ECO.MAC23 Trade Agreements, Trading Blocs and Globalisation

AQA 7136 · Calculators not allowed · about 90 minutes

Total Marks

Name: ______________________________ Date: ____ / ____ / ______

Answer all questions. Full sentences are required for questions worth 4 marks or more. Allow about 90 minutes for the whole pack.

1 Define a free trade area in the context of regional trading blocs, and name one feature that distinguishes a free trade area from a customs union, using the example context of NAFTA/USMCA.

(Total for Question 1 is 2 marks)

2 Define a customs union and state one advantage it has over a free trade area for reducing trade costs inside the bloc, with reference to a regional bloc such as the East African Community considering deeper integration.

(Total for Question 2 is 2 marks)

3 Define a common market and name one additional freedom it permits beyond a customs union, in the context of the European Economic Community moving towards a single market.

(Total for Question 3 is 2 marks)

4 Define a monetary union and state one cost that members may face when joining a monetary union such as the Eurozone.

(Total for Question 4 is 2 marks)

5 Explain, in the context of a country joining a trading bloc, what is meant by trade creation and give one example effect on domestic producers or consumers after tariff removal between members.

(Total for Question 5 is 3 marks)

6 Explain trade diversion and how it can reduce a country's welfare compared with the pre-bloc situation, in the context of the UK joining a hypothetical trading bloc that sources goods from a higher-cost partner instead of a lower-cost non-member.

(Total for Question 6 is 3 marks)

7 Using the example of the European Union, state one clear example that distinguishes trade creation from trade diversion when the EU expanded eastwards, naming which of the two each example illustrates.

(Total for Question 7 is 2 marks)

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8 Define the role of the World Trade Organization (WTO) in the multilateral trading system, naming one function it performs in promoting trade liberalisation and cooperation among nations.

(Total for Question 8 is 2 marks)

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9 Explain the WTOs dispute settlement role, in the context of a small economy using the WTO to challenge higher tariffs imposed by a larger trading partner.

(Total for Question 9 is 3 marks)

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10 Define globalisation as the growing economic interdependence of national economies, and state one way technological change has accelerated globalisation in recent decades.

(Total for Question 10 is 2 marks)

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11 State three main drivers of globalisation that explain why countries became more economically interdependent since the 1980s.

(Total for Question 11 is 3 marks)

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12 Explain two possible effects that multinational corporations (MNCs) can have on host developing countries, using real-world logic about investment, employment and technology transfer.

(Total for Question 12 is 4 marks)

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13 Evaluate the view that globalisation has been a net benefit for developing countries over the last forty years. In your answer, consider economic growth, inequality, sovereignty and the role of multinational companies, and draw a supported conclusion. You should refer to diagrammatic or empirical reasoning where appropriate and consider counterarguments.

Evaluate the view that globalisation has been a net benefit for developing countries over the last forty years.

(Total for Question 13 is 25 marks)

Mark scheme · ECO.MAC23 Trade Agreements, Trading Blocs and Globalisation

Question 1

- **B1** a free trade area is an agreement between countries to remove tariffs and quotas on trade between member states
- **B1** distinguishing feature: members retain their own external tariffs on imports from non-members, rather than adopting a common external tariff
- **Answer: A free trade area removes tariffs between member states; unlike a customs union, each member can keep its own external tariff on non-members.**

Question 2

- **B1** a customs union is a group of countries that remove internal tariffs between members and adopt a common external tariff on imports from non-members
- **B1** advantage: eliminates the need for complex rules of origin and some border checks between members, reducing administrative costs and delays
- **Answer: A customs union removes internal tariffs and sets a common external tariff; it reduces administrative and border checks because members do not need rules of origin checks between themselves.**

Question 3

- **B1** a common market is a customs union that also allows the free movement of factors of production between member countries
- **B1** additional freedom: free movement of labour or capital, for example workers can move and work freely across member states
- **Answer: A common market combines a customs union with free movement of factors of production; for example it allows workers and capital to move freely between members.**

Question 4

- **B1** a monetary union is a group of countries that adopt a single currency and a common monetary policy
- **B1** cost: loss of independent monetary policy, so members cannot set their own interest rates or devalue their currency to respond to country-specific shocks
- **Answer: A monetary union adopts a single currency and common monetary policy; a cost is the loss of independent interest rate and exchange rate policy to respond to country-specific shocks.**

Question 5

- **B1** trade creation occurs when higher-cost domestic production is replaced by lower-cost imports from a partner country after tariffs are removed
- **B1** example effect: consumers gain from lower prices and greater variety of goods
- **B1** alternative effect: some inefficient domestic producers may lose market share and shrink or close
- **Answer: Trade creation is when cheaper member imports replace more expensive domestic production after tariffs are removed; consumers benefit from lower prices and more choice, while some domestic producers may lose market share.**

Question 6

- **B1** trade diversion occurs when tariff removal within a bloc causes imports to switch from a lower-cost non-member supplier to a higher-cost member supplier because of the bloc's external tariffs
- **B1** this can reduce national welfare because consumers may pay higher prices than before the bloc, losing the gains from lower-cost non-member imports
- **B1** another consequence: resources are allocated less efficiently as production shifts to higher-cost producers inside the bloc, lowering overall economic welfare
- **Answer: Trade diversion is when imports switch from a lower-cost non-member to a higher-cost member because of the bloc's arrangements, which can raise prices and reduce welfare by moving consumption and production away from the most efficient suppliers.**

Question 7

- **B1** trade creation example: after expansion, firms in western EU countries import cheaper manufactured parts from lower-cost eastern member states instead of producing them domestically
- **B1** trade diversion example: if the EU now imports a product from a higher-cost eastern member instead of a cheaper non-member supplier because of external tariffs, that is trade diversion
- **Answer: Trade creation: western firms buying cheaper parts from new eastern members rather than producing them at higher domestic cost. Trade diversion: buying from a higher-cost eastern member instead of a cheaper non-member because of the EUs external tariff.**

Question 8

- **B1** the WTO is an international organisation that provides a framework of rules for international trade between member countries
- **B1** function: administers trade agreements, monitors members compliance and facilitates negotiations aimed at liberalising trade
- **Answer: The WTO provides an international rules-based framework for trade and facilitates negotiations; it administers trade agreements and monitors member compliance to promote multilateral liberalisation.**

Question 9

- **B1** the WTO operates a dispute settlement mechanism that allows members to bring complaints against other members alleged to violate WTO rules
- **B1** the mechanism provides panels and an appeals process to investigate and rule on disputes, giving smaller economies a formal route to challenge larger partners
- **B1** if a violation is found the WTO can authorise remedies such as allowing retaliatory measures or recommending adjustments, encouraging compliance with agreed rules
- **Answer: The WTO offers a formal dispute settlement system where members can bring complaints, panels and appeals examine the case, and remedies can be authorised to enforce compliance, helping smaller countries challenge larger partners under common rules.**

Question 10

- **B1** globalisation is the increasing economic integration and interdependence of countries through trade, capital flows, migration and the spread of technology
- **B1** example technological driver: improvements in telecommunications and the internet have lowered transaction costs and enabled global supply chains and services trade
- **Answer: Globalisation is increasing economic integration and interdependence between countries; the internet and improved telecommunications have accelerated it by lowering transaction costs and enabling global supply chains.**

Question 11

- **B1** trade liberalisation and reduction in tariffs
- **B1** growth of multinational companies and foreign direct investment
- **B1** advances in transport and information technology reducing costs of moving goods, services and information
- **Answer: Trade liberalisation; expansion of multinational companies and foreign direct investment; and improvements in transport and information technology.**

Question 12

- **M1** identifies effect: MNCs can bring foreign direct investment, creating jobs and raising incomes in the host country
- **A1** development: investment often funds factories and services and can reduce unemployment and increase tax revenues if repatriation is limited
- **M1** identifies effect: MNCs can transfer technology and management skills to local firms and workers
- **A1** development: this can raise productivity and help build local capabilities, though gains depend on local absorptive capacity and linkages to the domestic economy
- **Answer: MNCs can provide FDI that creates employment and raises incomes, and can transfer technology and management skills that increase productivity; the benefits depend on factors such as repatriation, local linkages and absorptive capacity.**

Question 13

- **Level 1** (1-5): Basic statements about globalisation and developing countries with limited development or evidence, little or no evaluation, and no clear conclusion.
- **Level 2** (6-10): Clear description of benefits and costs of globalisation with some use of examples or reasoning, partial evaluation of trade offs, but limited depth or balance and a weakly supported conclusion.
- **Level 3** (11-15): Well developed analysis using economic reasoning and examples, considers multiple arguments for and against including issues of growth, inequality, sovereignty and MNCs, assesses strengths and weaknesses of each argument and reaches a supported and balanced conclusion.
- **Level 4** (16-20): Detailed and well balanced evaluation, integrates quantitative or diagrammatic reasoning, examines distributional impacts and policy responses, challenges assumptions and provides a justified conclusion with clear nuance.
- **Level 5** (21-25): Comprehensive evaluation that synthesises multiple lines of evidence and theory, critically examines causation and counterfactuals, provides policy-relevant implications and a clear, well argued judgement referencing both empirical and theoretical considerations.
- **Indicative content:**
  - Arguments that globalisation has benefited developing countries: faster economic growth through access to larger markets and foreign investment, export-led growth examples (East Asia), technology transfer from FDI raising productivity, access to cheaper imports raising consumer welfare, and potential fiscal gains from tax revenues and improved infrastructure via investment.
  - Arguments that globalisation has harmed or yielded mixed outcomes: rising within-country inequality and uneven distribution of gains, dependence on volatile global markets and capital flows increasing vulnerability to external shocks, profit repatriation by MNCs limiting local value capture, and erosion of policy space and sovereignty when countries feel forced to liberalise quickly.
  - Consideration of sectoral and country differences: low-income commodity exporters may have experienced weaker benefits than manufacturing exporters; some countries attracted sustainable investment and industrialisation while others remained trapped in low-value activities.
  - Evaluation points: magnitude and timing of effects, the role of domestic institutions and governance in shaping outcomes, how complementary policies (education, infrastructure, industrial policy) affect the ability to capture gains, and whether short-term shocks are offset by long-term structural improvements.
  - Use of diagrams or empirical reasoning: supply and demand for labour and potential effect on real wages, Lorenz curve or Gini discussions for inequality, or a hypothetical growth path comparison with and without openness to illustrate cumulative gains.
  - Policy implications and mitigations: selective liberalisation, investment in human capital, taxation and redistribution, stronger bargaining and regulation of MNCs, regional cooperation to improve bargaining power.
  - Conclusion should weigh the evidence, noting that globalisation has brought substantial opportunities and growth for many developing countries but that benefits are uneven, and that domestic policy choices and institutions determine whether globalisation is a net benefit.