UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/21**

Paper 2 Structured Questions **October/November 2011**

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 The Chinese economy is growing

In 2009, the Chinese economy, as measured by the increase in real Gross Domestic Product (GDP), grew by 9%. This was a much higher rate of economic growth than most other economies. Indeed, in some countries the real GDP actually fell.

The role of the private sector is increasing in China, with more firms having profit maximisation as an important aim. The future of many firms in China looks encouraging, with profits up by an average of 7% in 2009.

One of the reasons for the impressive rate of economic growth in China has been the willingness of the commercial banks to lend. This has set China apart from many other countries, where it has often been difficult to obtain the required finance. Bank lending in China increased by 34% during 2009.

Another reason for the high rate of economic growth has been the willingness of the Chinese Government to increase public spending, especially to improve the country's infrastructure. This has been most noticeable in relation to the expenditure on the country's railways and roads, many of which were in great need of improvement.

(a) What is meant by economic growth? [2]

(b) Explain why firms aim to maximise profits. [4]

(c) Describe how lending by commercial banks can have a significant impact on an economy. [6]

(d) Discuss whether economic growth is always beneficial for an economy. [8]

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Section B

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

2 Car production in the United States has changed dramatically during the last forty years. The managers of the firms have decided to use more advanced machinery and fewer employees to produce the cars.

(a) Identify and explain the factors of production in the information above. [4]

(b) Most car producing firms are now very large. Explain how they may have benefited from:

(i) horizontal integration [4]

(ii) vertical integration. [4]

(c) The wages paid to employees in the car industry vary widely. Discuss the possible reasons why these earnings vary so much. [8]

3 Many governments intervene in their economies by imposing an indirect tax on a product. Sometimes, this is to try to overcome a market failure.

(a) Using an example, describe what is meant by an indirect tax. [3]

(b) Explain, using a demand and supply diagram, how the introduction of an indirect tax can affect the equilibrium price and equilibrium quantity in a market. [6]

(c) Explain why markets often fail. [5]

(d) Discuss the extent to which the introduction of an indirect tax could correct market failure. [6]

4 It was reported in the Netherlands in 2010 that the proportion of income that was saved, rather than spent, had actually increased for the first time in many years. At the same time, borrowing fell.

(a) Explain what could influence people to save more. [6]

(b) Explain the disadvantages to an economy of people saving a high proportion of their income. [6]

(c) Discuss how a government could encourage people to spend a higher proportion of their income. [8]

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5 One of the important aims of governments is full employment. The unemployment rate in some countries, however, has increased over the last few years.

(a) Define:

(i) full employment [2]

(ii) the unemployment rate. [2]

(b) Describe the different types of unemployment which could exist in an economy. [6]

(c) Discuss whether a rise in employment always benefits an economy. [10]

6 The population of the world continues to rise, despite the efforts of some countries to control population growth.

(a) Explain why the rate of population growth in some countries might be higher than in other countries. [6]

(b) As a country becomes more developed, describe what is likely to happen to:

(i) the geographical distribution of its population [2]

(ii) the occupational distribution of its workforce. [4]

(c) Discuss whether an increase in the population of a country should always be regarded as undesirable. [8]

7 In recent years there have been attempts to increase free trade so that countries are able to benefit from specialisation. Trade protection, however, still survives as a strong force in many parts of the world.

(a) Explain what is meant by trade protection. [4]

(b) Explain **two** reasons why a government might introduce trade protection. [6]

(c) Discuss the extent to which free trade can be seen as a benefit to **(i)** all consumers and **(ii)** all producers. [10]

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