

Practice papers: Economics ‘B’

Paper 3: The economic environment and business

For Edexcel’s Economics ‘B’ A level in 2018

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Contents

These Practice papers are designed to give teachers assessment tools which they may use to prepare students for the examination on 15th June 2018. They are based around the 2018 pre-release material on the subject of *Globalisation*.

Each of the three practice papers has the following key features:

1. They are laid out in the general format of the Paper 3 examination, and so help students to become familiar with the approach which they will face when they sit the Paper.
2. Accompanying each practice paper is a mark scheme, based around Edexcel’s own mark scheme. These both assist teachers in marking students’ work, and help students understand what they need to do to improve their mark.
3. Also accompanying each practice paper is a set of suggested answers. These are rather longer than most students would have time to produce in an examination setting, and also contain more analysis and detail than students would be expected to know. They inevitably contain some points of view personal to the author, and this is particularly the case with the politically charged issues associated with inequality. With the exception of multiple choice questions, there is of course no such thing as a single ‘right’ answer.

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February 2018

Pre-release summary

Bullet point	Pre-release	Matching specification content	Practice Paper 1	Practice paper 2	Practice paper 3
1	The history of globalisation and key factors in its growth over the last 50 years	2.4.1 Globalisation; 3.1.1 Growing economies 3.1.2 Trade and growth 3.2.1-2 Conditions that prompt trade	1a, 1b	1a, 1b	1a, 1b
2	The impact of globalisation on individuals, business and local and national economies	2.4.3 International trade 2.4.4, 3.1.5 Exchange rates 3.1.3-4 Trading blocs & policy 3.3.1-2 Impact of globalisation on global companies	2d	2a, 2c, 2d	2b, 2d
3	The advantages and disadvantages of globalisation	All of specification from bullet points 2, 4 and 5	1d, 2a, 2b, 2c	1d	
4	The links between globalisation, trade and economic growth for developed and developing economies	2.4.2 Developed & developing economies 3.4.1-3 Impact of MNCs, ethics 2.4.3; 3.1.2; 3.1.3-4 again			1d, 2a, 2c
5	The impact of globalisation on labour and inequality	3.6 Inequality & redistribution 3.4.1-3 again	1c,	1c, 2b	1c

Write your name here	
Surname	Other name
Economics B	Centre Number: <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
	Candidate Number: <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
Paper 3: The economic environment and business	
Practice paper No. 1	
Date:	Paper Reference
Time: 2 hours	9EB0/03
You do not need any other materials.	Total Marks

Instructions

Use **black** ink.

Fill in the boxes at the top of this page with your name, centre number and candidate number.

Answer **all** questions.

Information

Total marks for this paper is 100.

The marks for each question is shown in brackets.

Advice

Read each question carefully.

Keep an eye on the time.

Try to answer every question.

Check your answers if you have time at the end.

Answer all questions.

SECTION A

Read the following extract (A and B) and Figures 1 and 2 before answering Question 1.

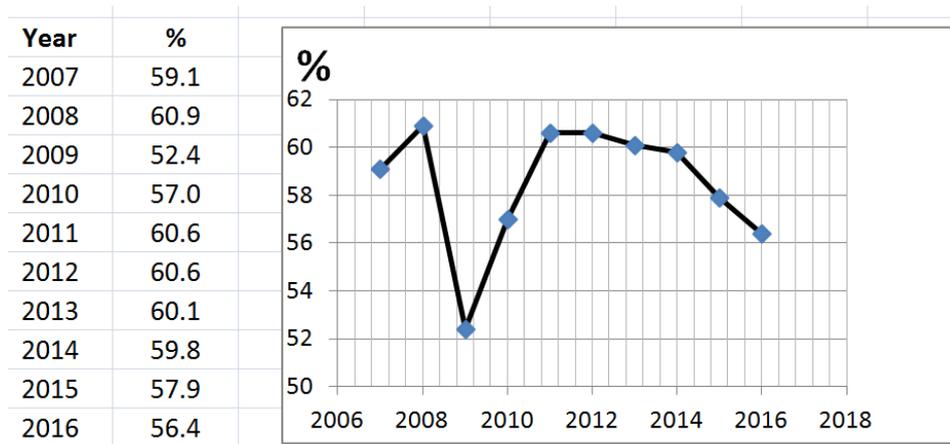
Figure 1

World exports plus imports as a % of world GDP, 1960-2016



Figure 2

World exports plus imports as a % of world GDP, 2008-2016



Extract A

The steel shipping container

The technological advance which has contributed the most to reducing transport costs is the humble steel shipping container. Incredible as it may seem, up until the 1960s ships were loaded in the same way as you might load a car boot. Varying items of all shapes and sizes were individually man-handled into the ship's hold and neatly stacked on top of, and next to, each other by an army of dockworkers. It

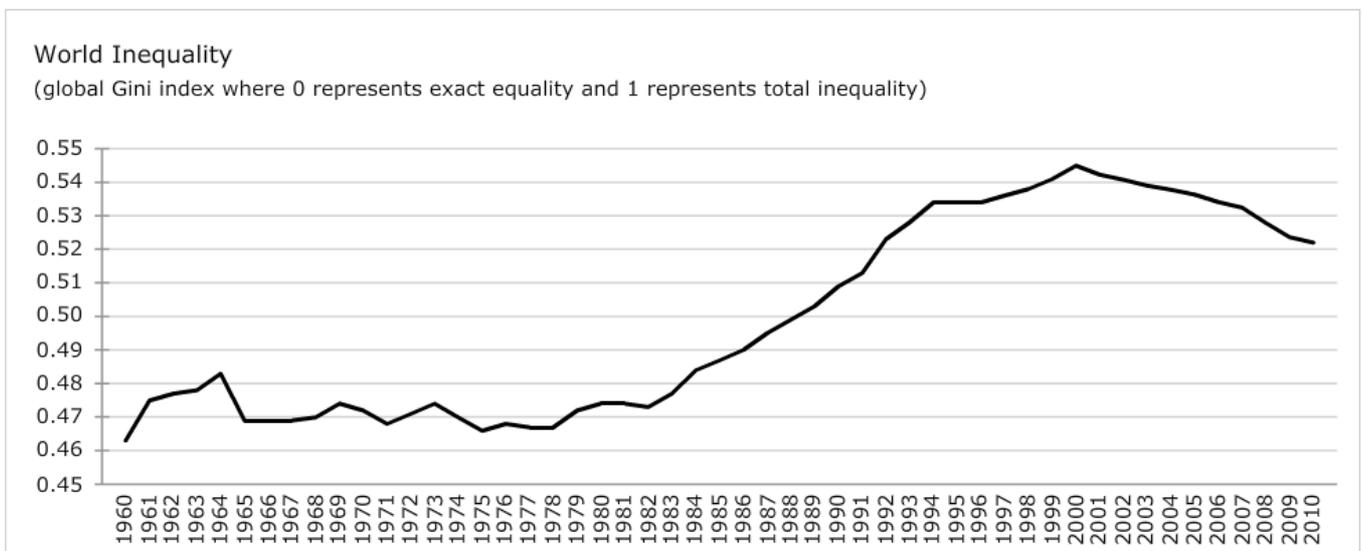
was only in the 1950s that an American trucker, Malcolm McClean, realised he could transport his trucks up and down the Eastern seaboard of the USA more cheaply if he loaded the trucks onto ships. Then he realised he could get more trucks inside a ship if he left the wheels and the cab on-shore. What he was left with was the steel cuboid that forms the body of a truck – and so the steel shipping container was born.

This very simple technological advance means that today, in 2017, it costs just \$425 to ship a twenty-foot shipping container from New York to Rotterdam in the Netherlands. The equivalent cost for transporting a similar-sized truck-load of goods in 1960, adjusted for inflation, was \$4,804.

Main source: The Box, by Marc Levinson, 2006

Extract B

Since the Industrial Revolution got underway in earnest around 1800 global inequality worsened for the next 200 years. As we moved from a world where the vast majority earned a living from subsistence farming to one where the majority earned a living in manufacturing and services so the benefits of new technologies were spread unevenly as they were adopted at vastly different speeds across the globe. There are, however, signs that from the start of the 21st century, as the clear majority of the world's population has access to new technologies, this trend has been going into reverse. This is shown in the diagram below.



Source: Conference Board of Canada, 2013

Questions

- 1 (a) Using an appropriate calculation from Figure 2, discuss the extent to which globalisation may have slowed down since the 2008-09 recession. **(8)**
- (b) Using Extract A, assess the extent to which advances in technology have been a factor in the growth of globalisation. **(10)**
- (c) Using Extract B, assess whether globalisation has reduced inequality over the past 50 years. **(12)**
- (d) Evaluate the argument that the advantages of globalisation outweigh the disadvantages. **(20)**

SECTION B

Read the following extracts (C to E) and Figure 3 before answering Question 2.

Extract C

British blueberry and raspberry grower moves production to China

Haygroves farm in Herefordshire in the West of England is relocating some of its operations to Yunnan province in China because it is not sure that, after Brexit, fruit pickers from the EU will be allowed in to pick fruit. Angus Davison, the founder of the company with a turnover of £101 million, plans to reduce his seasonal workers in Britain from 1,150 to 950 to avoid the risk of planting crops that will simply rot in the fields due to a shortage of fruit pickers. He says, “Agriculture, unlike construction and hospitality, can be [relocated]. If enough people are not available to do the work, the work can be taken to the people.”

He has already started planting in Yunnan province where he says the local Yunnan governor has a “remarkable understanding” of blueberry growing and has “instilled confidence and positivity in his business”. The alternative of getting British workers to pick fruit didn’t work as they find the work too hard, his farm manager said. “In the past two years, no English people have worked here. We had some graduates once; they didn’t last a day”.

Press reports, 2018

Extract D

The development of China’s blueberry industry

The Chinese neither grew nor ate blueberries prior to 1999. After a slow start, the industry has developed in the past ten years at an insane pace. This has been given a boost by the fruit’s reputation as a ‘superfood’. Some nutritionists believe that if you make only one change to your diet, it should be to add blueberries. Die-hards claim blueberries can help protect against heart disease and some cancers, as well as improve your memory. By 2017, the Chinese were producing 115,000 tons a year, out of a global total of 655,000 tons. Chinese imports have been growing rapidly too, with a 43% increase recorded in the first half of 2017, up from 8,722 tons the year before. In the light of China’s growing importance in the market, they hosted the International Blueberry Organisation’s annual conference for the first time in 2017. 41% of the world’s blueberries are still grown in the USA and Canada, but production is widely dispersed across countries in Europe and South America too.

CHINESE PRODUCTION

	Area (hectares)	Output (tons)
2007	1,338	400
2008	2,404	N/A
2009	4,646	1,800
2010	8,101	N/A
2011	11,281	4,100
2012	18,462	N/A
2013	20,366	12,000
2015e	N/A	32,300
2018e	N/A	71,400

PER-CAPITA CONSUMPTION

Unit: grams

China	50
Poland	134
Germany	140
Japan	250
Norway	323
Chile	552
United States	778
Canada	2,666

Source: press reports, 2018

Extract E

Japanese earthquake and tsunami disrupt global supply chains

On March 11th, 2011, Japan was hit by a very large earthquake, the fourth most powerful ever recorded since modern records began in 1900. The centre was 40 miles off the Japanese coastline and created a devastating tsunami, which travelled up to six miles inland and was responsible for almost all of the 15,800 deaths. Over 120,000 buildings totally collapsed with over one million damaged. World Bank estimates put the total cost in the region of \$235 billion, making it the costliest natural disaster ever. Additionally the Fukushima nuclear power station melted down, leaking radioactivity into the air when the tsunami knocked out its power supply.

The worst affected region of Japan was a centre of high-tech manufacturing that produced about 22% of the world's silicon chips and 60% of some essential automobile components. With suppliers under pressure to reduce costs, they have responded by becoming more and more specialised so that even one small part may be manufactured by six or eight different suppliers in as many different countries before it is finally assembled.

Professor Shih describes how modern supply chains work, “In the race to provide better quality at lower prices, manufacturers have picked these very [specialised] supply chains. They put all of their eggs with one supplier who had the best product at the lowest price ... We have highly concentrated pockets of expertise in small areas around the world. It's how we've designed modern production systems ... This kind of disaster cuts a wide swathe across the automobile industry, but there's probably some similar geographic area that, if hit, would affect a different industry.”

Source: press reports, 2011

Figure 3: Percentage of logistics (transport) companies concerned about risks

Supply Chain Security Risks	Global	Asia
Theft of material goods	74%	79%
Tampering with material goods	32%	41%
Theft of Intellectual Capital	26%	31%
Other Material smuggled with the shipments	19%	15%
Spoilage of food products creating health risks	11%	8%
Natural disaster disruptions	33%	29%
Terrorist Attacks	17%	16%
Vandalism of Supply Chain Assets	12%	9%

Questions

2a Using a suitable calculation from Figure 3, discuss the risks arising from operating global supply chains. **(8)**

2b Assess the likely impact of Brexit on British fruit growers. **(10)**

2c Assess the extent to which global supply chains are beneficial to the consumer. **(12)**

2d Evaluate the likely impact of globalisation on the blueberry industry. **(20)**

Practice paper 1 – Mark scheme

General marking guidance:

1. The ‘possible content’ below gives suggestions for what a candidate might write. However, any relevant content should be rewarded.
2. Where a question directly mentions some of the stimulus material then this **must** be referred to in the answer in order to get full Application marks. Other references based on the candidate’s own knowledge may also be rewarded.
3. Markers should use the full range of marks. They should not hesitate to give full marks for any question where the requirements of the mark scheme have been fully met. Equally, an answer that meets none of the criteria should always be given zero.

Question 1a	Deciding on the correct level	Mark
Level		Max: 8
	An answer with no merit.	0
Level 1	Occasional elements of knowledge, very little application, unconvincing arguments, no clear answer to question.	1-2
Level 2	Some knowledge and application, developed arguments, limited judgement.	3-5
Level 3	Convincing knowledge and application, well-developed arguments and balanced judgement.	6-8

Question 1a	Using an appropriate calculation from Figure 2, discuss the extent to which globalisation may have slowed down since the 2008-09 recession.	Mark scheme
Level		
Knowledge	Increasing world trade as a proportion of world GDP one sign of globalisation, as indicates economies are becoming more integrated.	2
Application	Figure 2 shows this ratio peaking at 60.9% in 2008, followed by a decline to just 56% in 2016, an 8.0% reduction. Suggests a substantial slow down.	2
Analysis	However, slow-down may only be temporary: compare 1980-1990 from Figure 1 when a similar slow-down occurred only to be followed by two decades of solid growth.	2
Evaluation	Globalisation is measured by more than one metric. For example, there have been substantial increases in migration since 2008-09 particularly into Europe. But this must be balanced against political skepticism of globalisation, as indicated by the 2016 Brexit vote and the 2017 election of an ‘America First’ US President.	2

Question 1b	Deciding on the correct level	Mark
Level		Max: 10
	An answer with no merit.	0
Level 1	Occasional elements of knowledge, very little application, unconvincing arguments, no clear answer to question.	1-2
Level 2	Some knowledge and application, developed arguments, limited judgement	3-4
Level 3	Convincing knowledge and application, well-developed arguments and some attempt at balanced judgement.	5-7
Level 4	Convincing knowledge and application, well-developed and evaluated arguments, impressive focus on question throughout, and an informed, personal and balanced judgement.	8-10

Question 1b	Possible content: Using Extract A, assess the extent to which advances in technology have been a factor in the growth of globalisation.	Mark scheme
Level		
Knowledge	Advances in technology often reduce costs; in the case of the steel shipping container and associated infrastructure, transport costs. These have fallen by 90%.	2
Application	International trade will take place more frequently if the costs involved are lower. Figure 1 shows how, from 1960, world trade has soared as a percentage of GDP from 25% to 60% in 2008.	2
Analysis	Part of this will be due to reduced transport costs. Other technological advances that have reduced the costs of doing business at long distance include the invention of email, the world-wide web and free video-calling such as Skype. These lead to 'the death of distance', a key feature of globalisation.	3
Evaluation	However, other factors will also be significant. Primarily political decisions led to the opening up of China and the former Soviet Union, while global reductions in trade barriers due to the work of the WTO and bilateral trade agreements have also played their part. Capital liberalisation and more relaxed attitudes to global migration are also significant.	3

Question 1c	Deciding on the correct level	Mark
Level		Max: 12
	An answer with no merit.	0
Level 1	Occasional elements of knowledge, very little application, unconvincing arguments, no clear answer to question.	1-2
Level 2	Some knowledge and application, partially developed arguments, limited judgement.	3-5
Level 3	Convincing knowledge and application, well-developed arguments and some attempt at balanced judgement.	6-9
Level 4	Convincing knowledge and application, well-developed and evaluated arguments, impressive focus on question throughout, and an informed, personal and balanced judgement.	10-12

Question 1c	Possible content: Using Extract B, assess whether globalisation has reduced inequality over the past 50 years.	Mark scheme
Level		
Knowledge	Inequality can be measured by the Gini coefficient. Extract B looks at global Gini; it is also possible to use the metric to measure the extent of inequality within an individual country.	2
Application	Extract B shows global inequality peaking around the year 2000 at 0.54 before falling slightly by 2010 to 0.52	2
Analysis	Globalisation can operate either way, either increasing or reducing inequality. It is noticeable that the sharp increase in inequality since 1982 follows on from the explosive economic growth of China from 1978 onwards. Since China has such a high proportion of the world's population, the rapid emergence of a numerically large Chinese middle class from 1980 to 2000 probably explains most of the increase in global inequality. China's own growth is largely attributable to globalisation, and particularly the rapid growth of Chinese exports. Equally, as globalisation really starts to impact positively on most countries in the world outside Africa so inequality starts to fall together with the numbers experiencing absolute poverty.	4
Evaluation	However, globalisation is not the only possible explanation for these trends. Rapid technological advances in computing and the internet in the 1980s and 1990s respectively may also have driven inequality up as a 'technologically rich' middle class leverage the gains. Then, from 2000, more and more of the world's population becomes connected to the web and inequality starts to fall. Conclusion: looking at Extract B, globalisation has not yet reduced inequality compared to the 1960 start point. But as the processes of globalisation reach more and more of the world's poor so inequality is likely to continue to fall from its 2000 peak.	4

Question 1d	Deciding on the correct level	Mark
Level		Max: 20
	An answer with no merit.	0
Level 1	Occasional elements of knowledge, very little application, unconvincing arguments, no clear answer to question.	1-4
Level 2	Some knowledge and application, partially developed arguments, limited judgement.	5-9
Level 3	Convincing knowledge and application, well-developed partially evaluated arguments and some attempt at balanced judgement.	10-15
Level 4	Convincing knowledge and application, well-developed and fully evaluated arguments, impressive focus on question throughout, and an informed, personal and balanced judgement showing some sophistication.	16-20

Question 1d	Possible content: Evaluate the argument that the advantages of globalisation outweigh the disadvantages.	Mark scheme
Level		
Knowledge	Definitions of globalisation. Contrast definitions that focus narrowly on economic outcomes compared with broader social impact.	4
Application	Figures 1 and 2 show economic benefits in terms of closer integration, while Extract B shows ambiguous impact of social measures such as inequality. What these figures don't show is the impact of globalisation on culture, and particularly the dissatisfaction caused by rapid immigration as reflected in the Brexit vote.	4
Analysis	Increasing international trade, a feature of globalisation, has two main economic benefits a) gains from trade arising from each country specializing in the goods and services they are relatively best at producing; b) the increased productive efficiency and economic welfare gained from the more competitive market structures that international trade brings. These gains are best exemplified by the astonishing export-led growth of China whose GDP rose at an average of 10% pa from 1978 to 2013. Increased exposure to other languages, cultures and food carries their own social benefits too.	6
Evaluation	On the other hand, while globalisation brings 'diffuse benefits' it also has concentrated costs. These are paid for by stakeholders in national industries that are globally uncompetitive e.g. much manufacturing in the West that has migrated to China. In Britain, coal mining, ship-building and garment and steel manufacturing have been all but wiped out. The extent of these costs depends mainly on the speed with which changes happen and the flexibility of newly-redundant employees to retrain elsewhere. This is harder for the old: as with any rapid change globalisation works better for the young than the old.	6

Q 2a	Deciding on the correct level	Mark
Level		Max: 8
	An answer with no merit.	0
L 1	Occasional elements of knowledge, very little application, unconvincing arguments, no clear answer to question.	1-2
L 2	Some knowledge and application, developed arguments, limited judgement.	3-5
L 3	Convincing knowledge and application, well-developed arguments and balanced judgement.	6-8

Q. 2a	Using a suitable calculation from Figure 3, discuss the risks arising from operating global supply chains.	Mark scheme
Level		
Kn	Global supply chains are the arrangement whereby one finished product is manufactured from components made in many countries and then distributed.	2
Ap	So Extract D describes how even small automobile components are often made in many different countries by very specialised companies. However, these very long supply chains are then vulnerable to disruption at any point whether from a tsunami or from other risks mentioned in Figure 3.	2
An	The most common danger is straightforward theft, which 74% of global logistics companies are concerned about. This is over double ($(74-33)/33 = 124\%$) the next major concern, which is natural disasters at 33%. There is no particular difference in the concerns among Asian companies compared with the world as a whole, the biggest difference concerning the risk of vandalism which concerns 33% fewer companies in Asia compared with others (% as against 12%).	2
Eval	However, these risks have to be put into perspective. Even the March 2011 tsunami in Japan, costing “\$235 billion” (Extract E), has not fundamentally changed the way business is done. Such natural disasters are easy to insure against, so the costs get spread very thinly over the global insurance market. And theft, and the fear of theft, is a fact of life regardless of the length of the supply chain.	2

Question 2b	Deciding on the correct level	Mark
Level		Max: 10
	An answer with no merit.	0
L 1	Occasional elements of knowledge, very little application, unconvincing arguments, no clear answer to question.	1-2
L 2	Some knowledge and application, developed arguments, limited judgement	3-4
L 3	Convincing knowledge and application, well-developed arguments and some attempt at balanced judgement.	5-7
L 4	Convincing knowledge and application, well-developed and evaluated arguments, impressive focus on question throughout, and an informed, personal and balanced judgement.	8-10

Q. 2b	Assess the likely impact of Brexit on British fruit growers.	Mark scheme
Level		
Kn	Brexit may result in tariff barriers between the UK and the EU, and may also reduce freedom of movement for their citizens. It may also result in fewer trade barriers between Britain and the rest of the world.	2
Ap	Brexit has the potential to affect adversely British fruit growers in particular, since they rely heavily on Eastern European seasonal labour to pick their crop. In the case of Haygroves Farm, they have no English fruit pickers at all as they find the work 'too hard'.	2
An	Potential adverse impact as picking fruit is an essential part of the production process. No machine-picking alternative mentioned though advances in technology may change that. Given that there are many countries producing blueberries, paying English workers a lot more might make the entire enterprise uncompetitive.	3
Eval	However, it is by no means certain that Brexit will result in a prohibition of seasonal workers – indeed, it will be in everyone's interests to ensure they still come. And, as Extract C shows, 'British fruit growers' can outsource production overseas if need be. And so far only 20% of Haygroves' seasonal workers have been laid off. Could Brexit just be an excuse to explore a different production model?	3

Question 2c	Deciding on the correct level	Mark
Level		Max: 12
	An answer with no merit.	0
Level 1	Occasional elements of knowledge, very little application, unconvincing arguments, no clear answer to question.	1-2
Level 2	Some knowledge and application, partially developed arguments, limited judgement.	3-5
Level 3	Convincing knowledge and application, well-developed arguments and some attempt at balanced judgement.	6-9
Level 4	Convincing knowledge and application, well-developed and evaluated arguments, impressive focus on question throughout, and an informed, personal and balanced judgement.	10-12

Question 2c	Assess the extent to which global supply chains are beneficial to the consumer.	Mark scheme
Level		
Knowledge	Manufactured goods are made from many components, typically made in many different countries and then shipped around the world – the ‘global supply chain’.	2
Application	Extract E describes how silicon chips, ‘used in modern electronic devices’ are made in Japan, and also “60%” of some car components.	2
Analysis	The benefits are, almost exclusively, lower costs with little sacrifice of quality, ‘the best product at the lowest price’. That’s how competition and its sister – globalisation – work their magic. Modern manufactured goods are available at ever lower prices with ever more capacity and features. Global supply chains accelerate this process.	4
Evaluation	But ever-longer chains generate more places where the chain may break. As described in Extract E, a single tsunami can knock out factories which provide vital components. In a specialised world there may be very few alternative sources of supply. However, these breakdowns are few and far between; and with better risk management will become even less common.	4

Question 2d	Deciding on the correct level	Mark
Level		Max: 20
	An answer with no merit.	0
Level 1	Occasional elements of knowledge, very little application, unconvincing arguments, no clear answer to question.	1-4
Level 2	Some knowledge and application, partially developed arguments, limited judgement.	5-9
Level 3	Convincing knowledge and application, well-developed partially evaluated arguments and some attempt at balanced judgement.	10-15
Level 4	Convincing knowledge and application, well-developed and fully evaluated arguments, impressive focus on question throughout, and an informed, personal and balanced judgement showing some sophistication.	16-20

Question 2d	Evaluate the likely impact of globalisation on the blueberry industry.	Mark scheme
Level		
Knowledge	Globalisation: the process by which the world's economies and societies become more fully integrated. A particular feature of the 50 years up to 2008-09. Covers both production and consumption, and an increase in global flows of both outputs and inputs.	4
Application	With blueberries as with anything, globalisation enables more people to enjoy a product: hence rising blueberry consumption in China from a zero base. Developing new food tastes is a global phenomenon; it isn't only Britain that has developed a taste for other cultures' foods.	4
Analysis	Also moves production to highest-quality, lowest cost locations – hence opening up of China as a production location. Then, as part of the globalisation process, more producers develop multi-national reach. Haygroves farm in England is now planting in China. Not clear whether it sell back to England or to the Chinese consumer.	6
Evaluation	Impact could be over-estimated: depends on how long blueberries can be kept fresh for. May still be advantageous to produce near to consumers; also ethical concern with reducing 'food miles'. Speed at which tastes develop uncertain: Chinese output might be growing very fast (Extract D graphic) but way behind consumption in North America, which dominates production (95%) and per-capita consumption.	6

Question	Knowledge	Application	Analysis	Evaluation	Total	Specification coverage
1a	2	2	2	2	8	3.1 Globalisation, history of
1b	2	2	3	3	10	2.4.1 Globalisation, reduced cost of transport and communication
1c	2	2	4	4	12	3.6.1 Poverty and inequality
1d	4	4	6	6	20	3.1 Globalisation, advantages and disadvantages
2a	2	2	2	2	8	3.4.2 Supply chains
2b	2	2	3	3	10	3.1.3 Trading blocs, EU and the single market
2c	2	2	4	4	12	3.4.2 Supply chains
2d	4	4	6	6	20	3.3.2 Demand side factors in global markets
Total	20	20	30	30	100	

Practice Paper 1 - suggested answers

1 (a) *Using an appropriate calculation from Figure 2, discuss the extent to which globalisation may have slowed down since the 2008-09 recession. (8)*

Answer: Globalisation describes the process of the world becoming more integrated, a process that has a significant economic angle. One way of measuring this is to compare world trade with world GDP, as is done in Figure 2. This shows that exports and imports combined peaked at 60.9% of global GDP in 2008 just before the 2008-09 recession. Trade then fell sharply, both in absolute terms and as a percentage of global GDP, before recovering in 2011. Since then the ratio has declined steadily to 56.4% in 2016. This represents a 7.4% reduction $[(60.9-56.4)/60.9]$ since its 2008 peak.

This is a relatively modest fall over eight years of under 1% a year so the decline in globalisation has not been that great.

But of course there are other ways of measuring globalisation that may tell a different story. One of these is the rate of international migration. At higher levels of migration, the world's population becomes more integrated, and additionally there are greater international capital flows as migrants send remittances back to relatives in their country of origin. And certainly Europe has seen unprecedented waves of migration since 2008, both from those fleeing war in Syria, Afghanistan and Eritrea and also many purely economic migrants from less developed countries. So on the basis of the figures we have it is likely that globalisation has slowed down, but if it has actually gone into reverse it will only be to a very minor extent.

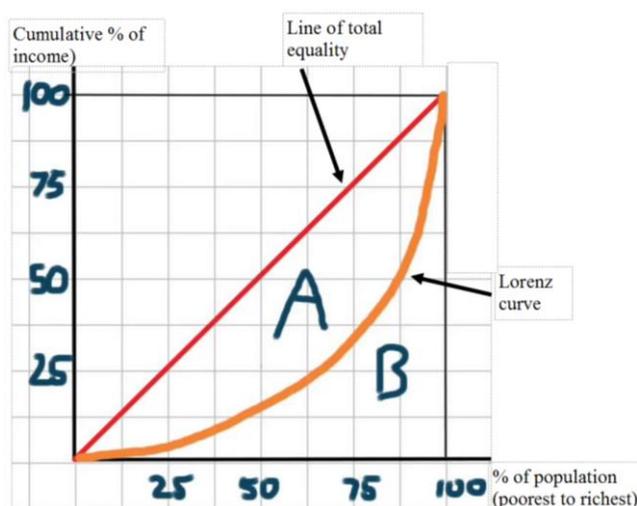
1 (b) *Using Extract A, assess the extent to which advances in technology have been a factor in the growth of globalisation. (10)*

Answer: A rapid rate of globalisation has been a feature of the last 50 years. This can be illustrated, for example, by Figures 1 and 2 where it is shown that world trade as a percentage of world GDP has risen from around 25% over 1960-68 to over 60% just 40 years later in 2008. Extract A describes one technological advance that will have contributed to this revolution in world trade patterns – the humble steel shipping container. We are told that, at constant prices, the typical transatlantic cost of shipping a truckload of goods has fallen from \$4,804 in 1960 to \$425 today. This eleven-fold decrease means that costs have fallen by 91%, a very large figure which will go a long way to explaining the increase in global trade.

Moreover, there have been other equally significant advances in technology that will have progressed globalisation. Advances in the number of airports and frequency of flights mean that all world cities are a maximum of 24 hours away from all other cities, while larger more fuel-efficient aircraft will have reduced the real costs of using them. Then the internet has made free video-conferencing and free, instantaneous written communication (through email) a reality. Perhaps this ease of communication is the technological advance that has had the greatest impact on globalisation, as communication is the one essential key to doing business. However, other factors have also been important. The political decisions that resulted in the opening up of the former Soviet Union and – especially – China have also been of immense significance, not least because China has the world's largest population at 1.4 billion (20% of global population). Then reduced trade barriers such as the expansion of the tariff-free EU have also encouraged more trade. In conclusion, advances in technology have been of very great significance in the growth of globalisation but have by no means been the only factor.

1 (c) *Using Extract B, assess whether globalisation has reduced inequality over the past 50 years. (12)*

Answer: Inequality can be measured by the Gini coefficient, which measures Area A as a percentage of Area (A+B) as shown on a Lorenz curve (below). The more curved the Lorenz curve is the further the population will be from total equality and the larger Area A will be as a percentage of Area (A+B). Hence a value of 1 represents total inequality where one person receives all the income while a value of zero would represent total equality where everyone earned the same. Typical values for countries lie between about 0.25 (for Ukraine, the most equal country) up to 0.75 for South Africa (the least equal country).



Extract B shows a Gini coefficient where the population analysed is that of the whole world. Global inequality, thus defined, is stable over 1960 to 1980 at 0.47 before rising sharply over 1980 to 2000 to 0.54.

This increase in inequality coincided with China's unique economic advance following Deng Xiaoping's free-market reforms from 1978 onwards. These had the effect of increasing the number of middle-income earners across the globe by several hundred million, thereby worsening global inequality. For the first time ever in world history poverty ceased to be the global norm.

However, the story looks like it is moving towards a happier ending. We are moving from a world where the vast majority experienced poverty (and therefore the world was relatively equal) to one where most people are well-off – and therefore the world will be relatively equal once again. The first signs of this appear in the decline in global inequality (as shown by the declining Gini coefficient) in Extract B from 2000 to 2010. The value falls slightly from 0.54 to 0.52. This decline in inequality is likely to be slow, not least because rapid advances in computing and internet technology are creating a new class of super-rich and a much larger class of the very-well-off.

In conclusion, globalisation has contributed over the last 50 years to an increase in inequality as hundreds of millions of Chinese (and others) have joined the middle classes. However, the long-term impact of globalisation on inequality looks much more favourable. And – what is of much greater importance – absolute poverty is well on the way to being eliminated for the first time in human history as average global real incomes maintain their steady upward trend.

1 (d) Evaluate the argument that the advantages of globalisation outweigh the disadvantages. (20)

Answer: Rapid globalisation, like rapid technological advance, is revolutionary. Figure 1 demonstrates this best with global trade as a percentage of global GDP rising from roughly 25% of global GDP in 1968 to over 60% just 40 years later – an astonishing advance. But revolutions always have casualties. So we must not expect globalisation to be without costs for all people, and for those costs to bear particularly heavily on specific groups of households. Whether these are former British coal miners thrown out of work for ever in their early 50s or American workers in the manufacturing sector seeing their jobs disappear to Mexico the story is the same. Globalisation forces you to be globally competitive and not every industry in every country can be. And that is, of course, how globalisation works its magic. By eliminating the less efficient and expanding the most efficient, average standards of living inevitably rise. The very few countries like North Korea who have turned their back on globalisation have remained desperately poor. Globalisation, like Winston Churchill said of democracy, is the worst system except for the alternatives.

The two main economic benefits that globalisation gives are a consequence of the increased specialization and increased competition that it generates. Once any industry becomes open to global provision, then production will gravitate towards the lowest cost and/or highest quality destinations. This is particularly so if transport costs and import tariffs are low, and of course in an increasingly globalised world that is what they have become. This process of specialization continues until every country focuses on those goods in which it is most competitive. Of course, this degree of specialization does make the world vulnerable to any breakdown in trade whether caused by war or other factors. For example, the large earthquake and tsunami in Japan in 2011 closed down some factories providing automobile components. As a result, Toyota's profits were down by 35% on the year before and it lost its top sales spot to General Motors.

Then the other great benefit of increased international trade is that every industry it affects becomes much more competitive. National monopolies and oligopolies will quickly find themselves operating in a competitive global market where their customers can buy from dozens of suppliers either on-line or through foreign companies setting up sales operations around the globe. Increased competition reduces prices and forces up quality to the benefit of consumers. Deadweight welfare losses arising from monopoly power are eliminated, and consumer surpluses rise particularly fast as profits are squeezed. At the same time, firms expand in size as the weakest go

to the wall opening up the possibility of increased economies of scale. Once again, automobiles provide an example. There are enough global brands to form a highly competitive market with falling real prices, increased fuel efficiency and impressive technological advances in the form of the emerging markets for electric and self-driving vehicles.

However, if globalisation brings benefits diffused across all households everywhere it also brings significant concentrated costs. As already mentioned, some industries in some countries have to lose out or the gains from trade made possible by specialization cannot be realised. The impact of these costs are strongly correlated to the ability of affected workers to retrain in other industries, in other words to be occupationally mobile. This is easier the younger you are, and also the better-educated you are. Unsurprisingly then, the costs have fallen hardest in the Western world on older, semi-skilled workers in the manufacturing sector. Here, the progress of globalisation has been most rapid as these jobs have migrated to lower-cost areas like China and the rest of Asia, areas that have been increasingly able to match Western quality at the same time as being far cheaper. And within the West, the impact has been most severe in the USA, where there is much less of a welfare safety-net, than in the relatively egalitarian countries of Western Europe.

Finally, it should be mentioned that globalisation is a social phenomenon as much as an economic one. Here the picture is more mixed. While there are many benefits of cross-cultural interaction in terms of new places visited on holiday and new migrant communities sharing their food, religion and other aspects of culture yet there are limits to the extent to which these new experiences are perceived as good. Both the Brexit vote in 2016 and the election of an 'America First' president (Donald Trump) in the USA the same year demonstrate that many, perhaps the majority, favour national identity over global convergence. Rates of migration in particular, one of the key aspects of globalisation, has provided a focus for popular discontent.

In conclusion, in the economic sphere, it has become almost impossible to argue against globalisation. Notably the anti-globalisation protests associated with the Seattle riots of 1999 have fizzled out. But as one source of discontent has faded away, another has come to the fore – namely the increased rates of international migration. While the advantages of globalisation almost certainly outweigh its disadvantages, the process still needs to be carefully managed so that the trend towards greater global integration commands broad democratic consent.

Practice Paper 1 - suggested answers continued

2 (a) Using a suitable calculation from Figure 3, discuss the risks arising from operating global supply chains. (8)

Answer: A global supply chain is an arrangement where the finished products are made from components sourced from across the world and are often then distributed internationally. So in Extract D we read how even small automobile parts are made by very specialised companies in different countries, a method that only makes sense with the very low transport costs made possible by containerization.

However, this does generate risks in that a longer supply chain has more points at which it can break down. This was evident following the Japanese tsunami of March 2011 as described in Extract E. Figure 3 provides a list of eight concerns that logistics companies have about their ever-growing supply chains. Not surprising, simple theft tops the list with 74% of respondents concerned about this. This is $([74-33]/33) = 124\%$ more than the next concern, which is disruptions caused by natural disasters. While Figure 3 also provides separate data for Asia this is not noticeably different from the world as a whole. The greatest difference concerns the rear of simple vandalism where Asian concerns at 9% are 33% down on global concerns at 12%.

Yet while this list of risks may seem formidable, fear of crime and disruption is not the same as these events actually happening. Natural disasters, while second on the list of concerns, are actually very rare in percentage terms. In this aspect they are like plane crashes. A major earthquake is indeed very expensive and disruptive but they are also uncommon. The vast majority of freight transport will be totally unaffected, and this means that the risks can be easily covered with a small insurance premium.

2 (b) Assess the likely impact of Brexit on British fruit growers. (10)

Answer: Britain's decision in 2016 to leave the EU may well mean the import tariffs become a feature of future EU-Britain trade and that the free movement of labour also ceases. However, there may be more free trade between Britain and the rest of the world, if Britain manages to strike new bilateral free trade deals. Of particular interest to British farmers will be the new rules on seasonal workers. At the moment, relatively low-paid eastern European workers are used to harvest much of Britain's fruit and vegetable crops. With the higher standards of living prevalent in Britain, English workers simply do not want to do the very hard work of harvesting at the minimum-wage rates likely to be on offer.

There is, therefore, a potentially high cost to British fruit growers in Britain leaving the EU. English replacements would need to be paid much more, and if their work-rate was slower then more of them would need to be employed to make up for reduced productivity. Given that cheaper European workers would still be available to EU countries this might well make British fruit growers uncompetitive, and possibly lead to their closure. In the future, of course, there may be technological advances that mean human pickers are no longer required. But given the small size of a blueberry fruit and its soft consistency, that day is likely to be some way off.

However, it would be in almost everyone's interests to allow seasonal workers into Britain from Eastern Europe so Brexit may have no impact on British fruit growers at all. And in any event, the willingness of Haygroves farms to experiment in a minor way with moving production to China shows that fruit-growing companies will not suffer that much even if their British-based employees do. Indeed, we might suspect that moving 20% of production to China would be a sensible commercial move anyway, regardless of Brexit, given the rapid growth of blueberry consumption in the Chinese market as shown by the graphic in Extract D. In reality, therefore, it is very unlikely that the potential harm to British fruit growers will live up to the hype.

2 (c) Assess the extent to which global supply chains are beneficial to the consumer. (12)

Answer: Manufactured goods are made from many different components. With advances in globalisation, these components are typically made in many different locations and then shipped round the world on their journey to a final assembly point – and then on to the final consumer. Some examples of this process are mentioned in Extract E, which describes how 22% of the world's silicon chips – an essential component of modern electronic devices – are made in Japan.

The benefits of these global supply chains to consumers lie essentially in the cheaper costs of production. As Extract E says, manufacturers seek the suppliers with "the best product at the lowest price". Global supply chains create lower costs in two ways. First, they enable companies to specialise in very small parts of the production process. This narrow focus, combined with economies of scale, reduces unit production costs, while

very cheap container shipping means that the additional transport costs are negligible. Secondly, global supply chains make markets more competitive, so consumers have a much wider choice of potential suppliers. Then if labour costs are a significant proportion of the total cost then manufacturing will benefit from locating to low-wage countries such as China once was – and Indonesia, Sri Lanka and Bangladesh still are. Then competition also drives innovation, both in identifying new, cost-saving production methods and also in improving the quality and functionality of the finished product. This is why electronic devices have, for decades, been getting cheaper even while their benefits keep on improving. Of course, these changes would have happened anyway but there is no doubt that global supply chains have made it happen faster.

The question then is: do these benefits come with a cost attached? The answer appears to be – not normally. While Figure 3 shows the various dangers that keep logistics managers awake at night these dangers are by no means unique to global supply chains. We might expect to see theft, spoilage of goods, natural disasters and vandalism present even in purely domestic industries. Indeed it might be worse there in the absence of effective international competition. However, there is still the possibility that one day we may pay a high price for this integration. A major war, for example, would heavily penalize countries whose supply lanes were spread across the high seas – which describe, in fact, every major economy. Then there was a moment during the 2008-09 financial crisis where the global integration of the banking system might have led to a ‘contagion’ whereby the entire global banking system collapsed. But until and unless these existential crises hit us, global supply chains serve the consumer very well.

2 (d) Evaluate the likely impact of globalisation on the blueberry industry. (20)

Answer: Globalisation is the process by which the world’s economies and societies are becoming more fully integrated. The process accelerated over the 50 years up until the 2008-09 recession since when it has stalled in a number of areas, such as the growth in the share of GDP accounted for by international trade. The economic aspects of globalisation include both the integration of production and also convergence in consumption patterns. And it also includes increased flows of the main factors of production, of labour and of capital, around the world too.

The humble blueberry, newly fashionable as a ‘superfood’ (see Extract D), illustrates many of these processes. Production is being globalised with new plantations opening up in China, growing output from a negligible 400 tons in 2007 to 115,000 tons in 2017, roughly 18% of the global total of 655,000 tons. This output level was well ahead of the panel’s estimate of 71,400 tons in 2018 (see panel in Extract D). At the same time, the Chinese have begun to eat blueberries as well as grow them. While their per capita consumption of just 50 grams per head per year is very low compared with Europe and North America, their population of 1.4 billion means that this is already a significant part of global consumption, and a share that will only rise as Chinese eating habits continue to converge with the West. In a global world, volume is everything and China’s new status as emerging blueberry super-power was cemented by their hosting of the 2017 International Blueberry Organisation conference as mentioned in Extract D.

How much further could blueberry globalisation go? With Haygroves farm in Herefordshire already shifting some production to Yunnan Province we may yet see in agriculture what happened to much of British manufacturing in the 1980s and 1990s, a shift to production in the Far East, and China in particular. Nevertheless, China in 2017 is very different from China in 1987. Already Chinese average wages are not dissimilar to levels in Eastern Europe so it is an open question as to how much costs will actually be reduced by moving to China when Eastern Europeans are already picking our fruit in Britain. But then the British 2017 minimum wage of £7.50 an hour for over-25s means that even if the workers are from Eastern Europe the wages that they are being paid are significantly higher, which is of course why they come for the seasonal work in the first place.

There are also storage issues with foodstuffs that make complete globalisation harder. For example, Figure 3 has “spoilage of food” as one of the risks faced by logistics companies. And current ethical concerns about ‘food miles’ and the benefits of sourcing foodstuffs locally mean that Chinese-grown blueberries might not be quite as acceptable in Britain as Chinese-assembled mobile phones. A lot will depend on how long blueberries can be kept fresh for once picked. This time period is likely to lengthen as technology advances. Furthermore, it may be the case that as part of the Brexit deal Britain is no longer bound by EU regulations prohibiting genetically modified food (GM crops). This might open the way to GM blueberries with significantly longer shelf lives, thereby making globalisation that much easier. To conclude, since blueberries are a perishable product with strong cultural biases towards their consumption in North America, the impact of globalisation on the industry will be slower. Nevertheless, it is already apparent that blueberries are well on their way to becoming a global food as well as a superfood.

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Instructions

Use **black** ink.

Fill in the boxes at the top of this page with your name, centre number and candidate number.

Answer **all** questions.

Information

Total marks for this paper is 100.

The marks for each question are shown in brackets.

Advice

Read each question carefully.

Keep an eye on the time.

Try to answer every question.

Check your answers if you have time at the end.