Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/22**

Paper 2 Structured Questions **October/November 2014**

2 hours 15 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A

Answer Question 1.

Section B

Answer any **three** questions.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **5** printed pages, **3** blank pages and **1** insert.

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CAMBRIDGE
International Examinations

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Section A

Answer this question.

1 Fiscal policy and an ageing population in Japan

A sales tax was introduced in Japan in 1989, initially at a rate of 3%, and this was later increased to 5% in 1997. The intention is to increase the rate to 8% in 2014 and to 10% in 2015. This will still leave the tax rate below other countries. The tax increase in 1997 was not opposed by many of the Japanese people, but since then Japan's Gross Domestic Product (GDP) has fallen by 10%. It was US$5069 billion in 2011. There has been deflation and this has badly affected tax revenue, which has fallen 22% since 1997, leading to a doubling of the Japanese Government's debt. The Japanese Government was required to spend a great deal of money in March 2011 when a devastating earthquake and tsunami (coastal flooding) struck the country's north-eastern coast, leaving 20 000 people dead or missing; it has been estimated that the rebuilding work will cost US$260 billion. The Japanese Government's debt is now at a very high level, as can be seen in Table 1.

Table 1: Government debt as a percentage of GDP in 2011

Country	Government debt as a % of GDP
Japan	200
Greece	147
Italy	127
Iceland	120
Portugal	103

The Japanese Government has decided to increase sales tax to help pay for the pensions and health care of the ageing population. The problem is that the higher tax rate might lead to a fall in consumption, leading to an increase in unemployment. It may not help the country to get out of recession. The average annual growth in Gross Domestic Product over the last five years has been –0.3%.

Many Japanese people are anxious and worried about the future, especially fearing that the government might try to reduce its public sector debt, leading to further increases in unemployment. The rate of unemployment in Japan is currently above its average rate over the last ten years. Economists in Japan are thinking of ways to promote economic growth to get the country out of recession, such as through encouraging increased productivity and greater entrepreneurship.

It is certainly the case that there is a high savings ratio in Japan. This is despite the fact that interest rates are at their lowest ever level. There is a strong tradition of saving in Japanese culture and the level of interest rates is clearly only one influence on the decision of how much people save.

The ageing population is a particular problem in Japan. The percentage of the Japanese population that is over the age of 60 is 30.5%. The life expectancy of Japanese men is now 80.1 years and Japanese women 87.2 years, giving an average of 83.7 years. Table 2 shows how this compares with a number of other countries.

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Table 2: Average life expectancy in selected countries in 2011

Country	Average life expectancy
Japan	83.7
Singapore	81.0
United Arab Emirates	78.1
Kenya	56.9
Afghanistan	45.5

(a) Explain what is meant by 'deflation'. [2]

(b) Using information from the extract, calculate the level of government debt in US$ in Japan in 2011. [1]

(c) Using information from the extract, explain **two** reasons why Japan's government debt, as a percentage of Gross Domestic Product, is so high. [4]

(d) Discuss whether an increase in the rate of a sales tax will cause unemployment. [6]

(e) Analyse how increased productivity and greater entrepreneurship could help an economy to get out of recession. [6]

(f) Using information from the extract, explain **two** influences, other than interest rates, on how much people save. [4]

(g) Using Table 2, calculate the difference between average life expectancy in Japan and Kenya. [1]

(h) Discuss whether an ageing population is always a problem for an economy. [6]

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Section B

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

2 Factors of production, private and external costs and opportunity costs are all important concepts in Economics.

(a) Using examples, define the factor of production, 'capital'. [4]

(b) Using examples, distinguish between a private cost and an external cost. [4]

(c) Explain why scarcity gives rise to an 'opportunity cost'. [4]

(d) Discuss whether a decision to cut down trees for wood is an appropriate use of a scarce resource. [8]

3 Governments can influence economic behaviour in different ways, such as through taxes and regulations.

(a) Explain why, in a market economy, some goods and services are over-consumed and some under-consumed. [6]

(b) Using a demand and supply diagram, analyse the effect of the imposition of an indirect tax on the equilibrium price and equilibrium quantity of tobacco. [6]

(c) Discuss whether government regulations on private producers always achieve their intended aims. [8]

4 Money, central banks and commercial banks all play a key role in economies.

(a) Explain how well money performs its function as a medium of exchange. [5]

(b) Analyse the importance of a central bank in an economy. [7]

(c) Discuss whether a country's largest commercial banks should be nationalised and so become public corporations, and taken under government control. [8]

5 There are many large firms in most economies, but this does not mean that all small firms will become large.

(a) Explain **two** reasons why a decision might be taken to change a private limited company into a public limited company. [4]

(b) Explain **two** reasons why production by a firm might be changed from capital-intensive to labour-intensive. [5]

(c) Using examples, distinguish between vertical, horizontal and conglomerate integration. [5]

(d) Discuss whether it is likely that the majority of small firms in an economy will remain small. [6]

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6 Inflation and unemployment are two economic problems that governments usually have to deal with.

(a) Distinguish between demand-pull and cost-push inflation. [4]

(b) Explain **three** reasons why inflation is regarded as a serious economic problem. [6]

(c) Distinguish between frictional and cyclical unemployment. [4]

(d) Discuss whether there is likely to be a conflict between the government aims of low inflation and low unemployment. [6]

7 Specialisation can lead to a significant increase in output and international trade.

(a) Explain what is meant by 'specialisation'. [4]

(b) Describe the benefits and disadvantages of specialisation at a regional level. [6]

(c) Discuss whether an economy will always benefit from an increase in international trade. [10]

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