Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/22**

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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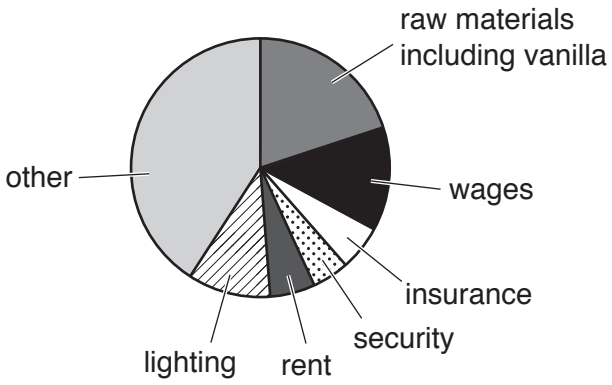
Section A

Answer this question.

1 Crisis in the ice cream market

Vanilla is used in the production of soft drinks, cakes and perfumes. Its main use, however, is in the production of ice cream. Fig. 1 shows the different costs of making ice cream for one firm.

Fig. 1 The costs of producing ice cream for one firm



Madagascar is the world's largest supplier of vanilla followed by Mexico and Tahiti. At the start of 2016, economists expected the price of ice cream to increase as the price of vanilla had risen by 130% in 2015. This was largely because of the poor harvests in Madagascar which reduced the output of vanilla in 2015.

Ice cream is seen as a luxury product in most countries. It has a range of substitutes and this is one reason why producers do not always pass on higher costs to consumers. In 2015, there were a number of other changes in the production of ice cream including a rise in the productivity of the workers.

As well as vanilla, Madagascar produces a number of other primary products including coffee and sugar. Nearly 80% of the country's labour force is employed in the primary sector. The country has a relatively low Gross Domestic Product (GDP) per head and a relatively low Human Development Index (HDI) value as shown in Table 1. This limits the amount that people in Madagascar save.

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Table 1 GDP per head and HDI in selected countries in 2015

Country	GDP per head (US$)	HDI
Argentina	22 400	0.836
Bangladesh	3 600	0.570
Cuba	10 200	0.769
Egypt	11 500	0.690
Ghana	4 300	0.579
Madagascar	1 500	0.510

Half of Madagascar's population live in poverty. The government is trying to reduce poverty by introducing a programme of cash benefits. It is hoped that one effect of this will be to increase school enrolment and attendance of the children of poor families. To increase economic growth, the government has sold off a number of state-owned enterprises and is moving the economy towards a market system.

(a) Identify **two** fixed costs of production in Fig. 1. [2]

(b) Explain, using information from the extract, **two** reasons why a rise in the price of vanilla might **not** cause an increase in the price of ice cream. [4]

(c) Analyse, using a demand and supply diagram, the effect of an increase in income on the market for ice cream. [5]

(d) Analyse the extent to which the relationship shown in Table 1 between countries' GDP per head and their HDI value is the expected one. [4]

(e) Discuss whether or not a government should encourage people to save more. [5]

(f) Explain, using information from the extract, how cash benefits given to the poor can reduce poverty. [4]

(g) Discuss whether or not a market system benefits consumers. [6]

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Section B

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

2 Swaziland is a small African country where six in ten people live in poverty and most firms are small and use little capital equipment. In October 2015 it opened a new airport. Some economists suggest that the building of the airport involved a high opportunity cost and caused a range of external costs. The building of the airport is part of the government's plan to turn the country from a developing into a developed country.

(a) What may be the opportunity cost of building an airport? [2]

(b) Explain **two** reasons why a government would want to turn its country from a developing into a developed country. [4]

(c) Analyse the external costs that can be caused by the building and expansion of an airport. [6]

(d) Discuss whether people would prefer to buy a product from a small firm or a large firm. [8]

3 Farms in the USA are getting larger. One dairy farm in the state of Indiana has over 38 000 cows. Farms in the USA compete with farms in both developed and developing countries. The value of the farms' exports of milk appears in the trade in goods section of the current account of the USA's balance of payments.

(a) Identify **two** examples of capital goods that may be used by a farm. [2]

(b) Explain how a country could have a trade in goods surplus, but a deficit on the current account on the balance of payments. [4]

(c) Analyse the economies of scale from which a farm may benefit. [6]

(d) Discuss whether or not developing countries benefit from producing mainly primary products. [8]

4 In the UK, bus journeys outside London have fallen by nearly 40% since 1980. This fall in demand has been largely due to a rise in bus fares, a rise in income and changes in the price and quality of substitutes. On some routes there are monopolies operating and this lack of competition can push up the price.

(a) Define a *substitute* and give an example. [2]

(b) Explain **two** advantages a firm may gain from being a monopoly. [4]

(c) Analyse how price elasticity of demand for a product influences the revenue a firm receives. [6]

(d) Discuss whether or not a government should subsidise bus transport. [8]

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5 In October 2015, the Chinese government switched from its one child policy to a two child policy partly because of the challenges caused by an ageing population. The birth rate was falling anyway due to rising female participation in the labour force, improvements in education, later marriages and the rapidly rising price of housing.

(a) Identify **two** causes of an ageing population. [2]

(b) Explain why the price of housing may increase. [4]

(c) Analyse why more women may enter the labour force. [6]

(d) Discuss whether or not a rise in the birth rate will benefit an economy. [8]

6 In February 2016, share prices on stock exchanges fell throughout the world. There were a number of reasons for this; including concerns about the slowdown in world growth, the possibility of deflation and unemployment, and fears that some commercial banks could go out of business.

(a) Define *commercial bank*. [2]

(b) Explain how a stock exchange could encourage economic growth. [4]

(c) Analyse what can cause deflation. [6]

(d) Discuss whether or not government policy measures to reduce unemployment will cause inflation. [8]

7 World output has grown in recent years, but a number of countries have experienced a recession. The removal of trade restrictions such as import tariffs has slowed down, reducing the growth of world trade.

(a) Define *import tariff*. [2]

(b) Explain **two** benefits of an increase in world output. [4]

(c) Analyse how a recession may reduce a country's imports. [6]

(d) Discuss whether or not a developing country will benefit from the removal of trade restrictions. [8]

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