



Tuesday 3 June 2014 – Afternoon

GCSE ECONOMICS

A593/01/SM The UK Economy and Globalisation

STIMULUS MATERIAL

Duration: 1 hour 30 minutes



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The changing face of UK trade

Over the past 40 years the pattern of trade between the UK and the rest of the world has changed significantly.

In 1973 the UK joined what is now known as the European Union (EU) and this saw an expansion of UK trade with other EU countries. These countries now buy over 50% of UK exports.

In the 1980s, for the first time in decades, the total value of imports of goods into the UK exceeded the value of UK exports of goods to other countries. Some economists explained that this change was due to increased globalisation which continues to put UK manufacturers under pressure because they have to compete against other countries with much higher productivity and lower labour costs.

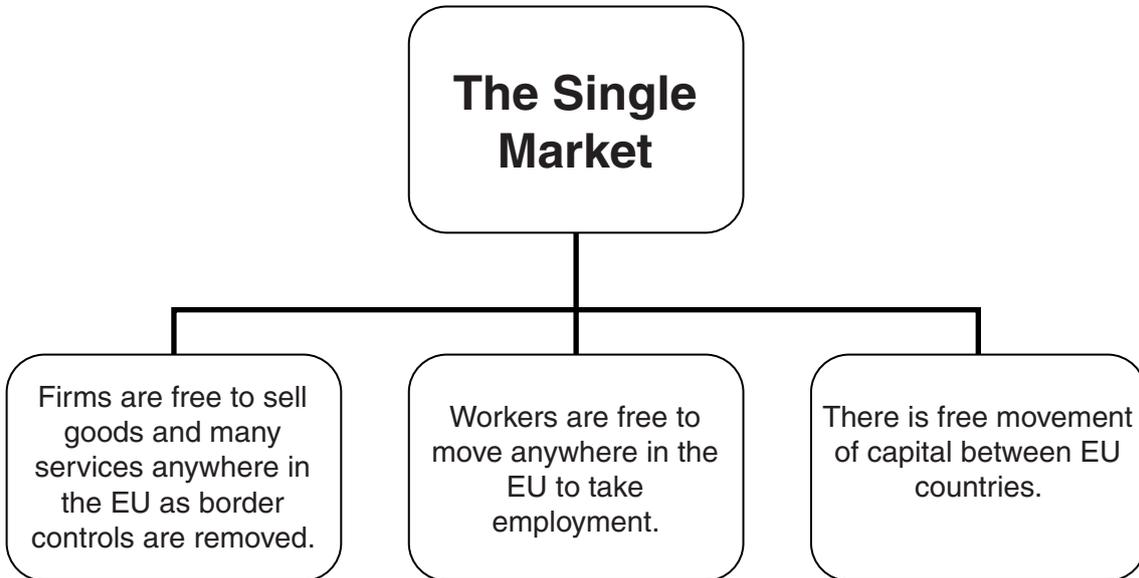
Other short term changes, such as fluctuations in the value of the exchange rate and the level of inflation in the UK, also impact on the UK's trading performance.

As well as providing opportunities for the UK economy, these changes have also given rise to challenges.

A group of Year 11 students decided to investigate some of these issues. They then wrote a report about changes in UK trade over recent years and the factors which affect the international competitiveness of UK goods and services. Their aim was to consider what could be done to improve the UK's international competitiveness and trading performance.

Since joining the EU the UK has removed all tariffs, quotas and other forms of protectionism which existed between the UK and other EU countries.

By the end of 1992 the 'Single Market' between EU countries had been completed. This involved the following:



The effect of the Single Market has been to create one large market covering all EU countries. Economists disagree over the exact impact of the Single Market on the UK economy.

Fig. 1 – The EU Single Market

“It’s a breeze doing business in Europe”, said the Managing Director of a West Midlands engineering company. This company has been transformed over the past ten years from one which sold mainly to the UK market to one which now relies on Europe for most of its sales. The Managing Director also said: “Paperwork is straightforward, there is lots of help and support. There are no trade barriers or customs issues and we have fewer problems shipping goods to Germany than we sometimes do shipping goods around the UK”.

One large market, which includes some of the world’s richest countries engaged in specialisation and trade, has made goods cheaper, labour cheaper and trade more secure and more competitive.

**Fig. 2 – Newspaper article on the impact of the Single Market, January 2012:
‘West Midlands factory boss says it’s a breeze doing business in Europe’**

	Exports 2010–11 (£millions)	% change on 2009–10
Belgium	12 949	+19.5
China	7 055	+20.8
France	18 905	+14.3
Germany	27 539	+17.2
Netherlands	18 823	+9.5

**Fig. 3 – Value of UK exports to selected countries
(1 November 2010–31 October 2011)**

	Imports 2010–11 (£millions)	% change on 2009–10
Belgium	15 729	+11.9
China	24 828	+7.1
France	19 138	+5.5
Germany	41 107	+8.7
Netherlands	23 019	+7.6

**Fig. 4 – Value of UK imports from selected countries
(1 November 2010–31 October 2011)**

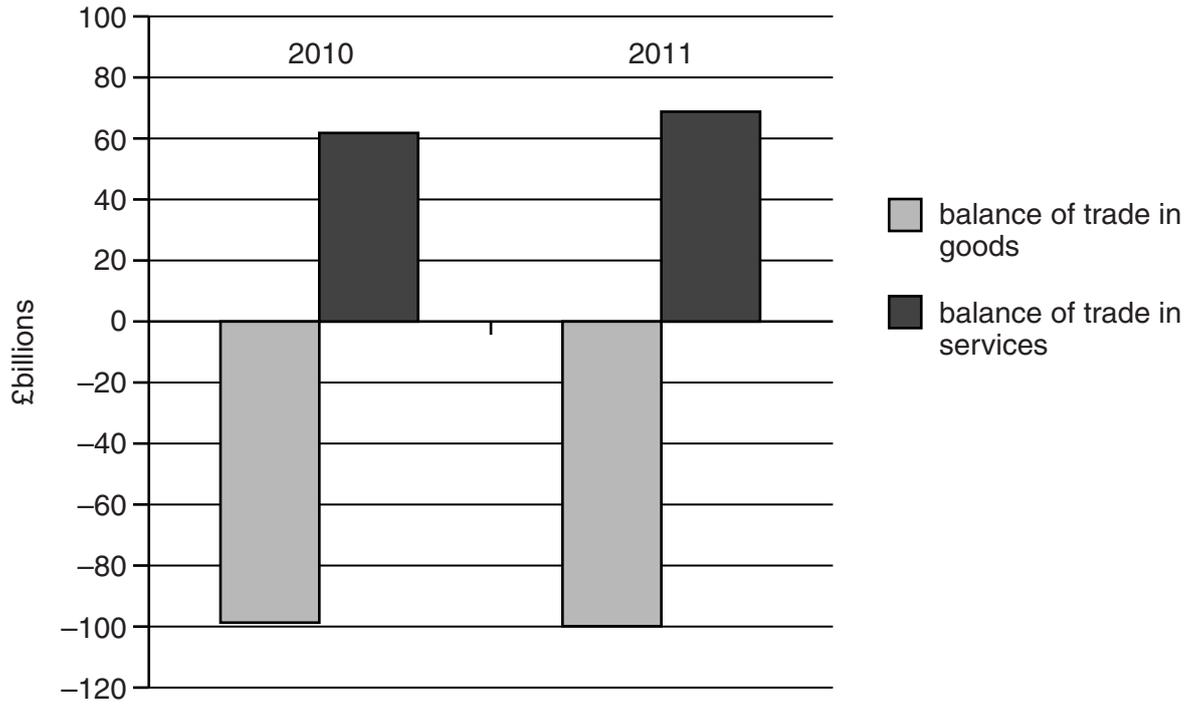


Fig. 5 – UK balance of trade in goods and services, 2010 and 2011



Fig. 6 – The benefits of international trade for the UK

The European Parliament has backed an agreement which will increase EU imports of beef from the USA and Canada, as well as helping EU food exporters. This ends a trade war which has lasted for over 20 years.

The new agreement sets an annual quota of 48 200 tonnes for high-quality beef imports from the USA and Canada from cattle which have not been treated with growth hormones. In exchange, the USA and Canada will lift import tariffs on a range of European farm produce, including some dairy products.

It leaves in place an EU ban on hormone-treated meat from the USA and Canada, even though the World Trade Organization ruled in 1997 that such a ban was illegal.

**Fig. 7 – News article on the end of EU-US trade war, March 2012:
‘Agreement eases EU-US trade war over beef’**

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The Year 11 students discovered that one major factor determining the competitiveness of UK goods and services was the UK's Exchange Rate against the euro.

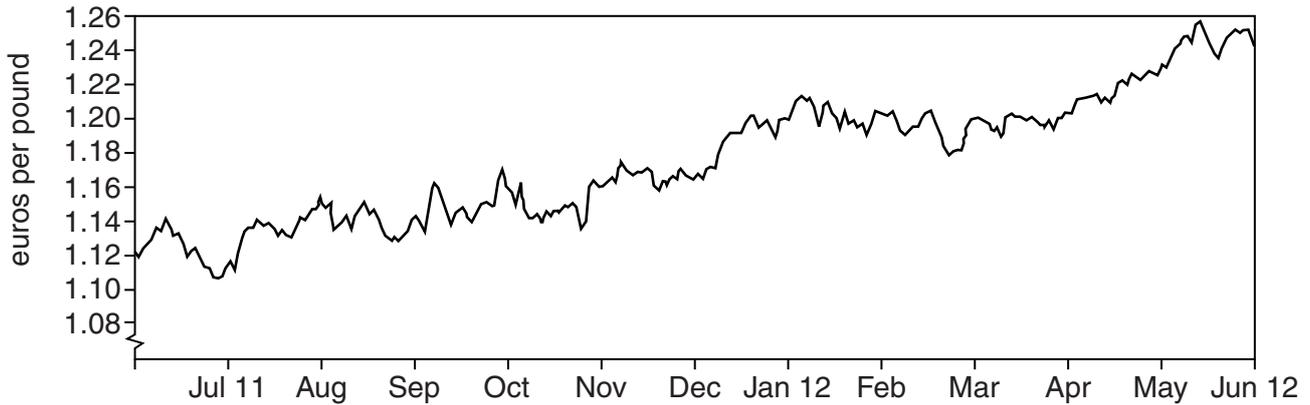


Fig. 8 – The value of the UK pound in euros

UK tourists travelling to eurozone countries in 2012 have benefited from the changes in the value of the pound, with the pound being worth more than 1.20 euros for the first time in over three and a half years. This means that these tourists are getting more for their money than they did in 2010 and in 2011.

One foreign currency expert predicts that this trend will continue: "It could reach 1.27 or 1.28 euros," he said. Another expert agreed with this and added: "We've seen the pound climb this year as the eurozone debt crisis has come to a head".

Another factor which has helped the pound to strengthen against the euro has been the decision of the European Central Bank to cut interest rates which has made the euro less attractive to investors.

Whilst good for UK tourists travelling to eurozone countries on holiday, changes in the value of the pound are a mixed blessing to firms trying to compete in world markets.

**Fig. 9 – News article, May 2012:
'Pound at 1.20 euros for tourists'**

Whilst the students found that the exchange rate was one important determinant of the competitiveness of UK exports, their research also found that the rate of inflation was another major factor. Furthermore, at the end of their project they realised that the need to improve international competitiveness was one of the main reasons why the UK government pursued economic policies aimed at reducing inflationary pressures in the economy and achieving 'price stability'.

The following data on the rates of inflation in selected countries was discovered by the students.

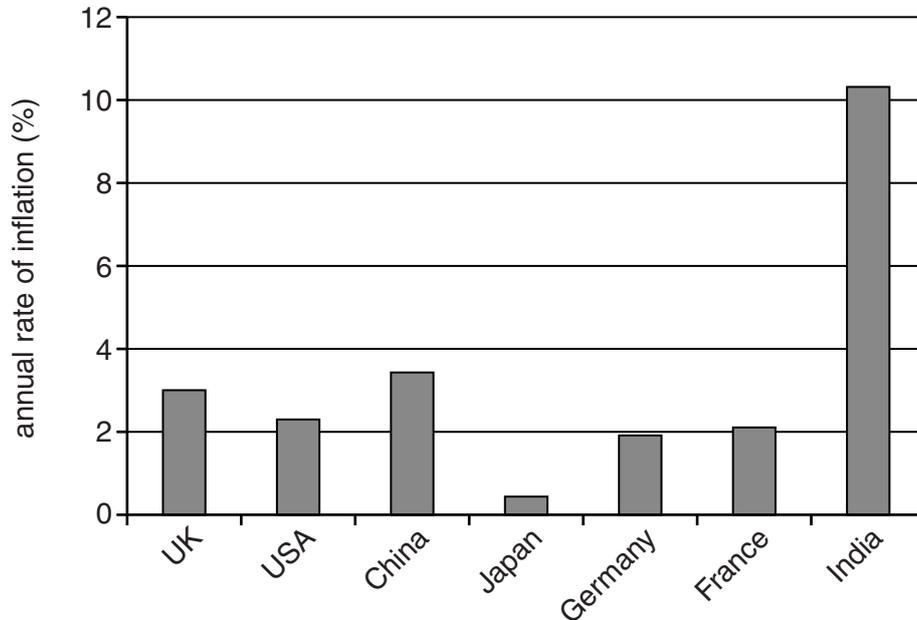


Fig. 10 – Annual inflation rates in selected countries, May 2012

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