Cambridge Assessment International Education

Cambridge O Level

ECONOMICS **2281/22**

Paper 2 Structured Questions **May/June 2020**

2 hours 15 minutes

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You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **four** questions in total:
  - Section A: answer Question 1.
  - Section B: answer **three** questions.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 90.
- The number of marks for each question or part question is shown in brackets [ ].

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Section A

Read the source material carefully before answering Question 1.

Source material: the challenges facing Pakistan

Pakistan fact file	2016 $ billion	2017 $ billion
Exports of goods	20.5	25.2
Imports of goods	47.0	61.7
Government spending	40.5	43.2
Consumer spending	259.3	294.8

Pakistan faces a number of economic challenges. These include responding to a rising population, improving its trade in goods balance, controlling the country's inflation rate and increasing the country's economic growth rate. To overcome these challenges, the Pakistani government is trying to increase investment. Currently, a high proportion of the country's resources are used to produce consumer goods.

The government is subsidising entrepreneurs and charities to open low-cost schools. It wants to reduce the dropout rate from schools and to raise educational standards. Some parents do not recognise the advantages that a merit good such as education can give their children, for example better health and better job opportunities. Some of the poor need their children to work from a young age to support the family. Government reforms have not yet led to a significant rise in teachers' wages but have improved school buildings and the number of children attending. The qualifications required to teach may be increased in the future.

Improved education may affect the number of skilled workers who emigrate and may raise the quantity and quality of goods and services produced. Any resulting higher income may influence the value of imports purchased, as shown in Table 1.

Table 1 GDP per head and imports per head in selected countries in 2017.

Country	GDP per head ($)	Imports per head ($)
Norway	70600	14472
UK	43600	10419
South Korea	39400	11602
Russia	27900	4002
Mexico	19500	7343
Pakistan	5400	1143
Haiti	1800	853

Pakistan has relatively high import tariffs. Revenue from import tariffs is 45% of total tax revenue. The tariffs on vehicles, some of which have inelastic demand, are particularly high. Future Pakistani tariffs may be influenced by changes in other countries' trade policies, as well as other factors.

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Answer all parts to Question 1. Refer to the source material in your answers.

1 **(a)** Calculate Pakistan's trade in goods balance in 2017. [1]

(b) Identify **two** possible causes of demand-pull inflation in Pakistan in 2017. [2]

(c) Explain the opportunity cost to Pakistan of producing consumer goods. [2]

(d) Explain **two** reasons why education is a merit good. [4]

(e) Analyse why the children of poor families tend to receive less education than the children of rich families. [4]

(f) Analyse the relationship between GDP per head and imports per head. [5]

(g) Discuss whether or not the supply of teachers in Pakistan is likely to increase in the future. [6]

(h) Discuss whether or not an increase in its import tariffs would be likely to benefit the Pakistani economy. [6]

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Section B

Answer any **three** questions.

Each question is introduced by stimulus material. In your answer you may refer to this material and / or to other examples that you have studied.

2 The Indian government has declared that the country, now a major car producer, will sell only electric cars by 2030. The government wants to reduce external costs, some of which are caused by petrol and diesel cars. Demand for electric cars is currently relatively low and price-elastic. The government, however, thinks that it will not need to subsidise the production of electric cars to achieve its target.

(a) Define *external costs*. [2]

(b) Explain **two** influences on whether demand for a product is price-elastic or price-inelastic. [4]

(c) Analyse, using a demand and supply diagram, how a subsidy given to producers could affect the market for electric cars. [6]

(d) Discuss whether cars should be produced by the private sector or the public sector. [8]

3 A number of countries are withdrawing high value banknotes. For instance, Singapore plans to stop issuing its $10 000 note. High value notes were originally intended to act as a convenient store of value. Central banks are concerned some notes are now being used illegally. The Singapore Police Force and the Monetary Authority of Singapore (its central bank) were trying to recruit more workers in 2017. It was expected that the central bank would raise the rate of interest in 2018.

(a) State **two** functions of money, other than a store of value. [2]

(b) Explain **two** advantages banknotes have as a form of money. [4]

(c) Analyse the influences on the mobility of workers. [6]

(d) Discuss whether or not a central bank should raise the rate of interest. [8]

4 In 2017, the Japanese government announced improvements to its tax system. The amount of tax raised is influenced by the size and age distribution of a country's population. Japan's birth and death rates are falling, its population is ageing, and it has low immigration. Overall, Japan's population is decreasing.

(a) State **two** qualities of a good tax. [2]

(b) Explain **two** causes of a decrease in the death rate. [4]

(c) Analyse, using a production possibility curve (PPC) diagram, the effect of a decrease in population size on an economy. [6]

(d) Discuss whether or not an ageing population is a benefit to an economy. [8]

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5 Mali is a low income and low productivity country in Africa. Its government is using fiscal policy to reduce poverty. The country's main industries are agriculture and gold mining. In recent years, however, there have been some changes in its resource allocation. The country is developing its iron ore industry. Globally, the iron ore industry is one which has experienced a significant number of mergers in recent years.

(a) State **two** key questions about how resources are allocated. [2]

(b) Explain **two** fiscal policy measures that can be used to reduce poverty. [4]

(c) Analyse why a country may have low productivity. [6]

(d) Discuss whether or not mergers benefit an economy. [8]

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