UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/22**

Paper 2 Structured Questions **May/June 2012**

2 hours

Additional Materials: Answer Booklet/Paper

9917194071

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A
Answer Question 1.
Section B
Answer any **three** questions.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **4** printed pages.

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Section A

Answer this question.

1 China decides to move towards a more flexible exchange rate

In the past, the Chinese Government kept an exchange rate of 6.8 yuan to US$1. However, a spokesperson for the People's Bank of China, the country's central bank, said that it would begin to allow the market to play a much greater role in determining the exchange rate. It is expected that a more flexible rate will result in an increase in the value of the Chinese currency.

China has had a surplus on the current account of its balance of payments in recent years. Economists believe that an appreciation of its currency should help to reduce the size of the surplus.

The decision by China will please the United States (US) and many other countries which have a large trade deficit with China. The President of the US has said that "market-determined exchange rates are essential to global economic vitality." If the Chinese Government had not decided to allow its exchange rate to be determined by market forces, many American companies would have demanded tough protectionist measures to reduce the number of Chinese imports coming into the US. They had criticised the Chinese Government for keeping its currency artificially weak which gave Chinese exporters an unfair advantage.

(a) What evidence is there in the extract to suggest that China is planning to move from a fixed to a floating exchange rate? [2]

(b) Analyse how a rise in the external value of the yuan might affect China's current account balance. [6]

(c) Explain why a large surplus for China over many years in the current account of the balance of payments could be a problem for other countries, such as the US. [4]

(d) Discuss the extent to which trade protection could correct a balance of trade in goods and services deficit. [8]

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Section B

Answer any **three** questions from this section.

2 **(a)** Explain, using examples, what is meant by the factor of production called land. [3]

(b) Analyse why a firm might decide to change from labour-intensive production to capital-intensive production. [7]

(c) Discuss the advantages and disadvantages of a newly established firm, with limited resources, expanding into foreign markets. [10]

3 Both the private sector and the public sector are involved in building houses. In one country a private firm has built an extra 100 000 houses but, at the same time, its government has increased income tax significantly.

(a) Explain, using a demand and supply diagram, how these two actions would have affected the equilibrium price and the equilibrium quantity of houses. [6]

(b) Explain what determines the demand for houses. [6]

(c) Discuss whether it is better for the public sector to build houses rather than the private sector. [8]

4 Money plays a significant role in all economies.

(a) Explain why it is better for individuals to use money rather than barter. [6]

(b) Describe the functions that commercial banks perform in an economy. [6]

(c) Analyse why some individuals are more likely to borrow money than others. [8]

5 **(a)** Identify the differences between a partnership and a company. [4]

(b) Explain why a firm's profits might increase. [4]

(c) Distinguish between internal and external economies of scale. [4]

(d) Discuss whether all small firms will eventually become large firms. [8]

6 Low inflation, low unemployment and high economic growth are all government economic aims.

(a) Explain the possible causes of inflation. [5]

(b) Distinguish between structural unemployment and demand-deficient (cyclical) unemployment. [5]

(c) Discuss whether it is always possible for a government to achieve a high rate of economic growth. [10]

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7 **(a)** Define the term death rate and describe the factors that can affect a country's death rate. [6]

(b) Explain what is meant when a country is said to be overpopulated. [4]

(c) Discuss whether the population problems found in the developing world are the same as those found in the developed world. [10]

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