



# The Leys School Cambridge

Specimen

## Sixth Form Scholarship Examination

**E C O N O M I C S**

Time allowed: 60 minutes

### *Instructions*

- You should write your answers on LINED paper
- Write your name on any paper that you use
- The use of a dictionary is not allowed

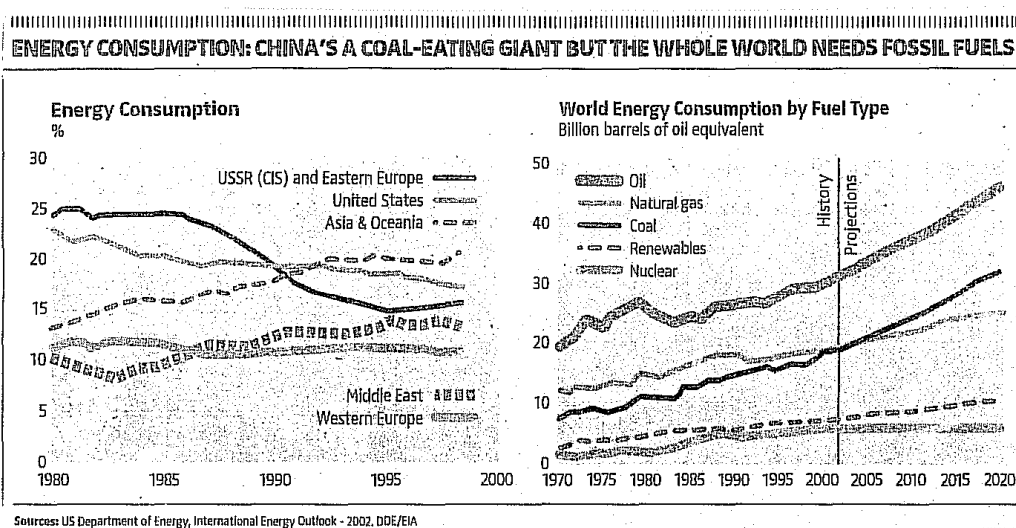
## Task 1 Comprehension (20 Minutes)

Read the article below taken from the Economics and Business news section of The Independent on Sunday, 29 October 2006.

The article identifies several problems associated with the effects of global warming on worldwide economies. Choose two examples and, using your own words, explain them and their consequences in the context of this article. You should write at least 150 words.

# Going green was once for sandal-wearers, but now the bean-counters are converted

Hamish McRae  
The Independent on Sunday  
29 October 2006



Tomorrow may just be a turning point in the way the world tackles climate change. Sir Nicholas Stern's 700-page report on the likely economic impact of such change is published, making the argument that the costs of not acting are likely to be far greater than the costs of acting now - on his calculations between five and 20 times. In a preview to the Cabinet last week, he said: "Business-as-usual will derail growth."

The importance of all this is partly because Sir Nicholas carries a lot of respect. He has done a string of important jobs that span economic theory and policy-making. He was a professor at the London School of Economics, then economist at the European Bank for Reconstruction and Redevelopment, chief economist at the World Bank, went to the Treasury and is now head of the Government Economic Service. Economists who have experience of policy-making are more likely to be listened to than those that are principally interested in theory.

The second reason, though, for feeling that this may change things is that economic arguments are usually more persuasive than softer *altruistic*<sup>1</sup> ones. The problem is that trying to check climate change does involve short-term costs and these are known and come upfront, whereas the costs of not doing anything are uncertain both as to timing and scale. But now and again an event occurs that shows the consequences of not acting now, and Hurricane Katrina demonstrated to the US how a large part of a coastal city could be wiped out. The link between global warming and increasing severity of hurricanes is not proven but there is sufficient association to make policy-makers run scared.

These concerns have been given a political dimension by Al Gore, whose book 'An Inconvenient Truth' and subsequent film have energised a large section of the US public. But that carries a danger

<sup>1</sup> Unselfish concern for the welfare of others

too: if half the US population is convinced maybe the other half will be determined to ignore the warnings. We must question whether British views carry global influence. If one accepts that greenhouse gas emissions are the principal reason for climate change, the UK's own production is not important. We produce about 2 per cent of the total, rather less than our proportion of world output, close to 4 per cent.

Take the slightly different measure of energy consumption - not the same as greenhouse gas emissions because even some forms of fossil fuel energy have lower emissions than others - and you can see that even Europe is not that significant in world terms. The first graph shows what has been happening to demand in terms of the world total. One obvious point is that the collapse of Communism in Russia has been beneficial in the sense that the former Soviet Union's share of energy use has plunged. Another is that while the US remains important in terms of energy use, as a proportion of the total it has been nudging down. This does not mean it shouldn't come down further, for it remains less efficient in energy use than Europe or Japan. But these figures were compiled before the oil price surge of the past 18 months took off and it may be that the market will give a further nudge to American's attitude to energy use. The thing that really does stand out is the growing importance of Asia. I am writing this column in Beijing. Everyone concerned about the environment should spend some time in China because any global programme to tackle climate change has to have this country on board. China will race past Germany to become the third largest economy about the time of the Beijing Olympics in 2008. It will in all probability become the world's largest car producer within a decade. A huge construction boom is taking place. It is two years since I was last here and the physical fabric of the city has been transformed with new tower blocks where before there were low-rise buildings. An oft-quoted fact is that, each year, China builds about as much electricity generating plant as the entire installed capacity of the UK.

Most of that is coal-fired and no matter how coal is cleaned up it remains a relatively dirty fuel. The second graph shows how dependent on fossil fuels the world is likely to remain over the next 15 or so years. Coal, oil, and gas dominate. It may be that the markets of the past year will have led to some switching between coal, oil and gas. They have also led to much more alternative energy investment. But if these estimates are anywhere near right the burden on fossil fuels will continue for another 15 years, maybe longer.

Meanwhile, there is little sign of a China slowdown. The authorities are trying to hold growth just below 10 per cent - but 10 per cent is faster than the UK or US achieved at any stage in history. That will inevitably require more energy and more greenhouse gas emissions.

However, China is well aware of that, and local entrepreneurs have spotted the opportunities. For example, one of the largest developers of photovoltaic cells for solar panels is a Chinese company called Suntech Power. Its founder, Zhengrong Shi, thinks that this could be a \$50bn (£26bn) market by 2010. Officials are also aware, for China has as much from climate change as any other country. Environmental catastrophe is one of the great concerns, one of the few things that might curb the country's race for growth.

That thought leads to a sense of hope. International action on anything is hard to achieve. When there is a short-term-long-term trade-off it is particularly difficult. Add in the point that some countries, in theory at least, stand to benefit from global warming (Canada, Russia) while others may be wiped out (Bangladesh, the Maldives), and the politics appear daunting. But actually you don't need universal agreement. You simply need the biggest players to sign up.

Besides, governments are not all-powerful. Technology and the market mechanism combine as agents for change. If you think of the big changes to people's lives over the past 100 years, from air travel to Google, the advances have come from a combination of human ingenuity and human demand. Government have mostly been facilitators or sometimes barriers; only occasionally have they been prime movers.

So our present concerns, our desire to be "green," will create commercial opportunities. It is impossible to see what those will be because if it were obvious those opportunities would have been exploited. These are the economic advantages for countries whose industries are in the vanguard. Germany is a star on this count but a decade from now the prime performer could be China. If it were China then that would really change the world.

We'll see. The good news is that whereas concern about climate change was a fringe issue in most countries even five years ago, now it is moving centre-stage. Every political party has to acknowledge it as an issue, however it responds. And all of us are seeking in small ways to re-configure how we use energy and ponder about changes to lifestyles that cumulatively would have an impact on energy use.

## Task 2 Writing (40 Minutes)

*The devastating effects of global warming are having a major impact on the world's economy.*

Write an essay for an educated reader outlining the economic impact global warming may have in the future on your personal life, life in your country and the world in general.

- It is important that you show a plan.
- The essay should be in your own words as far as possible but reference can be made to points raised in the article from The Independent on Sunday
- Wholesale lifting of the text will be penalised.
- You should write at least 250 words.

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