Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/21**

Paper 2 Structured Questions **May/June 2014**

2 hours 15 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A

Answer Question 1.

Section B

Answer any **three** questions.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **5** printed pages, **3** blank pages and **1** insert.

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CAMBRIDGE
International Examinations

Section A

Answer this question.

1 A bright future for Mongolia?

Economists predict that the Asian economy of Mongolia will be the fastest growing economy between 2015 and 2020. In 2011, the country's economic growth rate was 21%. The forecast annual growth rate for 2015 to 2020 is 24%.

The country is rich in a range of minerals including coal, copper, gold, silver and uranium. China purchases large quantities of these minerals. In 2011, there was a significant rise in the world demand for a range of minerals including copper. Some economists have pointed out that there are a number of risks attached to an economic boom caused by a rise in demand for minerals. One is the so-called 'resources curse'. This refers to the disadvantage that can arise as natural resources are used. High international demand for minerals can push up the exchange rate and reduce the competitiveness of other industries. The extraction of minerals can also cause pollution. This is certainly the case in Mongolia. The capital city, Ulaanbaatar, is one of the most polluted cities in the world.

The Mongolian economy faces a number of other problems. Its inflation rate is relatively high, reaching 10.6% in 2011, driven up by increases in food prices and rises in government spending. Its unemployment rate, at 10% in the same year, was above that of some of its Asian neighbours. This led it to being placed relatively high in the region's 'misery index'. This index, developed by the American economist Arthur Okun, adds together the unemployment rate and the inflation rate. Table 1 shows the unemployment rate, misery index and the interest rate for a number of Asian economies.

Table 1: The unemployment rate, misery index and interest rate for selected Asian economies in 2011

Country	Unemployment rate (%)	Misery index (%) (unemployment rate + inflation rate)	Interest rate (%)
China	6.1	11.7	3.4
India	10.8	19.8	8.4
Japan	4.5	4.2	1.0
Malaysia	3.1	6.4	3.0
Mongolia	10.0	20.6	12.3

Nearly 40% of Mongolia's population lives below the poverty line. However, with rising economic growth, income levels are increasing. Indeed, some economists are predicting that Mongolians will become very rich. Tax revenue will also rise, which will enable the government to increase its spending on, for instance, education. Higher spending on education will make it possible for children to spend more years in school.

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(a) Define 'economic growth'. [3]

(b) Using information from the extract, explain why Mongolia's Human Development Index value is likely to increase in the future. [2]

(c) Using information from the extract, draw a demand and supply diagram to show what is likely to have happened to the price of copper in 2011. [4]

(d) Explain why countries with high inflation rates tend to have higher interest rates than those with lower inflation rates. [3]

(e) Analyse whether the information in Table 1 supports the view that countries with high inflation rates have higher interest rates than those with lower inflation rates. [5]

(f) Discuss whether a rise in a country's exchange rate will reduce its international competitiveness. [6]

(g) Using information from the extract, explain why the social costs of mining are higher than the private costs of mining in Mongolia. [2]

(h) Discuss whether a rise in incomes in a country will always increase tax revenue. [5]

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[Turn over

Section B

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

2 In 2012, the Indian Prime Minister announced that the Government was going to spend US$90 million on sending a spaceship to the planet Mars. Some economists argued that it would be better to use the factors of production, such as land and labour, to improve education or to build more roads.

(a) Describe **two** ways in which land is different from labour. [4]

(b) Explain the significance of opportunity cost for a government when making its spending decisions. [4]

(c) Using a production possibility curve diagram, analyse the impact of an increase in resources on an economy. [5]

(d) Discuss whether the building of more roads will benefit an economy. [7]

3 Many governments seek to discourage people from smoking cigarettes, whilst encouraging them to eat more fruit, including bananas and apples. The government's ability to influence people's consumption is determined, in part, by the price elasticity of supply and the price elasticity of demand of the products, and by changes in market conditions.

(a) Define 'price elasticity of supply'. [2]

(b) Explain **three** reasons why the supply of bananas may decrease. [6]

(c) Analyse what effect a rise in the price of apples, which are a substitute for bananas, will have on the market for bananas. [4]

(d) Discuss whether a government should increase the tax on cigarettes. [8]

4 Co-operatives play a key role in the Kenyan economy, accounting for 43% of the country's output. They operate in a number of industries, some of which come close to a monopoly and some of which are more competitive. There are many co-operative farms growing cotton. The Kenyan Government is seeking to develop a vertically integrated textile industry.

(a) Describe **two** characteristics of a co-operative. [4]

(b) Explain **three** ways in which monopoly differs from perfect competition. [6]

(c) Analyse the advantages of vertical integration. [4]

(d) Discuss what impact a rise in output is likely to have on a farmer's profit. [6]

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5 Walmart, the US multinational retailer, is the world's largest company. It allows its customers to pay for their purchases by cash and by using a variety of other forms of money. The company is the third largest employer in the world. Most of its workers do not belong to a trade union.

(a) Describe **two** influences on the amount people spend. [4]

(b) Explain why an item has to be generally acceptable and divisible for it to carry out the functions of money. [4]

(c) Explain **two** advantages of working for a large company. [4]

(d) Discuss whether a firm will benefit from encouraging its workers to join a trade union. [8]

6 Over time the determinants of population size, including the birth rate and the fertility rate, change. It is predicted that the world population will rise to 9 billion by 2050. Some countries, including Italy and Japan, however, are expected to experience a fall in population size. It is also predicted that average incomes will rise in most countries.

(a) Describe how the birth rate differs from the fertility rate. [4]

(b) Analyse how an increase in average incomes may influence a country's population size. [6]

(c) Discuss whether a government should be concerned about a fall in the country's population size. [10]

7 Algeria's exports have been increasing in recent years. The country has experienced low inflation, in part, because of the fiscal and supply-side policy measures the government has introduced. In 2012, the Algerian Government stated its main objective was to reduce unemployment.

(a) Describe **two** reasons why a country's exports may increase. [4]

(b) Explain why governments aim for low unemployment. [6]

(c) Discuss whether a government should increase or decrease taxes to reduce inflation. [10]

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