



Skoolumy

**CAMBRIDGE A LEVEL ECONOMICS TOPICAL ESSAY
QUESTIONS**

**GLOBALISATION, MULTINATIONALS AND FOREIGN
AIDS**

PAST QUESTIONS

1. Globalisation will help to achieve economic growth in high-income economies and this will automatically improve living standards.

Evaluate this statement. [20]

2. In recent years many countries have joined or established a free trade area (FTA).

Evaluate, with the help of a diagram(s), whether membership of an FTA is always beneficial to a country. [20]

3. To what extent do you agree with the view that globalisation benefits high-income countries at the expense of low-income countries? [20]

4. The presence of multinational corporations (MNCs) in a low-income country always promotes economic growth in that country.

Evaluate this statement. [20]

5. Assess the impact of international aid on the standard of living in low-income countries. [20]

6. Some high-income countries have introduced a policy of high tariffs on some imports to reduce the negative effects of globalisation on their economies.

With the help of a diagram, evaluate this policy. [20]

MARK SCHEME

1. AO1 and AO2 out of 14 marks. AO3 out of 6 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

- Globalisation would promote free trade, free movement of capital and labour and the transfer technology. Cultural and political ties would be strengthened.
- Key characteristics of high-income countries would include: high levels of productivity; high GDP per capita; significant dependence on producing and exporting secondary/tertiary goods/services.
- High living standards are generally associated with: low poverty levels; advanced infrastructure; good housing, education and health; and low infant mortality rates.
- Economic growth is usually measured by changes in real GDP per capita in a specific time period.
- An improvement in living standards is very closely linked with an improvement in economic performance. An improvement in economic performance is measured by increases in GDP per capita.
- Globalisation through trade and technology transfer should provide opportunities to create more real wealth.
- Higher levels of tax revenue are likely to be received by a high-income country's government. This will enable more expenditure on health, housing and education as well as increased access to more consumer goods. These improvements are generally associated with a rise in the standard of living.

AO3 Evaluation

- The links between an increase in economic growth and an increase in living standards are not clear. Economic growth is a quantitative measure not a qualitative measure

- Economic growth which depends upon globalisation would increase long distance transport which would create more negative externalities.
- It is not clear how any benefits of economic growth might be used in a high-income economy
- Globalisation might lead to an increase in cheap imports from low-income economies which might lead to higher levels of unemployment in more advanced economies.
- A conclusion might attempt to form an overall judgement on the short term and long-term benefits of globalisation in relation to the improvement of living standards in high-income countries. Also a judgement should consider whether this will automatically improve living standards.

Accept all valid responses.

AO1 Knowledge and understanding and AO2 Analysis 14

AO3 Evaluation 6

2. AO1 and AO2 out of 14 marks. AO3 out of 6 marks.

Indicative content

AO1 Knowledge and understanding and AO2 Analysis

- Definition of an FTA.
- Examples of FTA.
- Definition of a tariff and explanation of its impact on imports/exports.
- Definition of non-tariff barriers and their impact.
- Analysis of pre and post common tariff trade.
- An appropriate diagram to show effect on domestic output of imposition and the common tariff of an FTA. Use of diagram to show the beneficial effect on consumer surplus.

- Lower prices leading to more consumer surplus/greater allocative efficiency.
- Benefits of greater economies of scale – productive efficiency increases.

Note: Maximum L2 if no diagram

AO3 Evaluation

Microeconomic:

- Impact depends on PED/PES for the products/services in the membership of the FTA. More inelastic PED/PES the smaller the quantity effects will be and the lower the benefits. Some countries may have very strong preference for domestically produced goods and services and the removal of tariffs has minimal effects.
- The change in demand from domestic goods to imported goods will cause structural unemployment.
- The removal of barriers may enable a country to 'export' some forms of production which are highly polluting to fellow FTA members.
- Cheaper costs of production due to cheaper raw materials/components lowering domestic costs and increasing export competitiveness.

Macroeconomic:

- Effect depends on the marginal propensity to export/import (MPX/M). If the net effect is that $(X - M)$ increases, there will be a positive effect on aggregate demand.
- Similarly a net increase in employment will lead to an increase in consumption (C) and a positive multiplier effect.
- Both the points above may be explained using a diagram.

Accept all valid responses.

3. AO1 and AO2 out of 14 marks. AO3 out of 6 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

- Globalisation would promote free trade, free movement of capital and labour and the transfer of technology. Cultural and political ties would be strengthened.
- Key characteristics of low-income countries would include: low levels of productivity; high dependency ratios; low GDP per capita; significant dependence on producing and exporting primary goods.
- High-income countries are likely to benefit from access to a wide range of goods and services and access to good health care and education.
- Comparative advantage allows high-income countries to increase their standard of living by providing access to cheap raw materials produced in low-income countries.
- Globalisation can lead to economic dependency and significant imbalances of trade which, in the long run, might have a negative effect on living standards in low-income countries.

AO3 Evaluation

- The links between globalization and the costs/benefits imposed on low-income countries is not clear. For example, low-income countries might benefit significantly from the transfer of new technology from high income countries.
- Higher skilled work might be provided through the global transfer of labour therefore helping to train the indigenous population.
- Globalisation through trade and technology transfer should provide opportunities to create more real wealth which can then be used to provide merit goods such as health care and education.

- In some cases, individual firms in low-income countries might gain access to large markets in high-income countries which will subsequently allow new businesses to grow.
- In conclusion, it is clear that there is a potential role for globalisation to benefit both high and low-income countries, but this will depend on many factors which have been referred to above, some of which might have an overall positive impact.

Accept all valid responses.

AO1 Knowledge and understanding and AO2 Analysis 14

AO3 Evaluation 6

4. AO1 and AO2 out of 14 marks. AO3 out of 6 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

- Transference of skills and knowledge: managerial and workshop.
- Increased tax base giving opportunities to government to invest in the economy.
- Definitions of MNC and short term (actual) and long-term (potential) economic growth.
- Impact of foreign direct investment (FDI) on a country's aggregate supply/PPF. Analysis may be in terms of the multiplier, the circular flow of income or AD/AS.
- The improvement of education and health and the promotion of long term growth

AO3 Evaluation

- Evasion of enhanced legal limits in home country: environmental impact - FDI can be used to export 'dirty' industry and transfer negative externalities to another

country. Evasion of home employment/health and safety laws which increase costs.

- Destruction of host country's indigenous industry by large scale MNC production. Negative impact on employment exceeds benefit of MNC employment.
- The MNC may establish a local monopoly that exploits the consumers with higher prices and lower output.
- MNC may practice transfer pricing to remove profits from developing country to tax haven.
- The impact on macroeconomic aims of the government is analysed.
- The jobs created in the local environment may be low-skilled, with the multinational employing expatriate workers for the more senior and skilled roles.

Accept all valid responses.

AO1 Knowledge and understanding and AO2 Analysis 14

AO3 Evaluation 6

5. AO1 and AO2 out of 14 marks. AO3 out of 6 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

- Aid can be defined as any assistance given to a country that would not be provided through normal market forces.
- There are two main types of aid, humanitarian aid; development aid. Development aid would include many different types including: long term loans; tied aid; bilateral aid and multilateral aid.

- Key characteristics of low-income countries would include: low levels of productivity; high dependency ratios; low GDP per capita; significant dependence on producing and exporting primary goods.
- Low living standards are generally associated with: high poverty levels; inequality; poor housing, education and health; and rapid population growth.
- Aid that focuses on the provision of new technology, building new factories and training the work force is likely that productivity, output, employment and income levels will rise.
- Aid can increase real wealth and higher levels of tax revenue are likely to be received by a low-income country's government. This will enable more expenditure on health, housing and education as well as increased access to more consumer goods. These improvements are generally associated with a rise in the standard of living.

AO3 Evaluation

- The links between an increase in aid and an increase in living standards are not clear. Sometimes aid only reaches a relatively small section of the population. For example, due to corruption.
- Different types of aid might produce different outcomes. For example, aid in the form of long-term loans might make it more difficult for low-income countries to escape the cycle of poverty.
- Aid is sometimes given for political reasons rather than the low-income countries where the need is the greatest.
- Tied aid might mean that low-income countries receiving such aid have to purchase goods and services from the donor country which are more expensive.
- Long term dependency upon aid might lead to a welfare mentality and reduce levels of innovation in the low-income country.
- A conclusion might attempt to form an overall judgement on the short term and long-term efficacy of development aid in relation to the improvement of living standards in low-income countries.

Accept all valid responses.

AO1 Knowledge and understanding and AO2 Analysis 14

AO3 Evaluation 6

6. AO1 and AO2 out of 14 marks. AO3 out of 6 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

- Globalisation would promote free trade, free movement of capital and labour and the transfer of technology.
- Key characteristics of high-income countries would include: high levels of productivity; high dependency ratios; high GDP per capita; significant dependence on international trade.
- One of the main potential negative effects of globalisation on high-income economies might be caused by the import of goods produced at low cost by other countries. This might cause a rise in unemployment.
- Analysis should be provided to show the impact of selective tariffs on imports into high-income countries. A clear, accurately labelled diagram should be provided to underpin this analysis.
- Further analysis should be provided to illustrate the potential impact on different stakeholders of these tariffs. For example, an increase in tax revenue can be re-invested into the economy to promote long term economic growth.

N.B: L2 max if no or incorrect diagram provided.

AO3 Evaluation

- The imposition of tariffs may lead to retaliation by other countries, possibly leading to a trade war and misallocation of resources.

- Restricting imports and subsequent trade diversion will reduce allocative and productive efficiency and lead to a net welfare loss.
- Tariffs will lead to higher prices for both consumers and producers due to lack of international competition.
- In some cases, higher tariffs will lead to higher costs which could lead to higher prices, falling demand and ultimately increase the level of unemployment.
- Although tariffs might reduce the negative effects of globalisation, they might also remove some existing benefits of globalisation. For example, by reducing choice for consumers.
- Protecting inefficient domestic firms by using tariffs is likely to have a negative effect on the economy in the long term.
- A conclusion should attempt to use cost/benefit analysis and use the preceding analysis to examine the net effect of the introduction of selective tariffs by high-income countries on their economies.

Accept all valid responses

AO1 Knowledge and understanding and AO2 Analysis 14

AO3 Evaluation 6