UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/22**

Paper 2 Structured Questions **May/June 2013**

2 hours

Additional Materials: Answer Booklet/Paper

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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 The communications monopoly in Mexico

Mexico's telephone and television industries are near-monopolies. Over 80% of telephone landlines are connected to Telmex, and over 70% of the mobile (cell) phone market is controlled by one firm, Telcel. It is a similar situation in the television industry where one firm, Televisa, controls over 70% of the country's free-to-air television market. All three firms are public limited companies.

Although this situation has existed for some time, a number of smaller companies have been campaigning for more competition to benefit consumers.

Mexico's Federal Competition Commission, an organisation which monitors competition in different industries in the country, has agreed that consumers would benefit from greater competition. It has stated that monopolies are against the public interest. For example, in 2011, mobile phone charges in Mexico were 43.5% higher than rates charged in North America and Europe.

The Mexican Government, however, has been reluctant to intervene. It believes that it would be better to allow market forces to determine the number of firms in a market and the prices that they charge.

(a) Describe **two** features of a public limited company. [4]

(b) Explain **two** reasons why firms differ in size in an economy, such as Mexico. [4]

(c) Explain how a government might intervene to reduce mobile phone charges. [4]

(d) Discuss whether monopolies are always against the public interest. [8]

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Section B

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

2 Production involves the use of the four factors of production. The use of these resources involves an opportunity cost.

(a) Using appropriate examples, describe the four factors of production. [6]

(b) Using a production possibility curve, explain what is meant by opportunity cost. [6]

(c) Discuss whether more factors of production should be used to build houses. [8]

3 The demand for flat screen televisions has increased enormously in many countries and this has had an effect on the market.

(a) Describe what can influence the demand for flat screen televisions. [4]

(b) Using a demand and supply diagram, analyse how an increase in income can affect the equilibrium price and equilibrium quantity of flat screen televisions. [6]

(c) Explain what is meant by price elasticity of demand. [4]

(d) Discuss the potential usefulness of price elasticity of demand to a manufacturer of flat screen televisions. [6]

4 The central bank and stock exchanges can perform important roles in economies.

(a) What is meant when it is stated that money performs the functions of **(i)** a medium of exchange and **(ii)** a store of value? [4]

(b) Explain the role a central bank can play in an economy. [6]

(c) Discuss how important a stock exchange can be in encouraging firms to expand. [10]

5 Governments can use a range of different policies to encourage economic growth.

(a) Describe how economic growth is measured. [4]

(b) Explain how fiscal policy can be used to encourage economic growth. [6]

(c) Discuss to what extent supply-side policies are likely to be more effective than monetary policies in stimulating economic growth. [10]

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6 Some countries have a fixed exchange rate system, but others allow the external value of their currency (foreign exchange rate) to float.

(a) Explain how the external value of a currency is determined in a floating or flexible exchange rate system. [4]

(b) Describe how a government maintains the external value of its currency in a fixed exchange rate system. [4]

(c) Explain why a government might want the external value of its currency to fall. [4]

(d) Discuss to what extent a floating exchange rate is preferable to a fixed exchange rate system. [8]

7 A number of countries have high levels of poverty, but there is no agreement as to which is the best way to try to improve standards of living in a country.

(a) Distinguish between absolute and relative poverty. [4]

(b) Explain how the Human Development Index is measured. [6]

(c) Discuss which policies are likely to be most successful in reducing the extent of poverty in a country. [10]

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