UNIVERSITY OF CAMBRIDGE INTERNATIONAL EX
International General Certificate of Secondary Educati

ECONOMICS

Paper 3 Analysis and Critical Evaluation

INSERT

1 hour 30 minutes

READ THESE INSTRUCTIONS FIRST

This Insert contains extracts for Questions 1 and 2.

Anything written on this Insert will not be marked.

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

© UCLES 2012

Extract for Question 1

Russia's tax on imported cars

In August 2010, Russia's Prime Minister announced plans to raise t
cars. Russia's car industry has been significantly reduced as a r
has increased unemployment in the country and reduced the gr
the late 1990s, Russia's Gross Domestic Product (GDP) fell. It h
in recent years but the country's unemployment rate remains high
countries.

Avtovaz, also known as Lada, is the only significant Russian car manufacturer left in the market. Not only has the production of cars fallen in Russia but so has the productivity of Russian car workers. Russian car firms have faced a number of other problems including a rise in the value of Russia's exchange rate and a rise in the price of steel.

The reason for the rise in the tax on imported cars is to encourage foreign car manufacturers to produce in Russia so as to avoid the tax. There is a range of influences on where multi-national companies set up. These include the rate of corporation tax (a tax on companies' profits), the size of the market, government subsidies and the quality of the labour force.

Russia is trying to gain a number of advantages by attracting multi-national companies to set up in the country. One is to increase the value of exports and so have a beneficial effect on the current account of its balance of payments. Table 1 shows its international trade position in recent years.

Table 1: The value of exports and the current account of the balance of payments in Russia 2007–2010

Year	Value of exports (US$ billion)	Current account of the balance of payments (US$ billion)
2007	183.5	59.9
2008	243.6	83.3
2009	303.9	94.3
2010	354.4	76.2

Increasing tariffs is a policy measure that can have uncertain effects. It can result in a number of disadvantages for consumers and the economy.

Extract for Question 2

Changes in the Kenyan tea market

Kenya is a major tea producer. The product accounts for 18% o
employment for many farmers and tea pickers. The supply an
changeable. In 2009, drought destroyed much of the country's te
good weather led to an oversupply of tea with Kenyan farmers fi
crops. Fluctuations in the price of tea cause changes in output w
of unemployment for some tea pickers.

Kenya is facing increased competition from tea producers in a number of Asian and African countries. Pakistan is the most important buyer of Kenyan tea. In 2003, for example, 85% of the tea that Kenya exported was consumed in Pakistan. In 2010, however, the percentage had fallen to 65%. Pakistan is buying an increasing proportion of its imports of tea from rival countries, including Sri Lanka, India and Mali.

Kenya produces low quality tea but there is a change in taste towards demanding high quality tea. Despite paying low wages to tea pickers, Kenyan farmers face relatively high average costs. They produce on a small scale, using a small amount of capital equipment. The Kenya Tea Development Authority is trying to encourage Kenyan farmers to switch to high quality tea, using more efficient methods of production.

Some Kenyan economists have suggested the government should subsidise Kenyan farmers to sell more tea to Pakistan and other countries.

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of