2. *Study the extract and data below and answer the questions that follow.*

Europe accused of protectionism

❶ The European Union (EU) has been accused of going back on a promise to avoid making the global **recession** worse by imposing new restrictions on free trade. World leaders at the G20* meeting in London agreed not to raise new restrictions to free trade in goods and services, in order to prevent a protectionist battle like the one which was widely blamed for the Great Depression in the 1930s.

❷ The EU will place a tariff of up to 60% on the imports of Chinese candles this month. Britain's retailers are furious about the tax on candles, which they say will protect Polish and German candle makers, and estimate that it will cost retailers up to UK£10 million. They argue that the problems associated with the candle makers' loss of comparative advantage should be solved with other policies.

❸ The EU has also imposed anti-dumping tariffs, which are meant to protect against cut-price subsidized imports, on Chinese wire, iron and steel pipes, and aluminium foil from Brazil, China and Armenia.

❹ Non-tariff restrictions are also a concern. At a recent trade policy review meeting at the World Trade Organization (WTO), an Indian trade official criticized the EU for imposing new health and safety standards on spices, groundnuts, processed food and cereals, creating impossibly high costs for Indian exporters and causing huge commercial losses. Also, the EU has several restrictions relating to service industries, such as the restrictions on Indian banks starting operations in the EU.

(This question continues on the following page)

(Question 2 continued)

A recent survey provided the following results:

Table 1

	1st quarter 2008 to 1st quarter 2009
Number of new restrictions imposed	1841
Non-tariff restrictions as a percentage of total new restrictions	44 % (March 2008) – 66 % (March 2009)

Table 2

	Number of new barriers imposed
United States	329
China	284
Brazil	186
European Union	152
India	120

❺ However, the EU trade commissioner stated that "the EU will continue to show leadership and stand firm against protectionism," arguing that it is "committed to free trade based on rules that benefit developed and economically less developed countries". An EU spokesperson insisted that the anti-dumping measures actually promote free trade.

* G20: is made up of the finance ministers and central bank governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, United Kingdom, United States of America. The European Union is the 20th member.

[Source: adapted from *Business Report*, 7 April 2009 and "Europe accused of protectionism" by Heather Stewart © *Guardian News & Media Ltd 2009*, reproduced by permission, 4 May 2009 and *Institute of International Trade*, 13 April 2009]

(a) (i) Define the term *recession* indicated in bold in the text *(paragraph ❶)*. *[2 marks]*

(ii) Outline **one** objective of the World Trade Organization (WTO) *(paragraph ❹)*. *[2 marks]*

(b) Using a tariff diagram, explain how the revenues of Polish and German candle makers will change as a result of the tariff on candles. *[4 marks]*

(c) Explain why an EU spokesperson "insisted that the anti-dumping measures actually promote free trade" *(paragraph ❺)*. *[4 marks]*

(d) Using information from the text/data and your knowledge of economics, evaluate the claim that the EU is "committed to free trade" *(paragraph ❺)*. *[8 marks]*

Section A

Answer **one** question from this section.

1. Study the extract below and answer the questions that follow.

Relief as Kenya raises tariff for steel and iron imports

❶ Steel manufacturers in Kenya are set to benefit as the government moves to protect the local manufacturing industry from cheap steel and iron imports.

❷ In 2014 a government official announced an increased **tariff** on steel and iron imports. "Our steel mills are closing down due to unfair competition from cheaper imported iron and steel products," he explained. "To protect and create more jobs in the iron and steel industries, tariffs on a wide range of imported iron and steel products will be increased from 0% and 10% to 25%," he said. The government official further stated that as well as protecting the local industries from cheaper imports, the protectionist measures would raise an additional 2.6 billion Kenyan shillings (Kenya's currency) annually in government revenue and support **economic growth**.

❸ The potential of local industries to expand and create jobs through trade has been held back by a number of administrative barriers. The government remains focused on improving the business environment. Over the past six months, the government has made it easier to register a company and trade across borders. The time taken to move goods out of the main harbour has fallen sharply; non-tariff barriers such as roadblocks have also been reduced. Importers of refined industrial sugar and wheat are also pleased after the government scrapped requirements to pay unnecessary administrative charges.

❹ However, there is a belief among manufacturers that there is a need for more deregulation to lower their costs of production and in effect reduce the cost of doing business.

Kenya sees gross domestic product (GDP) growth picking up but current account a concern

❺ Good economic growth rates in neighbouring countries like Uganda help to boost Kenyan exports, particularly for agriculture that makes up nearly a quarter of the Kenyan economy. The government suggests that the main risks to growth are the slow performance of developed economies that are key export markets for Kenyan goods and services, and Kenya's large and persistent current account deficit of over 10% of gross domestic product (GDP) in the last three years. This is a major concern for sustained economic growth and the value of the Kenyan shilling.

[Sources: adapted from www.standardmedia.co.ke, 13 June 2014; www.af.reuters.com, 25 July 2014 and www.cnbcafrica.com, 25 November 2013]

(This question continues on the following page)

(Question 1 continued)

(a) (i) Define the term *tariff* indicated in bold in the text (paragraph ❷). [2]

(ii) Define the term *economic growth* indicated in bold in the text (paragraph ❷). [2]

(b) Using an international trade diagram, explain the impact on the Kenyan government of implementing a tariff on steel imports. [4]

(c) Using an exchange rate diagram, explain why a deficit in the current account may result in downward pressure on the Kenyan shilling (Kenya's currency) (paragraph ❺). [4]

(d) Using information from the text/data and your knowledge of economics, evaluate the claim that trade protection measures will support economic growth in Kenya. [8]

SECTION A

Answer ***one*** *question from this section.*

1. *Study the extract below and answer the questions that follow.*

Rand at six-month high

❶ A revival has seen the South African rand reach a near six-month peak against the dollar. Foreign buying of shares in South African companies and a surprise contraction in South Africa's **current account deficit** have helped to boost the currency. So far, in 2009, there has been an appreciation of the rand of more than 5 % against the dollar and 9 % against the euro, which is the currency of South Africa's main trading partners, the eurozone countries of the European Union (EU). If currency markets take the view that political risk will decrease after the general election, there is a "better than even" chance the rand could continue to appreciate, said a senior currency dealer.

❷ Two senior economists said there was a danger the rand would strengthen to a point where it would make exports uncompetitive and encourage imports. This could widen the current account deficit, which was at 7.4 % of gross domestic product (GDP) last year. The currency could strengthen if, for instance, foreign investment increased ahead of the 2010 soccer World Cup (to be held in South Africa) or the gold price resumed its upward trend (gold is a major export for South Africa).

❸ The rand's strength would help reduce upward pressure on inflation, which has been higher than the South African Reserve Bank's (SARB) (central bank's) 3 % to 6 % target range since March 2007. However, it is bad news for local factories, making local goods more expensive in other currencies and, as a result, slowing **economic growth**. Some analysts believe this will prompt the SARB to take steps to weaken the rand, making South African exports more competitive.

❹ A consequence could be that in an attempt to weaken the rand, the SARB governor might reduce the bank's official interest rate too far, sparking a repeat of the consumer boom from 2003 to 2006, which left households heavily in debt. Some economists have advised the bank to purchase foreign exchange to weaken the currency, rather than lowering interest rates further.

[Source: adapted from *Business Day*, 7 April 2009 and *Business Report and Independent*, online edition, 29 April 2009]

(This question continues on the following page)

(Question 1 continued)

(a) (i) Define the term *current account deficit* indicated in bold in the text *(paragraph ❶)*. *[2 marks]*

(ii) Define the term *economic growth* indicated in bold in the text *(paragraph ❸)*. *[2 marks]*

(b) Using an appropriate diagram, analyse the effect of a "contraction in South Africa's current account deficit" *(paragraph ❶)* on the value of the rand. *[4 marks]*

(c) Using an AD/AS diagram, explain why a strong rand might "reduce upward pressure on inflation" *(paragraph ❸)*. *[4 marks]*

(d) Using information from the text/data and your knowledge of economics, discuss the view that the South African Reserve Bank (central bank) should attempt to weaken the rand. *[8 marks]*

Turn over

2. Study the extract below and answer the questions that follow.

Australian economy feels the effects of falling iron ore price

❶ Iron ore is Australia's largest export and the double effect of slowing growth in China and higher levels of production in Australia has driven the price of iron ore lower. In addition, the Australian dollar (AU$) has experienced a 10% **depreciation** against the US dollar (US$). These two factors combined have caused a dramatic worsening in the **current account**.

❷ Australian mining companies are losing significant revenue from falling commodity prices and this is further worsened by the rapidly depreciating currency. The Australian dollar traded at US$0.7375 on Wednesday, nearly at a six-year low.

❸ Australia recorded a monthly balance of trade deficit of AU$2.61 billion in May 2015, compared with a deficit of AU$1.61 billion a year earlier. The increasing deficit in Australia's balance of trade is an indicator of potential declines in growth and employment, according to a foreign currency expert.

❹ The price of iron ore has fallen more than 67% between February 2013 and July 2015. In Australia, falling iron ore prices create downward pressure on economic growth. Australia's real gross domestic product (GDP) grew 2% in 2015, down from 2.5% in 2014. Some economists noted that falling commodity prices reduced Australia's export revenues by more than 2% of GDP in 2015.

❺ An expanding group of Australian-based economists argue that the central bank should further cut interest rates because of global economic uncertainty, falling commodity prices, weak consumer demand, and persistent weakness in non-mining sectors, such as tourism and education exports. Australia has been a popular destination for tourists and attracts many international students.

[Sources: *Sydney Morning Herald*: adapted from http://www.smh.com.au/business/markets/china-panic-feeds-into-australian-sharemarket-20150708-gi7nyk.html
Marketwatch: adapted from www.marketwatch.com, accessed 26 July 2015.

(a) (i) Define the term *depreciation* indicated in bold in the text (paragraph ❶). [2]

(ii) Define the term *current account* indicated in bold in the text (paragraph ❶). [2]

(b) Using an exchange rate diagram, explain why "slowing growth in China" may have caused a depreciation of the Australian dollar (paragraph ❶). [4]

(c) Using a demand and supply diagram, explain why "the double effect of slowing growth in China and higher levels of production in Australia has driven the price of iron ore lower" (paragraph ❶). [4]

(d) Using information from the text/data and your knowledge of economics, discuss the possible consequences for the Australian economy of the fall in the value of the Australian dollar. [8]