Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/21**

Paper 2 Structured Questions **May/June 2018**

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 Banking and unemployment in Morocco

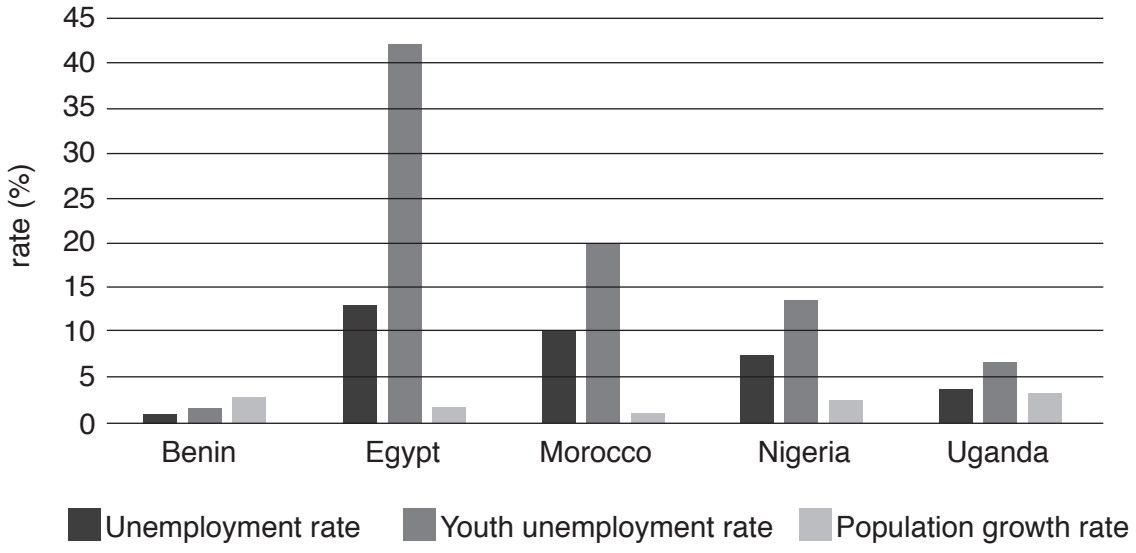
Morocco's banking industry has been described as one of the best in Africa. It has some of Africa's largest commercial banks, but three out of nineteen control more than two-thirds of the market. These three have grown mostly through mergers and it is expected more mergers will occur between Moroccan banks in the future.

The banks make use of brand names, set their own interest rates on loans and provide some different services. The larger banks tend to lend to large firms. Small and medium sized firms find it more difficult to get loans.

More than 60% of the population now make use of the services of commercial banks. The proportion of families opening savings accounts at commercial banks is increasing.

Moroccan banks now have branches in 22 African countries as well as a number of European countries. They are also expanding in Morocco, creating more jobs. Morocco has a relatively high unemployment rate. Fig. 1 shows the unemployment rate in 2015 in a range of African countries including Benin, a relatively poor country. Benin has a large labour-intensive, subsistence farming sector. Fig. 1 also shows youth unemployment and population growth. Unemployment rates vary between different groups. Youth unemployment is often twice the rate of the overall unemployment rate.

Fig. 1 The unemployment rate, youth unemployment rate and population growth rate in selected African countries in 2015



In Morocco, the population is increasing at a faster rate than new jobs are being created. The rising unemployment rate is affecting wage rates in the country. As with unemployment, wage rates vary between different groups. Older workers, for example, tend to be paid more than younger workers.

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(a) Identify, using information from the extract, **two** functions of a commercial bank. [2]

(b) Explain, using information from the extract, **two** reasons why the banking market in Morocco is **not** an example of perfect competition. [4]

(c) Analyse why a commercial bank may prefer to sell its services in foreign countries rather than in its home country. [5]

(d) Analyse whether the information in Fig. 1 supports the view that:

(i) countries with high population growth rates have a high unemployment rate [2]

(ii) the youth unemployment rate is usually twice that of the overall unemployment rate. [2]

(e) Discuss whether or not older workers are always paid more than younger workers. [5]

(f) Explain, using information from the extract, **one** reason why a relatively poor country may have a low unemployment rate. [4]

(g) Discuss whether or not commercial banks in Morocco would benefit from further mergers. [6]

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Section B

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

2 In England football stadiums are usually built and financed by the private sector, but in some countries the stadiums are built and financed by the government. Many football stadiums in the English Premier League are full on match days. In the short run the supply of seats is perfectly inelastic. The football clubs could actually raise prices, still sell their tickets and so raise their profits. Premier League footballers currently receive very high wages.

(a) Define *perfectly inelastic supply*. [2]

(b) Explain **two** reasons why a firm may **not** aim to earn maximum profit. [4]

(c) Analyse why Premier League footballers receive very high wages. [6]

(d) Discuss whether or not a government should spend some of its tax revenue on building sports stadiums. [8]

3 In 2014, the government of Kazakhstan devalued its currency, the tenge. A year later the country still had a current account deficit. Therefore, in 2016 it considered adopting a floating exchange rate which might help to remove the deficit. However, it had concerns that this might affect the country's inflation rate which was already high at 17%.

(a) Define *devaluation*. [2]

(b) Explain **two** advantages of a floating exchange rate. [4]

(c) Analyse how fiscal policy measures could reduce inflation. [6]

(d) Discuss whether or not a reduction in a current account deficit on the balance of payments will benefit an economy. [8]

4 In 2015, the Tripartite Free Trade Area (TFTA) was established. It covers 26 countries and is the biggest free trade area in Africa. Removing trade restrictions can enable economies to take greater advantage of economies of scale. Some economists argue that improving Africa's roads would be more beneficial and would do more to reduce a current account deficit on the balance of payments and raise living standards.

(a) Define *economies of scale*. [2]

(b) Explain **two** benefits consumers may gain from free trade. [4]

(c) Analyse how reducing transport costs could increase a country's exports and imports. [6]

(d) Discuss whether or not raising living standards is the most important economic objective for developing countries. [8]

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5 The government of Slovenia has introduced a range of supply-side policy measures to influence the country's inflation rate. Among other factors affecting the economy is a change in trade union membership and strength.

(a) Identify **two** price indices. [2]

(b) Explain **two** supply-side policy measures. [4]

(c) Analyse why a government may want to reduce its country's inflation rate. [6]

(d) Discuss whether or not increasing the strength of trade unions will benefit an economy. [8]

6 More than 80% of Qatar's population are immigrants. Net immigration has helped to meet the country's demand for labour. As well as a shortage of workers, the country has a shortage of drinking water. The government has run public campaigns to stop people using their free supply of drinking water to fill their swimming pools and water their gardens. In 2016, the government increased its spending to increase the country's economic growth rate.

(a) Define *net immigration*. [2]

(b) Explain how market forces would respond to a shortage of drinking water. [4]

(c) Analyse what determines the demand for labour. [6]

(d) Discuss whether or not increased government spending will increase economic growth. [8]

7 More governments are imposing taxes on unhealthy food and drinks. Such taxes are usually regressive. Some of these governments are also increasing their spending on healthcare. In other countries healthcare is provided by the private sector. The number of state-owned enterprises is declining in a number of countries due to privatisation.

(a) Define *regressive tax*. [2]

(b) Explain why the social benefit of healthcare is greater than the private benefit. [4]

(c) Analyse why a government imposes taxes. [6]

(d) Discuss whether or not consumers are likely to benefit from state-owned enterprises becoming private sector firms. [8]

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