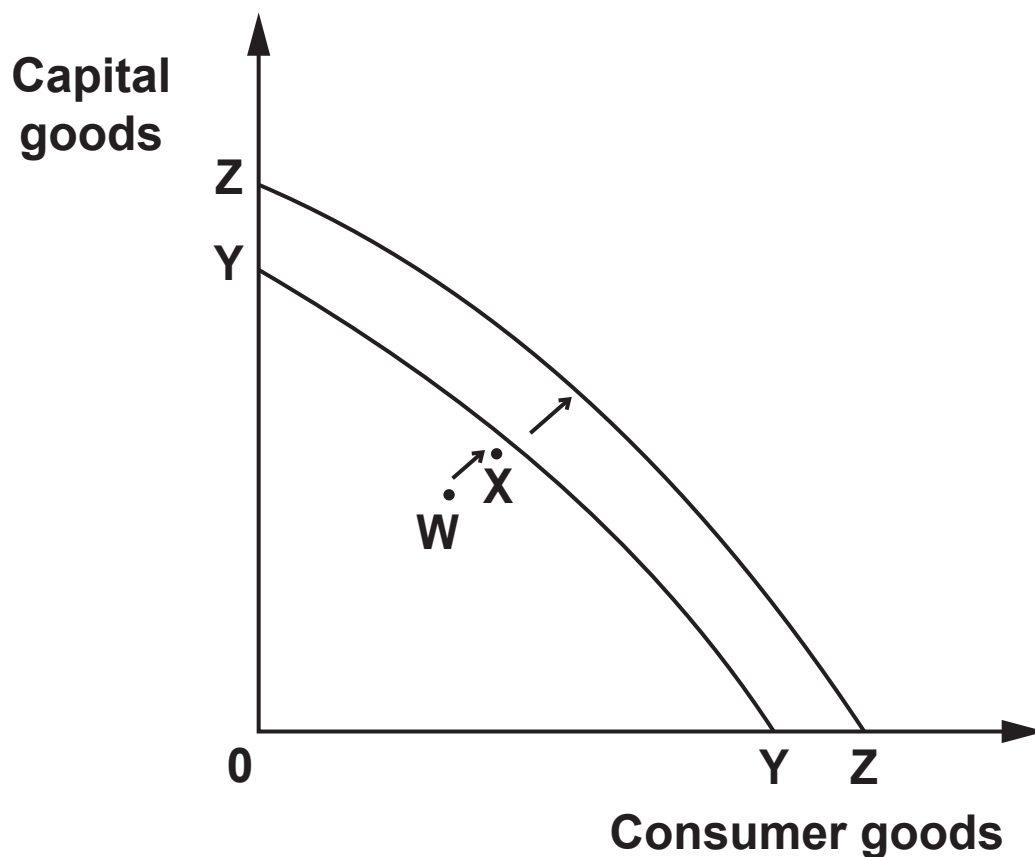
World trade grew by 4.4% in 2017 and is predicted to grow by 4.7% in 2018. China is accounting for a
10 higher proportion of this global trade and a higher proportion of global output. The country has experienced a significant rise in its GDP per head in recent years. This has had an impact on its citizens' life expectancy. Fig. 1 shows the average income and
15 life expectancy in a number of countries.

Fig. 1 GDP per head and life expectancy in selected countries 2017

Country	GDP per head (\$)	Life expectancy (years)
Bangladesh	4200	73.7
China	16 700	75.8
Egypt	12 700	73.2
Germany	50 800	80.9
Guinea	2200	62.1
Japan	42 900	85.5
UK	44 300	80.9
USA	59 800	80.1

Developments in the Chinese economy can be illustrated by both movements in the country's production possibility points and in the position of the production possibility curve as shown in Fig. 2.

Fig. 2 A country's production possibility curve and points



20 The Bangladeshi economy has also grown in recent years, but its growth has been more erratic. In 2017, the country's main export destinations were the USA, Germany, UK and France. Its main sources of imports were China, India, Singapore and Japan. In 2017,

25 the value of its exports to the UK was £2251 m while the value of its imports from the UK were £190 m. Bangladesh is also a recipient of UK overseas aid. In 2016, the UK government spent £13.4 bn on overseas aid, in line with its target of 0.7% of GDP. Bangladesh

30 was the 11th largest recipient, receiving £170 m. Fig. 3 provides some more information on the Bangladeshi economy.

Fig. 3 Details on the Bangladeshi economy 2017

	\$ billion
Consumer expenditure	191
Exports	50
Government spending	13
Investment	76
Imports	68
Tax revenue	25

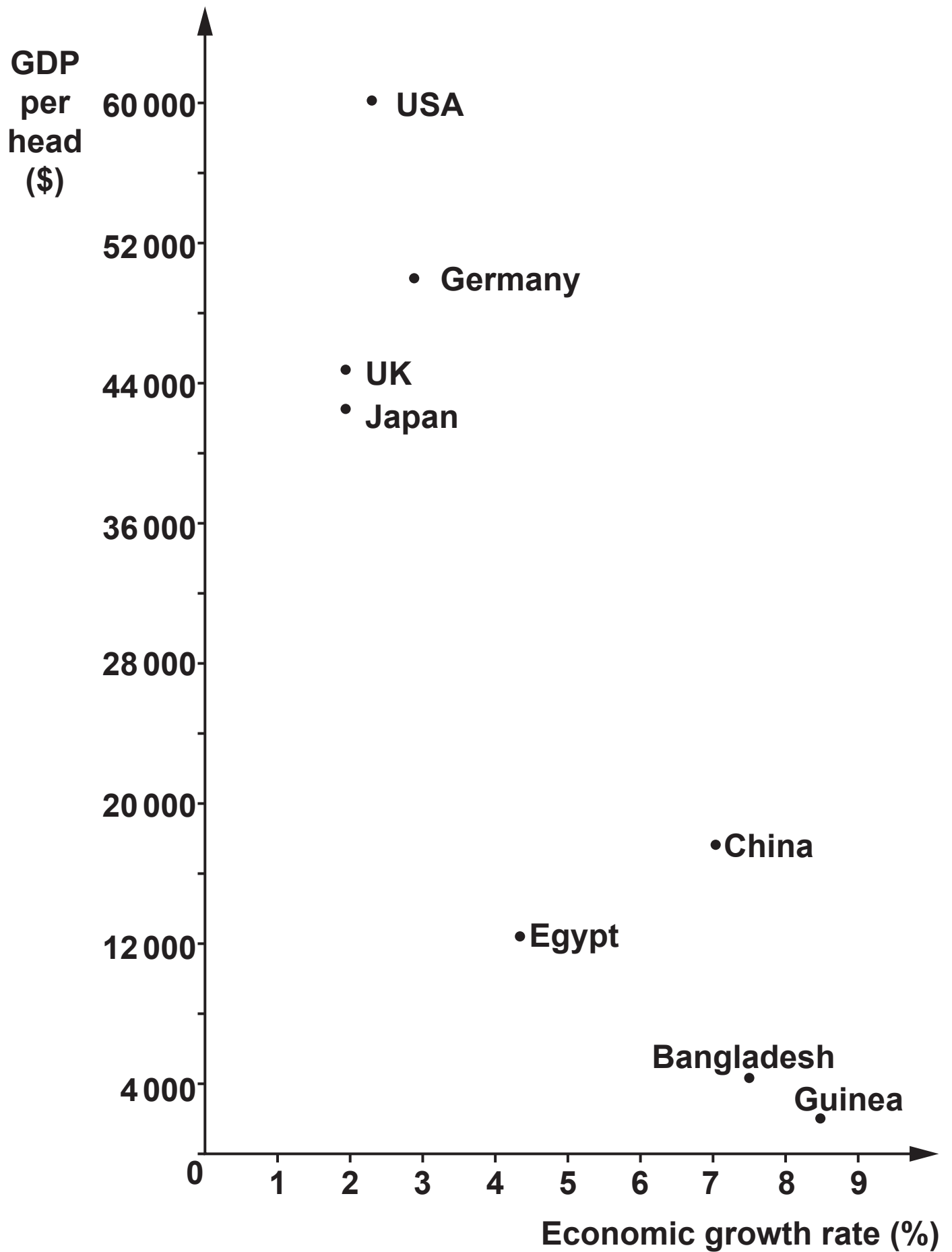
35 **Bangladesh's finance minister suggested in 2017 that he would cut the country's corporate tax rates as they are much higher than most other countries. He argued that such a move would increase the country's rate of economic growth.**

Some economists suggest that low-income countries are likely to grow more rapidly than high-income countries. Fig. 4 opposite shows GDP per head and economic growth rates of a number of countries.

People in low-income countries may have a greater incentive to work hard to improve their living standards. Perhaps more significantly, the countries may be able to take advantage of technology transfer from high-income countries and their relatively low wages may attract foreign direct investment. The countries may also have greater potential to reallocate resources from low to high value activities.

To date, Asian countries have been more successful in narrowing the income gap than African countries. A number of African countries have poor infrastructure, low labour productivity, rapidly growing populations and a lack of economic and political stability.

Fig. 4 GDP per head and economic growth rate of selected countries 2017





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