Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/22**

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

2 hours 15 minutes

No Additional Materials are required.



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 The challenges facing Angola

Angola is one of the fastest growing economies in the world and also one of the most specialised. It had an average annual growth rate of 11% between 2002 and 2012. In 2010, the country's capital city, Luanda, was the most expensive capital city in the world. The average fare charged by the only taxi (cab) firm in the city was high at US$50, and a standard house cost more than US$1m to buy.

Oil production plays a key role in the economy. The country produces 1.9m barrels of oil a day and this is expected to double by 2020. There is the possibility that Angola could overtake Nigeria to become Africa's largest oil producer. The oil industry accounts for most of the country's output, provides 97% of its export revenue and 75% of government tax revenue.

Economists have expressed concern that the country is too dependent on oil. Sonangol, the state-owned oil enterprise, is seeking to diversify. It is already involved in banking and it also owns an airline and a football team. The government is trying to develop other industries. One of these is the diamond industry. World demand for diamonds increased in 2012.

The Angolan Government faces a number of challenges in promoting other industries. One of these is a lack of capital equipment in its manufacturing industries, and another is that much of its agriculture is in the form of subsistence farming.

The economy faces other problems and three of these are connected. They are a widening gap between the rich and the poor, a lack of education, and a rapidly growing population. Some people in the country are very rich but 35% of the population live in poverty. Half of the population have no access to health care, the infant mortality rate is one of the highest in the world, and life expectancy is one of the lowest. Most of the population only experience five years of education and a third of adults are illiterate. Between 2005 and 2010, the country had the eighteenth fastest growing population which might have influenced its level of average income – see Table 1.

Table 1: Population growth, Gross Domestic Product (GDP) and GDP per head in selected African countries in 2011

Country	Population growth (annual % change)	GDP (US$bn)	GDP per head (US$)
Angola	2.92	120	6000
Kenya	2.58	72	1800
Nigeria	2.50	420	2600
South Africa	0.96	562	11 100
Uganda	3.24	47	1300

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In 2012, Angola was experiencing an overall unemployment rate of 26% and an unemployment rate of 50% among the young. The Angolan Government was considering cutting taxes to reduce unemployment.

(a) Why is the Angolan economy considered to be 'specialised'? [2]

(b) Using information from the extract, explain why taxi (cab) fares were high in Luanda in 2010. [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 diamonds in 2012. [4]

(d) Explain why countries with a high population growth rate may have a lower average income than countries with a lower population growth rate. [3]

(e) Analyse whether the information in Table 1 supports the view that countries with a high population growth rate have a lower average income than countries with a lower population growth rate. [4]

(f) Discuss whether an increase in a country's GDP will reduce poverty in that country. [5]

(g) Using information from the extract, explain **two** reasons why labour productivity is low in Angola. [4]

(h) Discuss whether a cut in taxes will reduce unemployment. [6]

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Section B

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

2 A number of economies are devoting more of their resources to the provision of health care. Due to the economic problem, this involves them having to make difficult choices.

(a) What is meant by the 'economic problem'? [2]

(b) Using a production possibility curve diagram, explain why choices have to be made as to how to allocate resources. [6]

(c) Explain how resources are allocated differently in market and mixed economic systems. [4]

(d) Discuss whether an economy would benefit from an increase in the provision of health care. [8]

3 Despite more cars being sold, world demand for bicycles is increasing. It has been estimated that the world price elasticity of demand for bicycles is –0.18 but this does vary between countries. The indirect taxes imposed on bicycles also differ between countries.

(a) Define 'demand'. [2]

(b) Explain **three** likely causes of an increase in demand for bicycles. [6]

(c) Analyse why the demand for a product may be more price elastic in one country than in another country. [6]

(d) Discuss whether a government should impose indirect taxes only on products with inelastic demand. [6]

4 The number of people employed in the banking sector in Turkey is increasing. The sector consists of a number of commercial banks, some of which are growing in size, and the Central Bank of the Republic of Turkey.

(a) Describe **two** functions of a central bank. [4]

(b) Explain **two** types of internal economy of scale that a growing bank can enjoy. [4]

(c) Analyse how the spending pattern of high paid workers is likely to differ from the spending pattern of low paid workers. [4]

(d) Discuss whether workers employed in banking are likely to earn more than workers employed in agriculture. [8]

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5 A Zambian copper mine is operated by a foreign multinational company. The company's main goal is profit maximisation. Its mine creates pollution in the area, which causes diseases and damages crops. Some economists have suggested that the economy would benefit from the mine being operated by the Zambian Government.

(a) Define a 'multinational company'. [2]

(b) Explain **one** goal a multinational company may have other than profit maximisation. [3]

(c) Explain why pollution is an example of market failure. [5]

(d) Discuss whether a mine operated by the government would be more likely to benefit an economy than one operated by a foreign multinational company. [10]

6 In 2012, Mexico's monetary policy was successful in keeping the country's inflation rate low and stable. Fiscal policy measures, including a rise in government spending, contributed to a relatively high economic growth rate of 3.5% and a reduction in the country's unemployment rate.

(a) What is meant by 'monetary policy'? [2]

(b) Explain **two** reasons why governments aim for low and stable inflation. [4]

(c) Analyse how an increase in government spending may cause economic growth. [6]

(d) Discuss whether a reduction in a country's unemployment rate will always benefit an economy. [8]

7 In March 2012, the Indian Government increased the tariff on imports of gold. It did this to reduce the country's growing deficit on the current account of its balance of payments.

(a) Describe how a tariff could reduce imports. [4]

(b) Analyse **three** causes of a current account deficit. [6]

(c) Discuss whether a government should always be concerned about a growing current account deficit. [10]

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