

Revision Worksheet

A2 Economics

Essay Questions

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JUNE 2003 Question 3

- (a) Examine the significance of the single currency for decisions by multinationals to invest in EU countries. **[40]**
- (b) The UK is the largest recipient of inward foreign investment within the EU. Evaluate the benefits of such foreign investment for the UK economy. **[60]**

[Write your answer plan in this space before looking at the answer guide]

Qu. 3(a) Examine the significance of the single currency for decisions by multinationals to invest in EU countries.

Level 5

28-40 marks

The single currency is important for MNCs because:

- Transactions costs are eliminated especially if the base is used for exporting to the rest of eurozone area
- Exchange rate fluctuations are reduced leading to greater certainty
- It will avoid the problems associated with the overvaluation of a Currency (e.g. the £)
- Value of Euros against other currencies
- Credit answers which analyse reasons why MNCs might not invest in the UK

Evaluation points:

- Wage costs and non-wage costs may be more significant than transactions costs
- Government grants might be very significant
- UK economy more flexible outside the eurozone
- UK is still the largest recipient of FDI in European Union

For a L5 mark: Discussion of 3 points and at least one evaluation point.

Max 28 marks if no evaluation.

Award a L4 mark (24-27 marks) if only 2 factors + evaluation

Award a L2 mark (16-19 marks) for identification of points only or for narrow response focussing on one point.

(b) The UK is the largest recipient of inward foreign investment within the EU. Evaluate the benefits of such foreign investment for the UK economy. (60 marks)

Possible benefits include:

- Credit on B/P capital account
- Future benefit on B/P current account if exports rise and imports fall
- For economic growth: multiplier effects
- Increased employment
- New methods of production and working practices: impact on UK producers
- Tax revenue to government

Evaluation points might include:

- Negative impact on B/P (investment income to shareholders abroad)
- Increased competition for domestic producers: unemployment? Net employment affect might be small
- Increased dependence of economy on decisions made by managers overseas. Significant if investment is withdrawn in the future.
- Impact on the economy might be small (if there is little value added in the UK)
- FDI is a small % of GDP.

For a L5 mark: Discussion of 4 points and two evaluation points.

Max 42 marks if no evaluation

Award a L4 mark (36-41 marks) if only 3 points + evaluation

Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.