

a (i) Summarize the 2010 forecast growth rates in GDP for selected countries in Table 2 [2m]

All selected countries are forecasted to experience increase in output/GDP.

However All selected Asian countries are forecasted to grow faster than all the selected G7 countries.

a (ii) With reference to data, explain one possible reason why 2010 forecast growth rates differ from country to country [2m]

Differences in investment levels.

Observed from Figure 3: Investments as a % of GDP → rising trend for the Asian countries but decreasing trend for G7. Increased investments within China, India and Singapore → implies firms expectations of higher demand for domestic output in the future → increase C and I → increase in AD → hence explains why China, India and Singapore are forecasted to have relatively higher growth rates than UK, US, Germany and Japan.

a(iii) Is there enough evidence to support the view that there has been an improvement in the economic situation of Asian countries?

Largely insufficient evidence. Data in Table 2 only representative of selected Asian countries. Extract 4 suggests that Asian economies are recovering faster from the global downturn → qualitative nature of data → insufficiency. Quantitative indicator such as the forecast GDP growth rates given in table 2 is insufficient as they are forecasted growth rates

“China’s households have been saving a larger slice of their income” (extract 5)

(b) Explain the impact of the above change on China’s circular flow of income [4m]

Saving a large slice of their income → with every additional dollar earned, a greater proportion goes to savings → with every round of spending a higher level of withdrawal from the circular flow of income → lower level of income retained within the inner flow → reduces the size of the national income multiplier for china.

(c) To what extent does the data suggest that the Chinese government should allow the currency to appreciate in 2010? [6]

Disadvantages of appreciation:

1. Extract 5 : an appreciation of its currency will help to “lift consumers’ real purchasing power” → Chinese consumers will be able to buy more imported goods and services
2. Appreciation is also needed to discourage excessive investments into manufacturing → loss-made export firms will exit the industry → more resources channelled to other industries, for instance, service industries as quoted in extract 7 → which will help to increase employment of workers
3. Appreciation is also help to “reduce the trade deficit further, alleviate the risk of a protectionist backlash abroad” → in fig 5, trade surplus was accumulating from 2005 to 2008 with the highest trade surplus recorded in mid 2008

Disadvantage of appreciation:

- Extract 6 evidenced that China's exports as a percentage of GDP are 32% → still relatively reliant on exports earnings as a source of national income → figure 4 showed that when yuan appreciated in June 2008, trade surplus started to fall significantly as showed in figure 5

Synthesis/conclusion

Appreciation of Yuan recommended.

- Important to improve equity → excessive investment into capital-intensive growth has caused "the share of national income going to households (as wages and investment income) to fall, while the share of profits has risen"

Fall in export revenue is likely to be compensated by the rise in domestic C and overall AD will still increase → actual growth maintained. (Extract 4)

(d) "Excessive levels of investment are not a recipe for sustained rapid growth" Comment. [6m]

→ Investment inferred in extract 5 → public investment and private investment "Excessive levels of investment" → implies economic imbalance in China → Government stimulus focuses on promoting investment → increases I → at the expense of Cd falling or growing at a slower rate.

→ Private investment → Loosening of credit → reduce interest rates → increase in investment for firms → firms channel investments to capital intensive industries → production of output relies more capital goods rather labor → hence limited income flows to households → households reduce lower wages → Cd falls
→ Increase in I is offset by Cd → AD increases at a slower extent → Real output increases at a slower rates → hence excessive levels of investment are not a recipe for sustained growth

Public investment → "However, the pace of investment is unsustainable" → excessive levels of investment under taken by government → unsustainable because part of the investment under taken by government → lead to strain on budget position for China → may lead to a budget deficit for China. Draw AD-AS diagram to link to growth rates

Evaluate:

- Public investment → However "government needs to prop up demand in the short term" → government spending towards capital goods output is necessary → a means of lifting China economy out of the recession in 2009 → expansionary fiscal policy in the short term to increase real output in order to increase consumer confidence → towards longer term rapid growth
- Public investment → "China as a poor country needs infrastructure" → other objectives also have to be considered → pursue of material and non material well being

Recommendation

Investment is still an important determinant of growth for China → however, production of capital goods → intended for production of consumption good → China should achieve balance between Cd and I as the driving components of domestic demand for China.

(e) In light of the issues raised in the extracts, discuss the relative desirability of globalization across the world economies [8m]

		Define globalization Advantages and disadvantages of globalisation	
		Desirable	Not desirable
		<p>Increased mobility of goods across economies → greater integration of economies</p> <ul style="list-style-type: none"> Globalization → Enables countries to produce goods according to their comparative advantage in production → enable country to consume outside the PPC → Illustrate with PPC diagram Evidence: Extract 4 – Asia- China – US/Rich country trade relationship – is an example of each country producing a part of the whole process of production according to CA. In times of strong demand for goods due to higher GDP growth across the world → higher world output, higher domestic economic growth, generate greater employment. Analyze with AD-AS analysis: Apply to countries in Extract 4: Increase Real output for Asia producing intermediate output, Increase Real output for China producing final goods assembly. <p>Evaluation: Beggar thy neighbor effect → many countries can gain</p>	<p>Globalization –volatility of macro variables</p> <ul style="list-style-type: none"> Evidence: Extract 4 “Hardest hit”, “export plunged” , 60% of exports end up in the rich world” implies that the integration of economy lead to dependence on external performance of the economy to determined the achievement of macro aims within a domestic economy. Evidence Extract 6: Export Led – growth economies will experience greater degree of volatility Evidence extract 5: china building its domestic engine → need to decrease dependence on external economies → shows less desirability for globalisation <p>To analyze with AD-AS analysis</p>
		<ul style="list-style-type: none"> Increased mobility of capital (gross fixed capital e.g. machinery, raw materials) Evidence: Extract 7: one of the factors that determine longer productivity growth is openness of an economy to FDI Use AD-AS framework to analyse. 	<ul style="list-style-type: none"> Globalization – negative implications on government budget position <p>Evidence: “biggest fiscal stimulus” – in the context of extract 2 – the example of the recent financial crisis required a larger magnitude of increased in G exp in order to increase AD of the economy.</p>
		<ul style="list-style-type: none"> Increased mobility of labor and 	

		<p>other factors of productions across countries</p> <ul style="list-style-type: none"> - FOP can now be easily overcome with inflow of labor and capital resource <p>Evaluation:</p> <p>→ Whilst globalization increases the international factor mobility across economies - it aggregates the negative impact of factor immobility within the domestic economy. The inflow of better quality labor and capital may render some skills redundant and hence local workers become unemployed – the mismatch of skills unresolved will lead to structural unemployment within the country.</p> <p>→ Ext 7 “rural to urban areas” movement of workers is not currently taking place in China → could be due to available inflow of foreign labor → hence slows down need to tap on the Chinese labor force → thus slowing down the job opportunities available to Chinese households in the rural areas → reduces their ability to earn wages and hence increase purchasing power and material welfare.</p>	
		<p>Synthesis: Justify whether Globalization on a whole is desirable or not</p> <p>Still desirable as analysed above → <u>Extent of benefits outweighs the costs due to volatility in trade cycles</u> esp for smaller Asian economies (ext 7) all the more there is greater dependence on external demand → hence more desirable for small economies</p>	