OXFORD
INTERNATIONAL AQA EXAMINATIONS

INTERNATIONAL A-LEVEL

ECONOMICS

UNIT 4: ECONOMIC DEVELOPMENT AND THE GLOBAL ECONOMY

SPECIMEN 1

Source Booklet

Extract A: Brazil’s trade and exchange rate

Extract B: What has happened to Brazil’s economy?

Extract C: Inequality and living standards have improved but there is more to do

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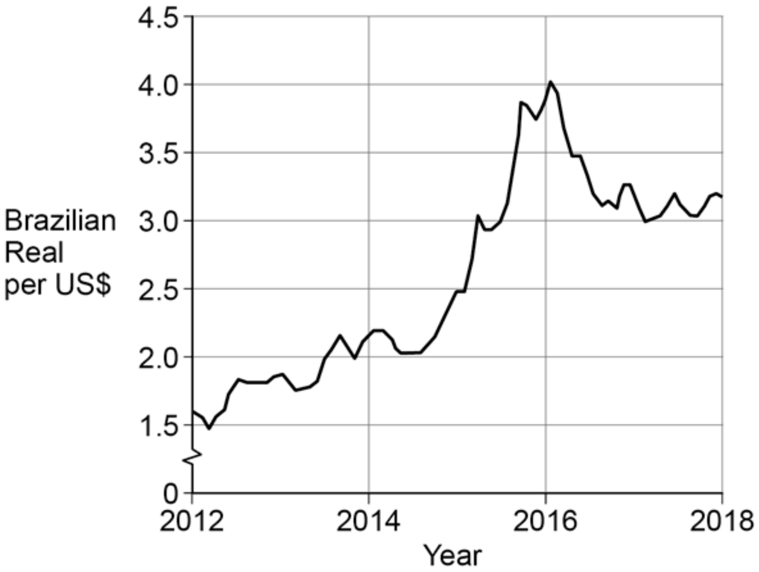
Extract A: Brazil's trade and exchange rate

Figure 1 Brazil's balance of trade in goods and services 2012 to 2018, US$ million

Year	Balance of trade in goods and services
2012	-22 749
2013	-45 984
2014	-54 736
2015	-19 261
2016	+14 590
2017	+30 178
2018	+19 637

Source: The Central Bank of Brazil, accessed June 2019

Figure 2 Brazilian Real v US dollar exchange rate, 2012 to 2018



Note: The data in the chart show the number of Brazilian Real (the currency of Brazil) that can be bought with one US dollar.

Source: Trading Economics, accessed June 2019

Extract B: What has happened to Brazil's economy?

The economy of Brazil is the world's ninth largest when ranked by nominal GDP. It is a mixed economy with the value of its natural resources estimated as being worth US$21.8 trillion. From 2000 to 2010, Brazil was one of the fastest-growing large economies, with an average annual growth rate of over 5%. However, growth started to slow in 2011 and the country experienced a serious two-year recession in 2015-16 which saw real GDP fall by almost 7%. The recovery has been slow, with growth of only 1.1% in 2017 and 2018. Growth in 2019 is expected to remain sluggish, at less than 1.5%. Investment in Brazil has remained low, affected by the large amount of spare capacity, poor business confidence and uncertainty about the future growth of both the Brazilian and world economies.

Brazil's current account of its balance of payments is deteriorating and the deficit is expected to be about 1.5% of GDP in 2019. Nevertheless, its external position is strong because it has substantial foreign exchange reserves and benefits from large inflows of foreign direct investment (FDI). Its floating exchange rate helps to preserve its competitiveness in foreign trade and helps its economy adjust after external shocks.

Unemployment increased from 7.6 million in 2012 to 13.4 million in 2018; that's 12.7% of the labour force. It is estimated that a further 14.9 million people are under-employed, working fewer hours than they could.

Some commentators believe that overspending by the previous government harmed Brazil's economy. The national debt increased from 52% of GDP in 2010 to 77% in 2018. The budget deficit was 2.4% of GDP in 2010, rising to 10.2% in 2015 before falling back to 7.1% in 2018. The present government has tried to reduce the deficit, but this has involved cutting government spending at a time when the economic recovery is fragile.

Source: News reports, 2019

Extract C: Inequality and living standards have improved but there is more to do

Brazil experienced a period of economic and social progress between 2003 and 2014. Inequality declined significantly and more than 29 million people were taken out of poverty. The Gini coefficient fell from 58.1 to 51.5. Real income of the poorest 40% of the population increased by an average of 7.1%, compared to a 4.4% increase in income for the population as a whole. However, since 2015, the pace of poverty and inequality reduction has stagnated.

Reducing the budget deficit is the most pressing economic challenge facing Brazil but to improve living standards, it also needs to increase investment in infrastructure and raise productivity. Compared to many similar economies, investment in infrastructure is low at 2.1% of GDP. Brazil also needs to spend more on its public sector health and education systems to improve the service provided. Many of those on higher incomes send their children to private schools and pay for private health care.

Over the past decade, Brazil has attracted larger net FDI inflows than most other emerging market economies. However, it continues to impose many restrictions on international trade. Whilst these can help to protect and support the growth of domestic firms, they limit competition and can lead to low productivity growth, inefficiency and high costs.

Source: News reports, 2019

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