Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/22**

Paper 2 Structured Questions **May/June 2016**

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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Section A

Answer this question.

1 Crisis in the chocolate market

There are concerns that the price of chocolate could rise significantly in the next few years. This is because of increasing demand for chocolate, particularly in emerging countries, and supply problems in the countries that produce cocoa beans.

Cocoa beans, the main ingredient in chocolate, are grown mainly in the west coast of Africa by small farms using labour-intensive methods. In 2012 Côte d'Ivoire (Ivory Coast) produced 37% of the world's output of cocoa beans, followed by Indonesia which produced 13%.

Côte d'Ivoire is becoming well known for supplying good quality cocoa beans. Concentrating on supplying the product its resources are most suited to has increased output in the country. Gross Domestic Product per head rose to US$1240 in 2013. Some farmers and farm workers, however, still live on less than US$2 a day.

In Indonesia, the income of most cocoa farmers and farm workers increased along with the rise in the country's average income between 2013 and 2014. Their purchasing power was, however, affected by the consumer prices index rising from 108.0 in 2013 to 115.2 in 2014. While people's medical care in Indonesia is improving with more doctors per head, the government is seeking to raise education standards.

Among the problems being experienced by cocoa bean producers are an ageing labour force, with the industry experiencing difficulties attracting young farmers and farm workers. The industry also regularly experiences problems caused by pests and diseases, including black pod disease. At the same time people in Asia, particularly China, are eating more chocolate and drinking more chocolate drinks. People in the United States of America and the European Union are also eating more chocolate, although concerns about the health effects of eating large quantities of chocolate are beginning to affect demand. For many people, however, chocolate is addictive. Chocolate producers seek to take advantage of this by increasing the gap between revenue and costs. Most chocolate producers come from developed countries and most are public limited companies trying to keep their shareholders happy. These producers take advantage of their market power to keep the price they pay for cocoa beans relatively low whilst the price they charge to consumers who buy their chocolate is kept relatively high.

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(a) Using information from the extract, identify **two** indicators of improved living standards in Indonesia. [2]

(b) Explain whether the extract suggests the demand for chocolate is price-elastic or price-inelastic in developed countries. [2]

(c) Using information from the extract, explain **two** reasons why cocoa bean farmers do not use much capital equipment. [4]

(d) Calculate the rate of inflation in Indonesia in 2014. [3]

(e) Analyse **two** benefits of specialisation referred to in the extract. [4]

(f) Discuss whether the price of chocolate is likely to increase in the future. [5]

(g) Using information from the extract, explain what is likely to be the main goal of chocolate producers. [4]

(h) Discuss whether free trade always benefits producers. [6]

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Section B

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

2 In 2013 the Mexican Government was considering imposing a sales tax of one peso per litre on the price of fizzy drinks. The Government wanted to discourage people from consuming too many fizzy drinks – 40% more fizzy drinks per person are consumed than in the United States of America. A number of multinational fizzy drinks companies have threatened to leave the country if taxes are increased.

(a) Giving an example, define 'a sales tax'. [2]

(b) Explain the difference between private costs and social costs. [4]

(c) Using a demand and supply diagram, analyse the effect of imposing a tax on fizzy drinks. [6]

(d) Discuss whether a country's economy would be harmed if multinational companies moved out. [8]

3 It is forecast that India's working-age population aged between 15 and 64 will rise by 125 million between 2015 and 2025 and by a further 103 million over the following decade. Of course, not everyone of working age will be in work or will be seeking work. Changes in population and the labour force affect a government's ability to achieve its economic aims.

(a) Identify **two** government economic aims. [2]

(b) Explain **two** reasons why someone may be of working age but not in the labour force. [4]

(c) Analyse what may cause an increase in a country's labour force. [6]

(d) Discuss whether an economy will benefit from having a younger labour force. [8]

4 Tuk-tuks, three-wheeled motorised rickshaws, are driven in a number of countries. India is the largest producer of the vehicle. India's largest tuk-tuk producing firm faces competition from firms at home and from imported tuk-tuks. The industry is becoming more capital-intensive and competitive but is still some way from perfect competition.

(a) Define 'capital-intensive'. [2]

(b) Explain **two** characteristics of perfect competition. [4]

(c) Analyse **two** internal diseconomies of scale that a large firm may experience. [6]

(d) Discuss whether consumers would benefit from an increase in imports. [8]

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5 In July 2016 the Sveriges Riksbank, Sweden's central bank, cut the rate of interest to 0.25%. The Swedish economy was experiencing deflation, with the weighted price index falling by 0.2% on the previous year. The fall in the rate of interest reduced the value of the krona, Sweden's currency, and was expected to end deflation.

(a) Define a 'weighted price index'. [2]

(b) Explain **two** ways in which a central bank differs from a commercial bank. [4]

(c) Analyse how a fall in the value of a currency may increase a current account surplus on the balance of payments. [6]

(d) Discuss whether a cut in the rate of interest would end deflation. [8]

6 Deposits in banks in Dubai rose by 40% in 2013. More financial companies are locating in Dubai. The growth in its financial sector is being accompanied by horizontal mergers between financial companies and workers becoming more specialised. The economy is becoming richer but the economic problem will never be solved here or elsewhere in the world.

(a) Why can the economic problem never be solved? [2]

(b) Explain **two** reasons why workers specialising can reduce the average cost of production. [4]

(c) Analyse how an increase in bank lending can increase economic growth. [6]

(d) Discuss whether consumers benefit from horizontal mergers. [8]

7 Countries have to decide how to use their scarce resources. A number of countries are devoting more of their resources to tourism. Some of the jobs in the industry are, however, low-paid and offer little job security. The average age of workers employed, for example, in hotels is relatively young although some older workers have spent their working life in the hotel industry.

(a) What is meant by 'scarce resources'? [2]

(b) Explain **two** reasons why someone may be willing to do a low-paid job with little job security. [4]

(c) Analyse how the spending, saving and borrowing patterns of young workers may differ from older workers. [6]

(d) Discuss whether developing countries should encourage foreign tourism. [8]

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