



Oxford Cambridge and RSA

Wednesday 6 June 2018 – Afternoon

GCSE ECONOMICS

A593/01/SM The UK Economy and Globalisation

STIMULUS MATERIAL



Duration: 1 hour 30 minutes

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Challenges for the World Economy – Is Economic Growth Sustainable?

With world trade growing more slowly since the global financial crisis, there is a lot of economic uncertainty. As a result, the level of protectionism has risen and this has contributed to a slower rate of economic growth in the world economy.

The World Trade Organization (WTO) promotes free trade. But, in 2016, the WTO reported that the 20 biggest economies in the world were introducing new protectionist measures at the fastest rate since the financial crash in 2008.

The rise in protectionism is partly explained by countries suffering from worsening current account balances.

For many developing economies, worsening current account balances are not the only serious problem. Another key problem is high levels of poverty. To deal with poverty and achieve sustainable economic development, developing economies require sustainable economic growth.

One of the factors that has helped some developing countries to achieve faster rates of economic growth is the use of new technology.

A group of economics students decided to investigate two issues:

- What are some of the different policies and methods that countries can use to support economic growth?
- What is sustainability?

They collected the following information through their research.

The students decided to start with the UK's current account. They found that the last time that the UK had a surplus on the current account of the balance of payments was in 1983.

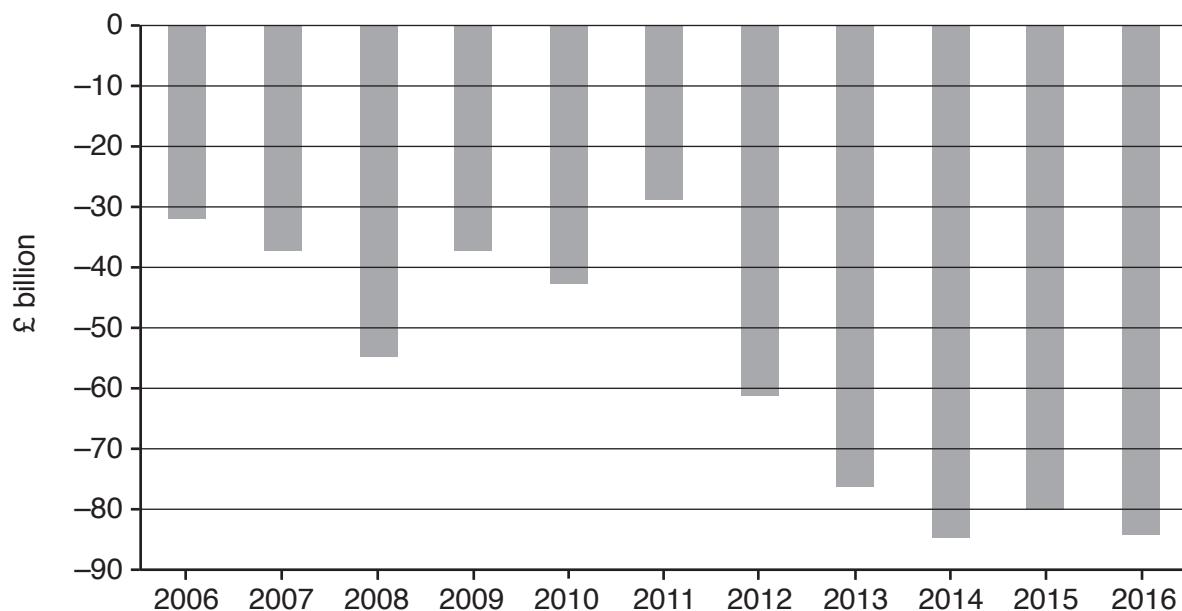


Fig. 1: UK Current Account Balance (£ billions 2006 to 2016)

The students knew from their own studies that the exchange rate might be one of the causes of the UK's current account deficit.

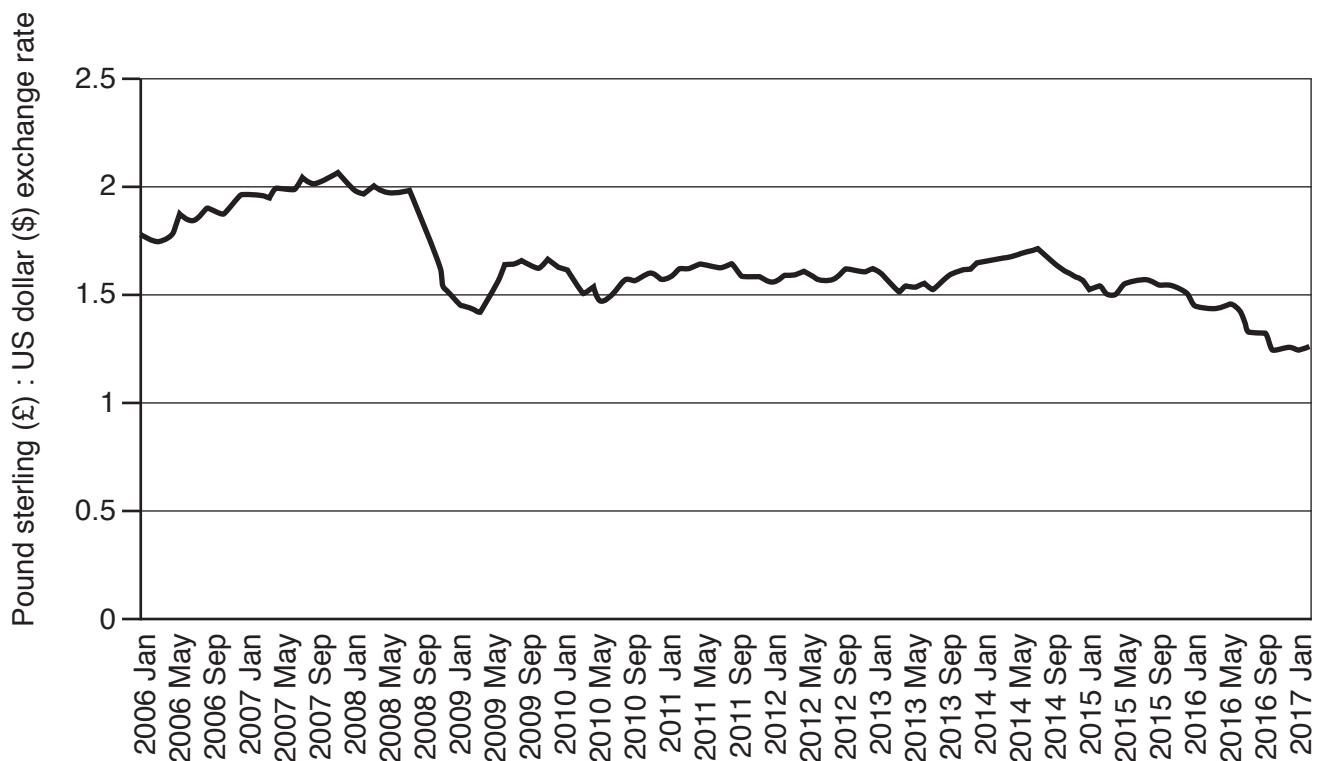


Fig. 2: The value of the pound sterling in US dollars (January 2006 to January 2017)

The students decided to find out how the UK's current account balance compared with other countries. They found that the UK had the second largest current account deficit in the world in 2015 at \$123.5 billion, with the largest being the United States at \$484.1 billion. The third highest, Brazil, was only \$58.91 billion.

They also found information about countries with current account surpluses.

Rank	Country	Current Account Balance (US \$ billions)
1	China	\$293.20
2	Germany	\$285.20
3	Japan	\$137.50
4	South Korea	\$105.90
5	Netherlands	\$80.99
6	Taiwan	\$76.17
7	Switzerland	\$75.82
8	Russia	\$65.80
9	Singapore	\$57.56
10	Italy	\$38.74

Fig. 3: The ten countries with the biggest current account surpluses in 2015 (US \$ billions)

The students read a report issued in 2016 by the WTO about the 20 biggest economies in the world. Some of the main findings were:

- Prospects for world trade in 2016 and beyond remain uncertain.
- There was a significant increase in protectionist measures introduced in 2015–2016, which has increased the total number of protectionist measures by 10%.

Fig. 4: WTO Report on Trade Measures (Mid-October 2015 to Mid-May 2016)

Further research found the following examples of protectionism from a range of countries:

India introduces export subsidy for sugar exports

United States imposes 20% import tariff on Canadian softwood

Fuel for official cars in Argentina can only be bought from state-owned oil company

Food standards in the EU reduce beef exports from Brazil and Argentina

China gives production subsidies to its glass and paper industries

United States continues with import quotas on sugar

Brazil cuts sales tax on cars that are produced with more domestic components

Fig. 5: Examples of protectionism

In many developing countries, the issues go beyond the balance of payments and the rise of protectionism.

The World Bank defines poverty in absolute terms. Since 2015, absolute (or extreme) poverty has been defined as living on \$1.90 or less per day.

World Bank data suggests that global poverty may have fallen to 700 million people, or 9.6 percent of the global population, in 2015.

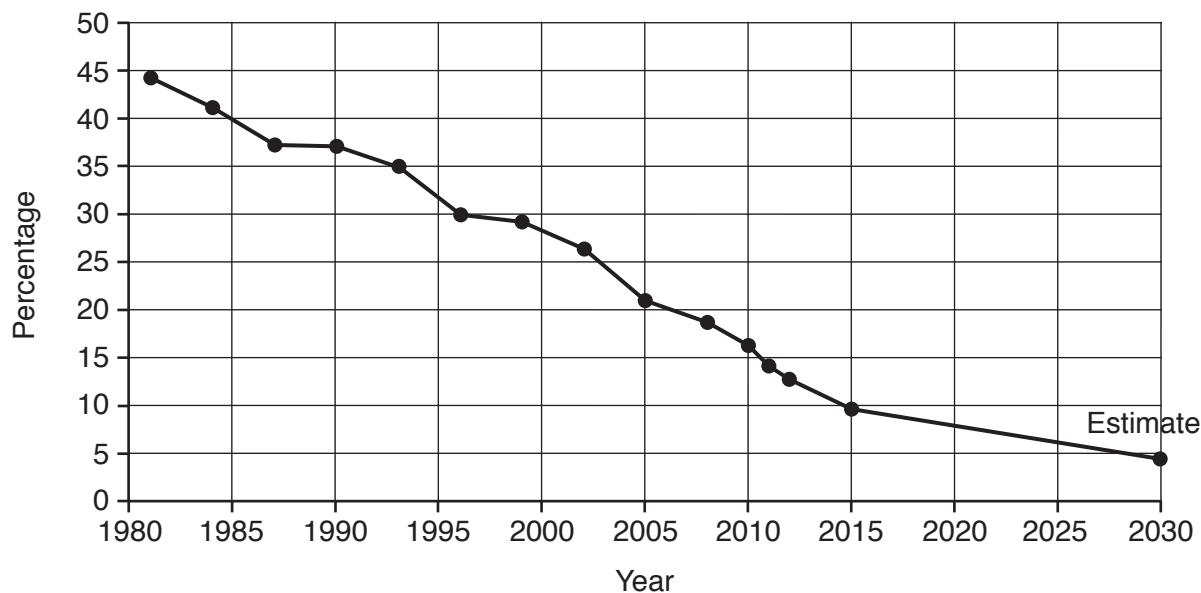


Fig. 6: Percentage of world population living on less than \$1.90 per day (World Bank data 1981–2015) (N.B. Figure for 2030 is an estimate)

Global poverty has fallen over the past 25 years. Most of this fall is explained by the fall in the level of poverty in China. The level of poverty in Sub-Saharan Africa is much higher and has not fallen as fast.

In many countries, having a job does not mean an escape from poverty.

Also, in many countries there are few decent job opportunities and insufficient investment. So, progress is not shared by all. The creation of quality jobs remains a major challenge for most economies.

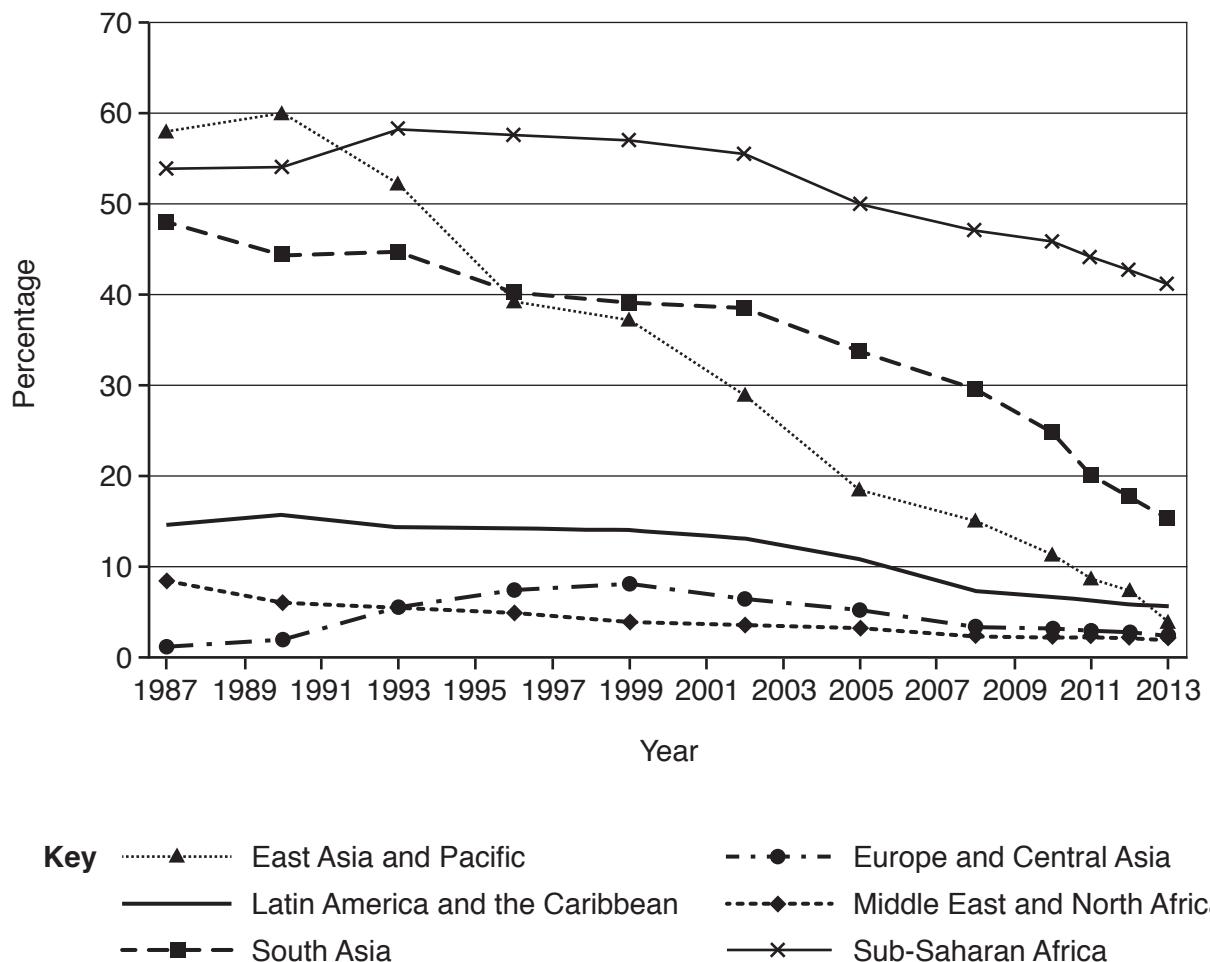


Fig. 7: Percentage of the population living in absolute poverty in regions of the world (1987–2013)

Developing countries often require support to be able to grow faster and to develop. One way they can be supported is by non-governmental organisations (NGOs).

NGOs are non-profit organisations independent of government (although they may receive funding from government).

Examples of NGOs include the Red Cross, Oxfam, Save The Children, World Vision, Médecins Sans Frontières/Doctors Without Borders (MSF), Room to Read, the Grameen Foundation, Greenpeace and the World Wildlife Fund.

NGOs are often involved in the following ways:

- Poverty reduction
- Supporting women
- Supporting children
- Providing microfinance
- Providing education, health care and sanitation
- Emergency and disaster relief
- Environmental protection.

NGOs are now seen as very important in developing countries.

Fig. 8: An introduction to non-governmental organisations

One factor that has helped some countries to grow their economies and progress is the use of new technology.

The growth of the internet	Communications	Satellites	Transport
<ul style="list-style-type: none"> • E-commerce • Access to information 	<ul style="list-style-type: none"> • Mobile phones • Text messaging • Email • Broadband • Digital 	<ul style="list-style-type: none"> • Global Positioning System (GPS) • Weather warnings 	<ul style="list-style-type: none"> • Supertankers • Containerisation • Superjumbo aircraft • High speed trains
Energy	Manufacturing	Financial services	Medical care
<ul style="list-style-type: none"> • Solar power • Wave power 	<ul style="list-style-type: none"> • Automated production • Robotics 	<ul style="list-style-type: none"> • Money transfers • Microcredit • Internet banking 	<ul style="list-style-type: none"> • Scanners • Operating equipment • Drug treatments

Fig. 9: Examples of new technology

Globalisation has led to faster economic growth for many countries. This has increased the rate of economic development in many poorer countries. But, there has been increasing concern about climate change and environmental issues. Is all this growth sustainable?

One definition of 'sustainable' states: 'Meeting the needs of the present without compromising the ability of future generations to meet their own needs.'

Sustainable economic growth will require countries to create the conditions that allow people to have quality jobs that stimulate the economy, whilst not harming the environment.

In September 2015, world leaders agreed the United Nation's 17 Sustainable Development Goals. These Goals mean that by 2030, countries will aim to end all poverty, fight inequalities and tackle climate change and, at the same time, make sure that no one is left behind.

All countries must act to promote prosperity whilst protecting the planet. Ending poverty must go together with strategies that build economic growth. Education, health, and job opportunities must be addressed. Climate change and environmental protection must be tackled.

Fig. 10: An introduction to sustainability



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