Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/22**

Paper 2 Structured Questions **May/June 2015**

2 hours 15 minutes

No Additional Materials are required.

0152289218

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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Section A

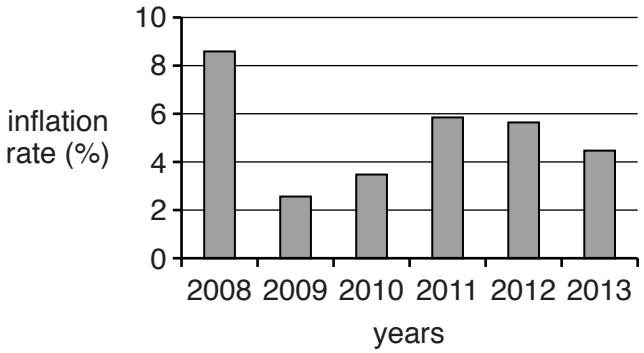
Answer this question.

1 Peru and Panama

Between 2005 and 2012, Peru and Panama experienced the fastest economic growth rates in the Americas. The two countries differ in the size of their populations and the size of their economies. In 2013, Peru had a population of 30 million and a Gross Domestic Product (GDP) of US$340 billion. In contrast, Panama had a population of 3.6 million and a GDP of US$60 billion. Life expectancy was higher in Panama with people, on average, living three years longer than in Peru.

Between 2008 and 2013, Peru had an average annual inflation rate of 2.7%. This was, in part because of careful control of the country's interest rate and exchange rate by Peru's Central Bank. Panama does not have a central bank and experienced a different average annual inflation rate (see Fig. 1).

Fig. 1: The inflation rate in Panama, 2008–2013



Between 2008 and 2013, the unemployment rate fell more in Panama than in Peru. The decline in Panama's unemployment rate was largely due to the building work being undertaken on a seven-year project to enlarge the Panama Canal. The lower unemployment rate enjoyed by Panama was one of the reasons why the level of poverty was lower than in Peru in 2013.

Peru experienced a trade in goods surplus whilst Panama had a trade in goods deficit. Both countries export gold and fish and import oil and cars. For both countries, the USA, China and Japan are important trading partners.

About 75% of workers in Peru are employed in the service (tertiary) sector compared with 80% in Panama. Among Panama's key service industries are insurance and banking. Panama has the largest insurance market in Central America. The number of companies in the market, including multinational companies, is increasing. This is making the market more competitive. Multinational companies also operate in the country's banking sector. It has a number of private sector commercial banks. It does not have a central bank and, therefore, does not have direct government regulation of its banking sector. Recent years have seen an increase in the average size of the commercial banks. There is some debate about whether larger banks benefit their customers.

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(a) Using information from the extract, identify **two** reasons why Panama had a higher Human Development Index (HDI) value than Peru in 2013. [2]

(b) Using information in Fig. 1:

(i) describe what happened to the price level in Panama between 2008 and 2009 [2]

(ii) explain in which year the price level was highest in Panama. [2]

(c) Using information from the extract and in Fig. 1, explain the likely effects of Peru and Panama having different average annual inflation rates between 2008 and 2013. [4]

(d) Discuss whether a fall in the unemployment rate will reduce poverty. [5]

(e) Analyse why countries specialise and trade. [5]

(f) Using information from the extract, describe **two** functions of a central bank. [4]

(g) Discuss whether the growth of a commercial bank will benefit its customers. [6]

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Section B

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

2 Students have to consider the opportunity cost of going to university. University graduates usually earn more than people who have not gone to university. Having more graduates influences a country's production possibility curve. Some economists suggest that students should pay the full cost of their university courses and accommodation. Others say that the government should pay some or all of the cost.

(a) Describe a possible opportunity cost of a student going to university. [2]

(b) Explain why university graduates usually earn more than people who have not gone to university. [4]

(c) Using a production possibility curve diagram, analyse what effect an increase in the number of graduates will have on an economy. [6]

(d) Discuss whether graduates should pay the full cost of their university education. [8]

3 China is the world's largest producer of gold and India is the world's largest buyer of gold. Gold mining in China is becoming more capital-intensive which is making the supply of gold less price inelastic. The wages of workers employed in the industry are rising but other costs of production are falling.

(a) What is meant by an industry being 'capital-intensive'? [2]

(b) Explain **two** reasons why the supply of a product may be price inelastic. [4]

(c) Analyse what effect an increase in output will have on fixed, variable and average costs. [6]

(d) Discuss whether a rise in the wages paid by an industry will encourage more people to work in that industry. [8]

4 Chile produces a third of the world's supply of copper. A change in demand for, or supply of, copper affects Chile's Gross Domestic Product (GDP) and the current account position on its balance of payments.

(a) Define 'Gross Domestic Product'. [2]

(b) Explain **two** benefits of an increase in Gross Domestic Product. [4]

(c) Using a demand and supply diagram, analyse the effect of an increase in the costs of producing copper on the market for copper. [6]

(d) Discuss whether a rise in demand for copper would cause Chile to experience a current account surplus. [8]

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5 Both the annual inflation rate and the economic growth rate fell in Pakistan between 2012 and 2013. Some economists suggested that the Government should try to lower inflation further by reducing government spending. Lower inflation might increase economic activity and reduce unemployment.

(a) Define 'unemployment'. [2]

(b) Explain **two** causes of economic growth. [4]

(c) Analyse why a fall in the inflation rate may reduce a country's unemployment rate. [6]

(d) Discuss whether a decrease in government spending will reduce inflation. [8]

6 Poland is experiencing changes to its population and economy. The country's death rate is falling. Despite Poland's high unemployment rate, more people are migrating to the country, especially from Spain and Italy. Poland is moving closer to a market economy with an increasing proportion of its labour force employed in the private sector.

(a) Define 'death rate'. [2]

(b) Explain **two** causes of a fall in a country's death rate. [4]

(c) Analyse why people may migrate to a country with a high unemployment rate. [6]

(d) Discuss whether the advantages of a market economy are greater than its disadvantages. [8]

7 The Mexican economy has recently been performing well. Its monetary policy has lowered inflation which has helped money in the country perform its functions more efficiently. The level of efficiency of a country's industries is influenced by a range of factors. These include the use of division of labour and the level of the country's trade protection.

(a) Define 'monetary policy'. [2]

(b) Explain **two** functions of money. [4]

(c) Analyse why engaging in division of labour may increase a firm's costs of production. [6]

(d) Discuss whether a reduction in a country's trade protection will improve its economic performance. [8]

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