UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/23**

Paper 2 Structured Questions **October/November 2012**

2 hours

Additional Materials: Answer Booklet/Paper

5582295187

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 Wheat crisis in Russia

Russia, the world's third largest wheat exporter, announced in 2010 a ban on exports of wheat because wildfires had destroyed a large amount of farmland, equivalent to the size of Portugal. These fires in Russia were the result of a severe drought. It had been estimated that Russia would produce 25%–30% less wheat than it did in 2009.

Russia announced this ban on exports of wheat to protect its own population from inflation, but this put pressure on the world price. The withdrawal of large supplies of wheat from the world market had a dramatic effect on the price of wheat.

This was good news for producers of wheat, but it was not good news for consumers of bread. As a result of the ban, the price of bread rose by between 10% and 20% in 2010. Bread is an important item in the consumption patterns of many people. This price rise contributed to an increase in the rate of inflation.

One expert, however, stated that the price of bread would not rise much more. "The market for bread remains very competitive, which will restrict the ability of firms to pass on the higher cost of raw materials in the form of higher prices."

(a) Explain, using a demand and supply diagram, the likely effect on the world price of wheat of Russia's decision to ban the export of wheat. [4]

(b) Using the extract, explain why Russia was experiencing cost-push inflation during 2010. [3]

(c) Explain how the rate of inflation in a country is measured. [5]

(d) Discuss whether it is always good for a market to be 'very competitive'. [8]

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Section B

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

2 **(a)** Define the term capital and explain why this factor of production is important in the production process. [4]

(b) Explain what is meant by enterprise and analyse the effect that an entrepreneur can have on a business. [6]

(c) Discuss why the concept of opportunity cost is important for **(i)** firms, **(ii)** consumers and **(iii)** governments to consider when making choices. [10]

3 **(a)** Explain what is meant by price elasticity of **supply**. [5]

(b) Explain what influences the price elasticity of **demand** of a product. [7]

(c) Discuss how knowledge of price elasticity of supply and of price elasticity of demand could be of use to a business. [8]

4 **(a)** What are the benefits of owning shares in a company? [3]

(b) Describe the role that a stock exchange can play in a country's economy. [4]

(c) Explain the reasons why an individual might want to work in financial services, such as banking. [5]

(d) Some workers in financial services are members of a trade union. Discuss to what extent trade unions can benefit an economy. [8]

5 **(a)** Describe the difference between a tax and a subsidy. [4]

(b) Explain why a government may want to subsidise a good or service. [6]

(c) Discuss whether a government should increase income tax. [10]

6 **(a)** Explain net migration and consider whether it is likely to be the main factor affecting the size of a country's population. [5]

(b) Many countries spend large amounts of money on healthcare programmes. Is such expenditure, by itself, likely to reduce poverty in a country? [7]

(c) Discuss how useful the Human Development Index is in comparing living standards in different countries. [8]

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7 **(a)** What determines the value of a currency in a floating exchange rate system? [3]

(b) Explain the effects on an economy of a significant rise in the value of its exchange rate. [6]

(c) What is the difference between a quota and an embargo? [3]

(d) Discuss whether countries should use trade protection despite the potential advantages of free trade. [8]

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