Cambridge Assessment International Education

Cambridge O Level

ECONOMICS **2281/21**

Paper 2 Structured Questions **May/June 2021**

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 [ ].

This document has **8** pages. Any blank pages are indicated.

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Section A

Read the source material carefully before answering Question 1.

Source material: changes in the Nigerian economy

Nigeria fact file	2017
Government spending	$19.5bn
Tax revenue	$12.9bn
Balance of trade in goods	$10.4bn
Imports of goods	$32.7bn

Nigeria produces a range of products including delivery vehicles, footwear, machines, maize and office equipment. It does, however, depend heavily on oil for its exports. The government tries to encourage an increase in the output and export of other products. To achieve this, it uses a range of policy measures including changes in taxation and government spending e.g. subsidising the training of construction workers. Successful training can increase job opportunities and wages. The government's aims are to improve Nigeria's macroeconomic performance and to raise living standards.

Table 1.1 shows data on living standards in Nigeria and Ethiopia in 2017.

Table 1.1 Selected data on living standards in Nigeria and Ethiopia in 2017

Country	GDP per head ($)	Life expectancy at birth (years)	Average years spent at school	% of children aged under 5 who are underweight
Nigeria	5,900	59	9	31.5
Ethiopia	2,200	63	8	23.6

Investment in Nigeria has been growing slowly. Some firms are discouraged from spending on capital goods by the relatively high interest rate, high corporation tax rate and economic uncertainty.

Nigeria's population is increasing rapidly. The birth rate is high and the death rate is falling but it has net emigration. Nigeria's population was 191 million in 2017 and is forecast to grow to 402 million by 2050. An increase in its population size will create both challenges and opportunities. It will affect the level of demand in the economy, may harm the environment and more food will be needed.

The Nigerian government increased the tariff on imported rice in 2016, to encourage an increase in its own rice production. Nigeria is Africa's largest producer of rice but also its largest importer. In 2018, Nigeria imported almost 50% of the rice it consumed. Nigerian farmers produce less rice for every unit of land used than Asian farmers and Nigerian farmers have high costs of production.

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

1 **(a)** Calculate the value of Nigeria's exports of goods in 2017. [1]

(b) Identify **two** examples of capital goods. [2]

(c) Explain whether Nigeria had a budget deficit or a budget surplus in 2017. [2]

(d) Explain how government spending on training may increase tax revenue in the long run. [4]

(e) Analyse how living standards in Nigeria compare with living standards in Ethiopia in 2017. [4]

(f) Analyse how a government could encourage firms to increase their investment. [5]

(g) Discuss whether or not an increase in Nigeria's population will benefit its economy. [6]

(h) Discuss whether or not an increase in Nigeria's import tariff on rice would increase the output of Nigerian rice. [6]

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Section B

Answer any **three** questions.

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

2 There is an area of rubbish, three times the size of France, floating in the Pacific Ocean called the Great Pacific Garbage Patch. It is made up of rubbish including old fishing nets but most is plastic waste. It is forecast that, by 2050, there will be more plastic in the Pacific Ocean than fish. A number of islands in the Pacific Ocean specialise in fishing. Greater pollution will increase the social cost of the fishing industry.

(a) Identify the **two** types of costs that make up social cost. [2]

(b) Explain **two** causes of a shift to the right in the demand curve for fish. [4]

(c) Analyse how cleaning up pollution could benefit an economy. [6]

(d) Discuss whether or not countries specialising benefits consumers. [8]

3 In 2018, the US had its lowest unemployment rate for 18 years. Cyclical unemployment was very low and so was the rate of inflation. The US also experienced a rise in labour productivity. However, it did not do so well in reducing poverty. In 2018, approximately 12% of Americans were living in poverty.

(a) Define *cyclical unemployment*. [2]

(b) Explain **two** ways a firm could increase the productivity of its workers. [4]

(c) Analyse the advantages of a low rate of inflation. [6]

(d) Discuss whether or not a fall in a country's unemployment rate will reduce poverty in that country. [8]

4 The Canadian government has introduced a number of policy measures designed to encourage more women to enter the labour force. Canada's labour force has reduced as its population has aged. The number of workers and their output are influenced by changes in the country's foreign exchange rate and consumer expenditure. In 2018, the Canadian dollar fell in value while Canadian consumer expenditure increased.

(a) Define *the labour force*. [2]

(b) Explain **two** causes of an ageing population. [4]

(c) Analyse how a fall in the value of a country's foreign exchange rate could reduce a deficit on the current account of its balance of payments. [6]

(d) Discuss whether or not an economy will benefit from an increase in consumer expenditure. [8]

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5 Australia experienced a drought in 2018 which caused its agricultural output to fall. Australia's secondary and tertiary sectors performed better in 2018 than its primary sector. All three sectors were affected by the measures taken by the central bank to avoid deflation. Some firms benefited from these measures and increased their output.

(a) Identify **two** industries, other than agriculture, that operate in the primary sector. [2]

(b) Explain **two** possible disadvantages to an economy of a fall in agricultural output. [4]

(c) Analyse how a central bank could avoid deflation. [6]

(d) Discuss whether or not a firm should have growth as its main objective. [8]

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