UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/23**

Paper 2 Structured Questions **October/November 2010**

2 hours

Additional Materials: Answer Booklet/Paper

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READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A
Answer Question 1.
Section B
Answer any **three** questions.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **4** printed pages.

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Section A

Answer this question.

1 Large car firms in merger talks

It was announced in 2009 that the Canadian car company Magna was in merger talks with the American car company General Motors to buy its European car making factories. This could include the UK's Vauxhall brand and Germany's Opel brand.

The intention of Magna was that the merger would create a very large organisation that would be able to benefit from economies of scale. The Chairman of Magna stated that takeovers and mergers would help to create 'a very strong group'.

Opel alone would need at least US$4.3 billion to survive. The German Finance Minister stated that the German Government did not intend offering Opel substantial financial support to keep it going, and encouraged it to find a private sector investor. He declared that the government would be willing, however, to offer an investor some limited support from public sector funds.

General Motors, like many car producers around the world, has seen sales fall sharply in recent years. This decline has been made worse by the recession (economic downturn).

(a) Distinguish between a merger and a takeover. [2]

(b) Explain, using examples, how a car production company could benefit from economies of scale. [5]

(c) It is stated that sales of General Motors' cars have fallen sharply in recent years. Explain **three** possible reasons for this. [6]

(d) Discuss whether a government should offer a private sector investor finance from public sector funds to support a takeover of a large company in its country. [7]

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Section B

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

2 The Malaysian Government has stated that it wants to promote enterprise and is seeking to increase the role of market forces in the economy.

(a) Describe the role of entrepreneurs. [4]

(b) Explain **two** ways that a government could promote enterprise. [4]

(c) Explain, with the aid of demand and supply diagrams, how resources are re-allocated in a market economy. [6]

(d) Discuss whether it is a disadvantage to rely just on market forces to allocate resources. [6]

3 Commercial banks and stock exchanges are playing an increasing role in the Chinese economy with, for instance, more of the Chinese labour force being employed in the financial sector.

(a) Describe the functions of a commercial bank. [4]

(b) Explain how a stock exchange can play a key role in an economy. [4]

(c) Analyse the differences in earnings between different groups of workers. [6]

(d) Discuss whether high income earners will always save more than low income earners. [6]

4 **(a)** Describe the main features of:

(i) a co-operative [2]

(ii) a public corporation. [2]

(b) Explain **two** factors that determine the demand for labour in an economy. [6]

(c) Discuss whether it is better to be employed in the public sector or the private sector. [10]

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[Turn over

5 In a number of countries, governments have tried to reduce inflation by introducing subsidies.

(a) Explain what is meant by inflation. [3]

(b) Analyse the possible causes of inflation. [7]

(c) Explain what is meant by a subsidy. [3]

(d) Discuss the advantages and disadvantages of a government intervening in a market through the use of subsidies. [7]

6 In 2009 unemployment in South Africa rose to 24% and its real Gross Domestic Product (GDP) fell by 1.3%. Both of these changes reduced living standards in the country.

(a) Explain why it may sometimes be difficult to know precisely what the rate of unemployment is in a country. [3]

(b) Analyse the possible consequences of unemployment for a country. [6]

(c) Explain what is meant by real Gross Domestic Product. [4]

(d) Discuss whether the quality of life is always higher in developed than in developing countries. [7]

7 Changes in the exchange rate of a country's currency can have a significant influence on the value of its imports and exports.

(a) Explain **two** factors, other than a change in its exchange rate, that could cause an increase in the volume of a country's imports. [4]

(b) Analyse the advantages of maintaining a fixed exchange rate. [6]

(c) Discuss whether an economy would always benefit from a fall in its exchange rate. [10]

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