
GLOBAL PERSPECTIVES

9777/01

Paper 1 Written Paper

May/June 2019

INSERT (Resource Booklet)

1 hour 30 minutes

READ THESE INSTRUCTIONS FIRST

This Resource Booklet contains Documents 1 and 2 which you should use to answer the questions.

You should spend approximately 10 minutes reading the documents before attempting to answer the questions. This is allowed for within the time set for the examination.



This syllabus is regulated for use in England, Wales and Northern Ireland as a Cambridge International Level 3 Pre-U Certificate.

This document consists of **3** printed pages and **1** blank page.

The documents below consider Standards of Living. Read them **both** in order to answer **all** the questions on the question paper.

Document 1: adapted from *Automation and Technology Increase Living Standards*, by Lindsey Burke and James Sherk. Both authors are academic researchers at The Heritage Foundation. The Heritage Foundation promotes public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense. The article was published online in 2015.

Many worry that automation will significantly reduce the need for workers. Historical experience should reduce many of these concerns. Technological advances have eliminated specific jobs and reduced prices. History shows this has left consumers with more money to spend elsewhere. This increases the demand for workers in other sectors of the economy. Some prominent economists suggest that this time it is different. They fear advances in computer technology will substantially reduce the demand for workers, especially less-skilled ones.

The data suggest that these concerns are misplaced. Less-skilled employees have seen their employment and pay grow at above-average rates. Automation is changing the type of work people do, but not the overall need for human labour. Technological progress continues to enable people to achieve higher living standards.

Many analysts fear that technological advances will soon make much human labour redundant. Machines will reduce the amount of work remaining, especially for people in less-skilled jobs. Almost all economists reject this. Economists have found that an almost unlimited amount of potential work exists in the economy because people's material desires continue to expand.

Automation does reduce the human labour needed to produce particular goods and services, but it also reduces production costs. Competition forces firms to pass these savings on to their customers through lower prices. These lower prices lead consumers to buy more of the now less-expensive product and leave them with more money to spend elsewhere. This increases the demand for labour in those sectors of the economy. The amount of work in the economy expands to use the available labour force. Economists strongly agree on this point. The University of Chicago recently asked a panel of prominent economists whether they agree that "advancing automation has not historically reduced employment in the United States." Over 75 per cent agreed with that statement.

America's economic history illustrates how technology reallocates—but does not eliminate—human labour. Technological progress enables employees to work more efficiently and produce vastly more goods and services. This increases their income, because competitive labour markets make employers pay employees proportionately to their productivity. Technological advances would only reduce employment if people stopped spending their increased earnings on new goods and services—something that has yet to happen.

Concerns about automation eliminating employment opportunities for less-skilled employees are not supported by the data. Automation reduces both labour costs and prices. Lower prices leave customers with more money to spend, increasing the demand for labour elsewhere in the economy. Automation changes where and how people work, but it has not reduced the overall need for human employees.

There is little evidence to suggest that this time it is different. The wages of the lowest-earning employees have increased rapidly over the past generation. Instead of eliminating human labour, technological advances are reducing the need for humans in routine jobs and increasing the need in non-routine jobs. This pattern has occurred around the world.

Document 2: adapted from *The World Trade Organization (WTO) can ... cut living costs and raise living standards*. The WTO is a forum for governments to negotiate trade agreements and a place to try and resolve the trade problems they face with each other. It was published online.

We are all consumers. The prices we pay for food and clothing, necessities and luxuries, are affected by trade policies. Protectionism through the use of import duties and trade restrictions is expensive: it raises prices. Whereas the WTO's global system lowers trade barriers through negotiation. The result is reduced production costs, reduced prices of finished goods and services, more choice and ultimately raised standards of living.

Incomes can rise. The opening up of trade since 1945 has boosted US annual incomes by \$9000 per household, according to the US government. It says that two major trade agreements of the 1990s — the WTO Uruguay Round and the North American Free Trade Agreement — generate increased purchasing power of up to \$2000 per year for the average American family. The European Union, through its single market, says the gains from the wider variety of goods and services available to the European consumer are about €600 a year, in addition to gains from lower prices.

Food is cheaper if protection is reduced. When you protect agriculture, food is artificially expensive because of the taxes added to the price. When protection is particularly high the impact can be huge. Protecting agriculture raised food prices by an estimated \$1500 per year for a family of four in the European Union in 1997 and by the equivalent of a 51% tax on food in Japan in 1995.

Clothes are cheaper. Like agriculture, trade in garments has been reformed. At times of peak protection, costs to consumers were high. In America, import restrictions and high customs duties raised clothing prices by 58% in the late 1980s. UK consumers paid an estimated £500 million more per year for clothing.

Even now, import taxes on essential products can be a disproportionate burden on the poorest. Economists calculated that if customs duties on clothing were to be eliminated, the result could be a gain to the world of around \$23 billion.

The same goes for other goods and services. Price reductions and affordability from global free trade mean that telecoms services reach more small and medium-sized enterprises too. In Africa: Tanzania, Uganda and Mozambique were among the countries with the highest price drops for telephone, Internet and other communications services in 2008–10.

Import duties (tariffs) often hurt the poor. According to studies in America, higher tariffs are charged on a number of cheap imported products that are bought by lower-income sections of the population. These include sports shoes, underwear, T-shirts and more — meaning these consumers pay tariff rates five to ten times higher than middle-class or rich families pay in upmarket shops. Poorer exporting countries, such as Cambodia and Bangladesh, are also hurt: they face tariffs 15 times higher than those applied to wealthy nations.

And so it goes on. The WTO system has been in place for over 60 years. Global trade barriers are lower than they have ever been in modern trading history. They continue to fall, and we are all benefiting by rising standards of living.

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