Cambridge Assessment International Education

Cambridge O Level

ECONOMICS **2281/22**

Paper 2 Structured Questions **May/June 2022**

2 hours 15 minutes

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: Happiness

Bhutan fact file	**2018**
Population	0.8 m
GDP per head	$3250
Government spending	$450 m
Government tax revenue	$380 m
World Happiness Index ranking	95th
Human Development Index ranking	134th

The United Nations has published a World Happiness Index every year since 2012. This index ranks countries according to life expectancy, freedom, social support, trust, generosity and GDP per head. New Zealand was ranked 8th in the World Happiness Index in 2019. The governments of both Bhutan and New Zealand now consider a number of influences on the happiness of their populations.

While more than half of Bhutan's labour force is employed in agriculture, most people in New Zealand are employed in the tertiary sector. Working conditions, working hours, the type of work and pay vary between the primary and tertiary sectors. Productivity is higher in all sectors in New Zealand than in Bhutan. This is partly the result of higher investment in capital goods and education in New Zealand. New Zealand also has a higher GDP per head. GDP per head ($) can influence net migration (number of people) as shown for selected countries in 2017 in Fig. 1.1.

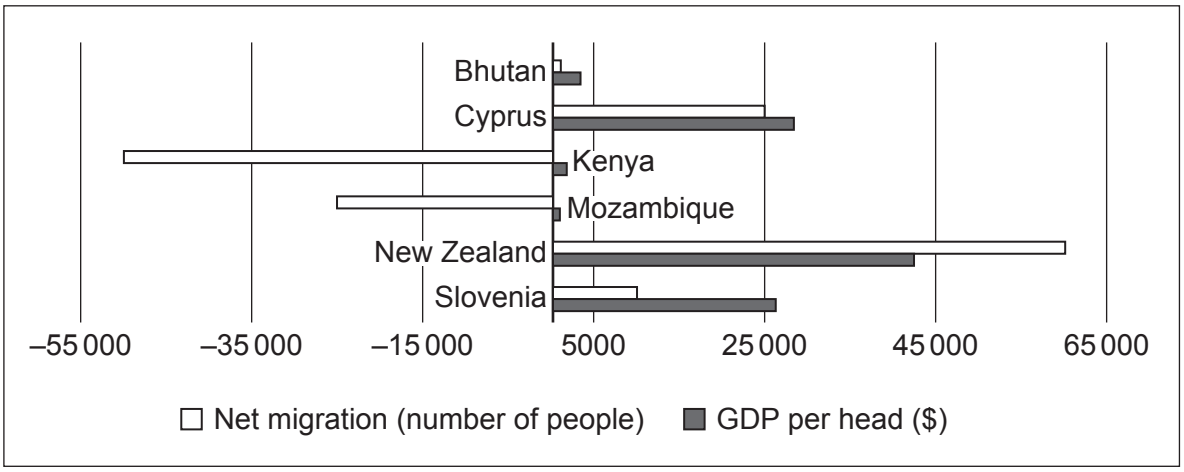


Fig. 1.1 GDP per head ($) and net migration (number of people) of selected countries 2017

In its 2019 budget, the New Zealand government said it would measure its progress not by increases in GDP but by increases in the quality of people's lives. To achieve this, it announced increased spending on some areas including mental health, child poverty and pollution. Some economists criticised this approach. They argued that the best way the government could improve living standards is to reduce income tax rates. This reduction could change government spending and the quantity of products that people buy, including cars.

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Tax revenue had increased in New Zealand in 2019, partly because of a rise in revenue from corporation tax. It was, however, difficult to predict firms' future profits. This was because of uncertainty about what would happen to its GDP and its corporation tax rates.

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

1 **(a)** Calculate Bhutan's GDP in 2018. [1]

(b) Identify **two** indicators that are in both the World Happiness Index and the Human Development Index. [2]

(c) State why Bhutan's 2018 government budget is likely to have increased total demand in Bhutan. [2]

(d) Explain **two** reasons why someone may prefer to work in the tertiary sector rather than in the primary sector. [4]

(e) Analyse how investment in capital goods and education can increase New Zealand's productivity. [4]

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

(g) Discuss whether or not enterprise is likely to have increased in New Zealand after 2019. [6]

(h) Discuss whether or not a cut in income tax rates will increase living standards. [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 There was a significant increase in the money supply in Angola in 2019. The National Bank of Angola was concerned that this would keep inflation above 17% and harm Angola's producers. The Angolan government had concentrated on reducing unemployment, which had fallen from 10% in 2010 to 7% in 2019.

(a) Identify **two** forms of money. [2]

(b) Explain **two** functions a central bank performs for its government. [4]

(c) Analyse why a government may have lower unemployment as its main aim. [6]

(d) Discuss whether or not inflation will harm producers. [8]

3 In 2019, France produced inside its production possibility curve (PPC). France exports a wide range of its products. It is the world's top exporter of luxury perfume and the 7th largest exporter of soap. Changes in technology affect the products people produce and buy. The French government plans to upgrade its infrastructure for all households to have internet access.

(a) Define a *production possibility curve*. [2]

(b) Explain why demand for soap is more price-inelastic than demand for a luxury brand of perfume. [4]

(c) Analyse, using a demand and supply diagram, how an increase in income will affect the market for a luxury brand of perfume. [6]

(d) Discuss whether or not the public sector should be responsible for the supply of all internet services. [8]

4 The South Korean government thinks that Japan is dumping steel. South Korean firms trade with, and produce in, other countries. Some South Korean multinational companies (MNCs) claim to reduce poverty in their host countries. In 2019, South Korean firms were affected by a depreciation in South Korea's foreign exchange rate. Some firms also experienced a shortage of workers, which was influenced by the country's very low birth rate.

(a) Define *dumping*. [2]

(b) Explain **two** reasons why a country's foreign exchange rate may depreciate. [4]

(c) Analyse how a MNC could reduce poverty in a host country. [6]

(d) Discuss whether or not a very low birth rate would be a cause for concern for a government. [8]

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5 Nicaragua experienced a 4% decrease in GDP in 2019, although household spending rose. One Nicaraguan product that increased in supply was bananas, which are a merit good. The Nicaraguan government encouraged its banana farmers and its other producers to increase their output. Increases in output can affect a firm's average costs of production.

(a) Define *supply*. [2]

(b) Explain **two** ways a government could increase the consumption of merit goods. [4]

(c) Analyse how the level and pattern of household spending may change when GDP decreases. [6]

(d) Discuss whether or not a firm will benefit from an increase in its output. [8]

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