UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/23**

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

2 hours

Additional Materials: Answer Booklet/Paper

2096391115

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 Oil and gas extraction in the Peruvian rainforest

Several thousand tribespeople in Peru's Amazon rainforest have been protesting about the government allowing companies to buy land at very low prices to extract the natural resources of oil and gas in the region.

The Government of Peru is very keen to encourage the development of its economy and it sees oil and gas exploration as a key part of this. The government owns the land and the oil, gas or minerals it contains. Since 2005, the proportion of Peru's Amazon rainforest that is allocated to oil and gas exploration has increased from 15% to 72%.

Tribespeople are unhappy about this. They want to see their living standards improved and recognise that extraction of natural resources has the potential to create wealth. However, they are concerned that such extraction by companies will have a significant impact on the rainforest. They think more should be done to reduce the environmental impact and to prevent the land where they are living from being sold at very low prices.

Some of the oil and gas extraction companies are foreign-owned. Some companies are privately-owned, and some of them are government-owned and the environmental record of some government-owned companies is often worse than that of the private companies.

(a) Describe the possible benefits of economic development to the people living in a country. [4]

(b) Explain **two** possible reasons why the Government of Peru might be prepared to sell land at very low prices. [4]

(c) What are the potential disadvantages of a company being owned by a government? [4]

(d) Discuss, using the example of oil and gas extraction in Peru, whether it is in the long-term interests of a country to use its natural resources rather than conserve them. [8]

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Section B

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

2 A market approach to the basic economic problem has the advantage that prices act like an 'invisible hand' to allocate the resources in an economy. However, the market system also has some disadvantages.

(a) What is meant by the basic economic problem? [2]

(b) Describe what could cause an increase in the demand for a good or service. [4]

(c) Explain, using a demand and supply diagram, how an increase in the demand for a good or service can affect its equilibrium price and equilibrium quantity in a market. [6]

(d) Discuss whether the advantages of the market system are greater than its disadvantages. [8]

3 The United States, like many countries, has recently experienced serious difficulties with a number of its financial institutions. Its central bank, The Federal Reserve, has intervened to provide financial support to some of these institutions.

(a) Describe the functions of a central bank. [6]

(b) Explain **three** of the functions of money. [6]

(c) Discuss whether a government should support financial institutions when they experience difficulties. [8]

4 There is a wide variety of different types of business organisation operating in South Africa, including co-operatives, public limited companies and public corporations. Some of the companies are monopolies.

(a) (i) Identify **two** features of a co-operative. [2]

(ii) Give examples of **two** types of co-operative. [2]

(b) Explain the differences between a public limited company and a public corporation. [6]

(c) Discuss whether the advantages of a monopoly are greater than its disadvantages. [10]

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5 Governments impose taxes for a number of reasons. One of these reasons is to bring about a redistribution of income.

(a) Describe the difference between a progressive and a regressive tax and give **one** example of **each**. [4]

(b) Explain why governments impose taxes, apart from to bring about a redistribution of income. [6]

(c) Discuss the advantages and disadvantages of a government trying to redistribute income more evenly. [10]

6 Some countries have a deficit on the current account of their balance of payments. One way to reduce the deficit is to change the exchange rate.

(a) What is meant by an exchange rate? [2]

(b) Explain what can cause fluctuations in exchange rates. [6]

(c) Describe the structure of the current account of a country's balance of payments. [4]

(d) Discuss whether a change in the exchange rate will always solve a country's deficit on the current account of its balance of payments. [8]

7 Many people emigrate to another country for a variety of reasons and this trend seems to be on the increase.

(a) Describe what is meant by net migration. [3]

(b) Explain the possible economic reasons why some people might emigrate. [7]

(c) Discuss the economic effects of a large increase in the number of migrants into a country. [10]

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