A-Level Economics: Inequality and Poverty Past Paper Questions

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Question 1

The table shows the selected economic data in 2014 for Vietnam and India.

	Gross National Income per capita (2011 PPPs)	Human Development Index (HDI) value
Vietnam	5 092	0.666
India	5 497	0.609

(Source: www.hdr.undp.org/en/composite/HDI)

(a) Which **one** of the following statements can be deduced from the data in the table?

(1)

- ☒ **A** Average incomes are higher in India than in Vietnam.
- ☒ **B** Levels of absolute poverty are higher in Vietnam.
- ☒ **C** Life expectancy is higher in India than in Vietnam.
- ☒ **D** Provision of healthcare and education is less effective in Vietnam than in India.

(b) With reference to the data provided, explain **two** limitations of using the HDI to compare levels of development between countries and over time.

(4)

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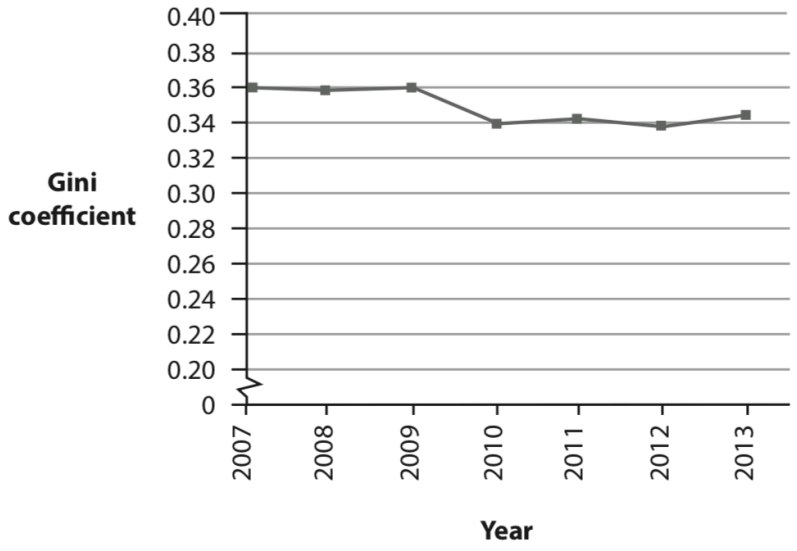
Question 2

(a)

The chart below shows the UK Gini coefficient of incomes, 2007 to 2013.



(Source: adapted from https://www.equalitytrust.org.uk/how-has-inequality-changed)

(a) Explain **one** likely reason for the change in UK income inequality since 2007.

(4)

(b)

Which **one** of the following values for the Gini coefficient is correct if there is perfect income equality?

(1)

- ☒ **A** 0
- ☒ **B** 0.5
- ☒ **C** 1
- ☒ **D** 50:50

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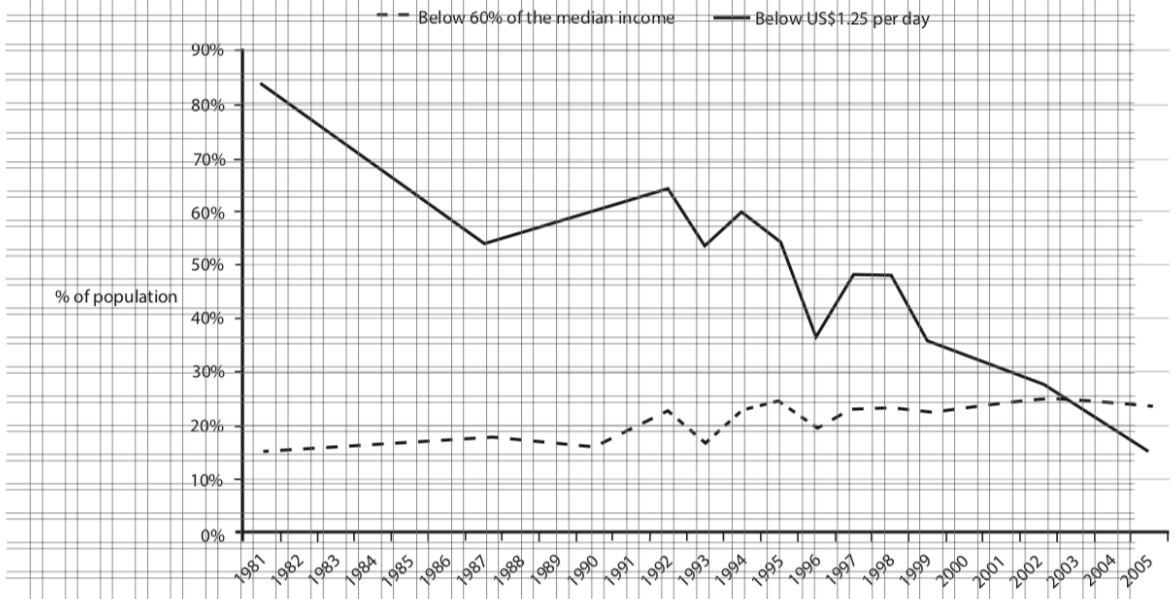
Question 3

Figure 1 Percentage of the Chinese population living below given poverty lines, 1981–2005



(Source: 'On the Relevance of Relative Poverty for Developing Countries', Christopher Garroway and Juan R. de Laiglesia, OECD Development Centre Working Paper No. 314, 25 September 2012, http://www.oecd-ilibrary.org/docserver/download/5k92n2x6pts3.pdf?expires=1407413528&id=id&accname=guest&checksum=A75B55C561BDBC9E7782C66D9F501402)

(a) With reference to Figure 1, explain the difference between absolute poverty and relative poverty.

(4)

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Question 4

*(a) Examine the causes of income and wealth inequality in the UK **or** any country of your choice.

(20)

Question 5

(a) Assess the causes of absolute poverty in a developing country of your choice.

(20)

(b) To what extent is reducing the number of people living in absolute poverty sufficient to achieve economic development?

(30)

Question 6

(c) Examine the possible impact on poverty of economic growth in Africa.

(10)

Question 7

(a) Assess the effect of globalisation on inequality in the world economy.

(20)

(b) Inequality within many developed countries is increasing. Evaluate the impact of policies designed to reduce inequality in a developed country of your choice.

(30)

Question 8

Extract 1

The Tanzanian economy experienced rapid growth from 2000–2010. As a result, the country's per capita income increased from US$310 in 2000 to more than US$540 in 2010. Macroeconomic stability has brought significant dividends in terms of economic growth. Despite this, Tanzania is still a poor country, with approximately one third of its population living below the subsistence level. It is a predominantly rural country with approximately 30 million people, or about 75% of the total population, living in the countryside. Since 2001, the level of absolute poverty in rural areas has remained stagnant at around 37–40% of households. These poor rural households constitute 80% of the country's poor. Furthermore, the Gini coefficient has risen from 0.34 in 1992 to 0.38 in 2007, with signs that this trend is continuing.

After a brief dip in 2010/11, Tanzania's economy has bounced back. Partly driven by the high level of performance of the telecommunications, banking and mining sectors, the quarterly rate of growth in GDP was 7.1% for the period from January to March 2012. This is up from 6.1% for the same period in 2011. However, the agricultural, manufacturing and construction sectors recorded lower rates of growth than the overall economy.

The rate of growth is largely driven by increased demand from the public sector and not from the private sector or exports. The Government's contribution to aggregate demand accounted for more than half of economic growth during 2009–11. This compares to the period from 1998 to 2008 when the Government's contribution accounted for only one third of growth. In the same period, the contribution of the private sector declined significantly. A possible cause of this was crowding out resulting from extensive Government borrowing on the domestic market in 2009/10 and 2010/11.

Tanzania's remarkable macroeconomic performance has to be qualified on two counts. First, the increase in GDP appears less impressive when adjusted to take into account the rapid expansion of the population. Secondly, with the exception of the construction industry, economic growth has been concentrated in capital intensive rather than labour intensive sectors. The expansion of the telecommunications, banking, and transportation sectors has had a number of positive impacts on the economy. However, in total, these sectors employ less than 1% of Tanzania's workforce. By contrast, agricultural (including fisheries) and manufacturing sectors are relatively weak. Indeed, agriculture accounts for more than 25% of GDP, provides 85% of exports, and employs 80% of the work force. Cash crops, including coffee (its largest export), tea, cotton and cashews, account for the majority of export earnings. Geographical conditions, however, limit cultivated crops to only 4% of the land area.

For now, economic growth has not had a significant impact on reducing poverty rates especially in rural areas. Broadening the growth base will ensure that more Tanzanians benefit from economic growth. Therefore, diversification could involve the development of traditional activities other than crops, such as fishing and livestock; encouraging farmers to explore new high-value products and encouraging non-farm activities including tourism and mining, which offer new opportunities.

(Source for all figures and text: Tanzania Economic Update: From Growth to Shared Prosperity. October 2012. The World Bank Group Region: Africa Poverty Reduction and Economic Management Issue 2.)

(b) With reference to the first paragraph of Extract 1, outline the change in income inequality in Tanzania between 1992 and 2007. Illustrate your answer with a Lorenz curve diagram.

(8)

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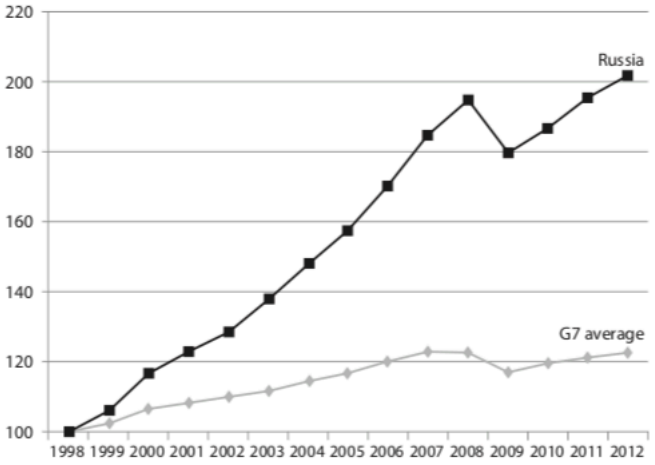
Question 9

The Russian economy and membership of the World Trade Organisation (WTO)

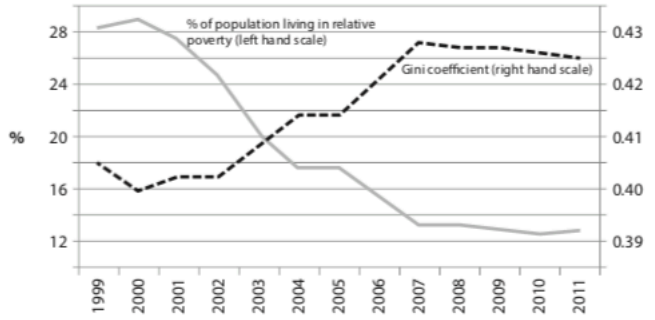
Figure 1 Index of real GDP in the G7* and Russia 1998-2012 (1998 = 100)



* the USA, UK, France, Germany, Italy, Canada, and Japan

(Source: © Forbes.com LLC)

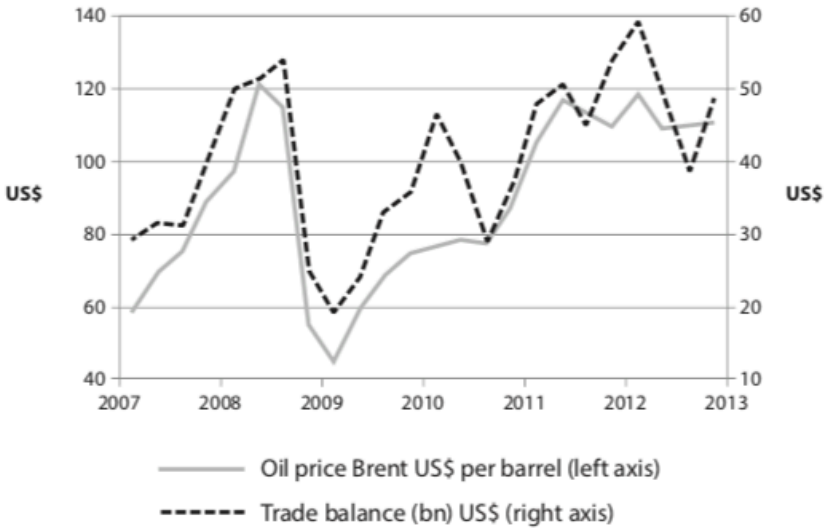
Figure 2 Relative poverty* and inequality in Russia



*a level of income set at 60% or less of median household income

(Source: © The World Bank Group, 2012)

Figure 3 Oil price and Russia's trade balance



(Source: © The World Bank Group, 2013)

Extract 1 Russia needs a plan for modernising its economy

Between 2000 and 2008 personal incomes in Russia doubled. The unemployment rate fell from around 12% to 7% in the same period. Russia acquired $500 billion of foreign currency reserves and the decline in population was halted.

Russia's economy is still not performing badly. Thanks to the high oil price, economic growth is likely to stay at 4% or a little less for the next few years – respectable by West European standards. The problem is that Russia's rulers do not appear to have a plan for modernising the economy, which is alarmingly unbalanced. Oil and gas provide half the government's revenue and almost 70% of export earnings. Output of oil and gas is static and few new fields are coming on stream. Even if the oil price stays high, Russia is heading for current account and budget deficits in the years ahead.

(Source: © Centre for European Reform)

Extract 2 Russia's entry to World Trade Organisation (WTO) ends 19 years of negotiations

Russia's entry into the WTO in August 2012 had been a long time in coming. Negotiations began soon after the breakup of the Soviet Union and the collapse of communism and have been rumbling on for the past 19 years.

Russia's membership of the WTO means that the last major economic power has joined the global trading system. The WTO will force Russia to lower its average tariffs from 9.5% to 6% by 2015. WTO membership will also make the government curb subsidies to some industries, including farming. Russia is hoping entry will provide the sort of boost enjoyed by China after it was admitted to the WTO in 2001. However, that looks unlikely for three reasons. The economic climate is much less favourable than it was in 2001, when the global economy was about to embark on its strongest period of growth since the late 1960s and early 1970s. China's economy was much better equipped to reap the benefits of WTO membership, with a strong manufacturing base contrasting with Russia's over-reliance on oil and gas. Finally, China gained from being the first former communist giant to join the WTO.

There are still, of course, potential benefits to Russia from WTO membership. The government is hoping for a surge in foreign direct investment that will help make Russian industry more efficient. Russia's exporters will gain approximately $1.5 billion to $2 billion (£950 million to £1.3 billion) a year from the dismantling of foreign trade barriers. Lower tariffs on imported goods should lead to cheaper goods in the shops, boosting the spending power of consumers.

But WTO membership comes at a price. Dismantling protective barriers means that large sections of Russian industry may struggle to compete. Already, there are doubts about the ability of the automobile sector to survive in a more open trading system.

(Source: © Guardian News and Media Ltd, 2012)

(a) With reference to Figure 1, comment on the performance of the Russian economy in the period shown.

(5)

(b) With reference to Figure 2, describe what has happened to income inequality in Russia. Illustrate your answer with a Lorenz curve diagram.

(8)

(c) With reference to the information provided, examine possible reasons why the proportion of the population in relative poverty in Russia has declined despite the Gini coefficient increasing over the same period.

(10)

*(d) Assess the implications for the Russian economy of its dependence on oil and gas.

(12)

*(e) Evaluate the likely benefits for Russia of its decision to join the WTO.

(15)

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Question 10

Between 1986 and 2010, income inequality, as measured by the Gini coefficient, increased from 0.21 to 0.26 in Sweden; from 0.25 to 0.3 in Germany; and from 0.37 to 0.41 in the USA.

(a) Assess possible causes of an increase in income inequality within a country.

(20)

(b) Evaluate ways by which income inequality **and** wealth inequality might be reduced in a developed country of your choice.

(30)

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Question 11

World poverty

Extract 1 Poverty in the European Union (EU)

More than a third of the population in Bulgaria, Romania, Greece, Latvia and Hungary are at risk of poverty and social exclusion. In half of the EU's 28 member states, at least one in three children live in relative poverty.

In Spain and Greece there are concerns about the difficulty faced by their citizens in finding work as well as problems in accessing welfare benefits. At the same time Greece is experiencing increased emigration, often of young people with skills. Further, the health of the Greek population is deteriorating.

Austerity policies put in place to tackle budget deficits and reduce Europe's growing national debts are having a devastating impact. A report from Euractiv claims that "the prioritisation of austerity measures has not solved the crisis but is causing social problems and unrest that risk having lasting impacts worldwide".

(Source: adapted from Euractiv.com, 'Alarming Report reveals rampant poverty across Europe', http://www.euractiv.com/sections/social-europe-jobs/alarming-report-reveals-rampant-poverty-across-europe-312264)

Extract 2 World Bank forecasts global poverty to fall below 10% for first time

In April 2013, the World Bank endorsed two goals: to end absolute poverty by 2030 and to boost prosperity by raising the incomes of the bottom 40% of the world's population. The World Bank provides finance and expertise to developing countries to help achieve these goals.

A 2015 paper by the World Bank reported that the number of people living in absolute poverty around the world is projected to fall from 12.8% of the global population in 2012 to 9.6% in 2015.

The World Bank uses an updated international poverty line of US $1.90 a day. The new poverty line preserves the real purchasing power of the previous level (of $1.25 a day in 2005 prices) in the world's poorest countries. Using this new poverty line, the World Bank projects that global poverty will fall from 902 million people to 702 million people.

Jim Yong Kim, the President of the World Bank, said that the reductions in poverty were the result of recent strong growth rates in developing countries; investment in education; healthcare improvements and social safety nets that helped keep people from falling back into poverty. However, slower global economic growth, high levels of youth unemployment and conflict in many developing countries make the goal of ending absolute poverty by 2030 highly unlikely.

Since 1990, three regions, East Asia, South Asia and Sub-Saharan Africa, have accounted for 95% of global poverty. However, the composition of poverty across these regions has shifted dramatically. In 1990, East Asia accounted for half of the global poor, whereas 15% lived in Sub-Saharan Africa. By 2015, this is forecast to be reversed: Sub-Saharan Africa will account for half of the global poor, with 12% living in East Asia. Poverty is declining in all regions but it is becoming more difficult to eliminate in countries that are conflict-ridden or overly dependent on commodity exports.

The growing concentration of global poverty in Sub-Saharan Africa is of greatest concern. While some African countries have been successful in reducing absolute poverty, the region as a whole lags behind the rest of the world. Sub-Saharan Africa's absolute poverty only fell from an estimated 56% in 1990 to a projected 35% of the region's population in 2015. Rapid population growth remains a key factor for slow progress in many countries.

In its regional forecasts for 2015, the World Bank said that absolute poverty in East Asia would fall to 4.1% of its population, down from 7.2% in 2012.

(Source: adapted from http://www.worldbank.org/en/news/press-release/2015/10/04/world-bank-forecasts-global-poverty-to-fall-below-10-for-first-time-major-hurdles-remain-in-goal-to-end-poverty-by-2030)

(a) With reference to Extract 2, briefly outline the role of the World Bank.

(4)

(b) With reference to Extract 1, analyse **two** likely causes of relative poverty in the EU.

(8)

(c) With reference to Extract 2, discuss possible reasons why absolute poverty has decreased more rapidly in East Asia than in Sub-Saharan Africa.

(12)

(d) To what extent might foreign aid increase the level of economic development in developing countries?

(16)