Cambridge
O Level

**Cambridge International Examinations**
Cambridge Ordinary Level

**ECONOMICS** **2281/23**

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

## Section A

Answer this question.

### 1 Economic problems in Bulgaria

Bulgaria is the poorest of the 27 countries (as of May 2013) in the European Union (EU). It joined the EU in January 2007. Average wages are only US$4.50 an hour and average monthly salaries are only US$465. The rate of unemployment in Bulgaria in 2012 was estimated at 12%, compared to an EU average of 9.4%. This level of unemployment, however, was much less than that in some EU countries, such as Greece, where the rate of unemployment was twice as high.

The population of Bulgaria is 7.5 million and yet over a million Bulgarians have left the country in recent years to work abroad, especially in Spain and Greece. The value of the money they have sent back home, known as migrant remittances, has risen from US$900 million in 2008 to US$990 million in 2012. Much of the work that these people do in Spain and Greece is seasonal and so there have been particular problems of seasonal unemployment, with some of the migrants losing their jobs and having to return home.

Within Bulgaria, a lot of workers have lost their jobs in the construction industry. It had been planned that a large number of hotels and holiday flats would be built along Bulgaria's Black Sea coast. Since 2008, there has been a dramatic fall in the demand for these properties and many construction firms have gone out of business, having failed to obtain sufficient funds from financial institutions.

The Gross Domestic Product (GDP) of Bulgaria has only been growing by 1.7% per year in recent years. In 2012 the GDP was US$48.0 billion. One of the problems in measuring GDP in Bulgaria is that it has been estimated that as much as 30% of the economy goes unrecorded. There is a great deal of activity in what has been termed the hidden or informal economy. Not all income earned is declared for tax purposes, there is some smuggling (illegal importing) and much of agricultural output is subsistence farming.

It is noticeable that the death rate in Bulgaria is considerably higher than the birth rate (see Table 2 for details). A survey of Bulgarians found that about 70% of them expected the economic situation in the country to worsen in the next 12 months, not something that would be likely to bring about an increase in the birth rate. This has meant that Bulgaria now has the second most rapidly declining population in the world, as shown in Table 1.

**Table 1: The world's most rapidly declining populations, 2005–2010**

| Country | Average annual % change in population |
|---|---|
| Moldova | –1.06 |
| Bulgaria | –0.64 |
| Ukraine | –0.64 |
| Georgia | –0.57 |
| Lithuania | –0.55 |

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It is also noticeable that in many indicators Bulgaria is worse off than the European Union average, as shown in Table 2.

**Table 2: A comparison of Bulgaria and the EU average in 2012**

| Indicators of comparative living standards | Bulgaria | EU average |
|---|---|---|
| Human Development Index | 0.743 | 0.867 |
| Birth rate | 9.9 | 10.1 |
| Death rate | 14.6 | 9.9 |
| Health spending (% of GDP) | 7.4 | 10.7 |
| Education spending (% of GDP) | 3.5 | 4.9 |
| GDP per capita (US$) | 6420 | 38 080 |

**(a)** Explain what is the difference between the rate of unemployment and the level of unemployment. [2]

**(b)** Analyse **three** ways a government could reduce the rate of unemployment in a country. [6]

**(c)** Using information from the extract, calculate the percentage increase in migrant remittances sent home by Bulgarians between 2008 and 2012. [2]

**(d)** Using information from the extract, calculate what would have been the estimated size of the informal economy in Bulgaria in 2012 in US$. [1]

**(e)** Using information from the extract, explain why such a large percentage of the Bulgarian Gross Domestic Product goes unrecorded. [3]

**(f)** Discuss whether the Human Development Index is a perfect measure to compare living standards in different countries. [6]

**(g)** Define the terms 'birth rate' and 'death rate'. [4]

**(h)** Discuss whether the Bulgarian Government should try to reverse the decline in the country's population size. [6]

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**[Turn over**

## Section B

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

**2** All market systems have both advantages and disadvantages.

**(a)** Explain how resources are allocated in a market system. [5]

**(b)** Analyse **three** reasons why a market system could fail. [7]

**(c)** Discuss whether government intervention in a market is always to be supported. [8]

**3** A government decides to increase the number of schools it operates, leading to an increase in the demand for teachers. At the same time, the government decides to increase the qualifications that a person needs to have to become a teacher.

**(a)** Using a demand and supply diagram, analyse the effect of these two decisions on the equilibrium wage rate and the equilibrium quantity of teachers. [6]

**(b)** Describe why the earnings of teachers can change over a period of time. [4]

**(c)** Consider whether teachers working in the private sector and in the public sector are likely to receive different earnings. [4]

**(d)** Discuss whether highly-paid teachers are likely to spend more and borrow more than less well-paid teachers. [6]

**4** Car production is an important economic activity in many countries. Much of this production is undertaken by large multinational companies. These firms aim to increase both productivity and production.

**(a)** Describe **two** reasons why car production is usually undertaken by large multinational companies. [4]

**(b)** Distinguish between productivity and production. [4]

**(c)** Using an example of each, explain the difference between fixed costs and variable costs in car production. [4]

**(d)** Discuss whether the establishment of a multinational company in a country will always be beneficial for all the workers it employs. [8]

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**5** Inflation is an economic problem faced by many economies, but governments differ in how they attempt to bring down the rate of inflation.

**(a)** Describe how changes in the price level are measured in an economy. [5]

**(b)** Explain how a situation of 'too much money chasing too few goods' can lead to inflation. [5]

**(c)** Discuss whether fiscal policy, rather than monetary policy, is always a better way to bring down the rate of inflation in an economy. [10]

**6** Developing countries have characteristics that are different from those of developed countries. One of these is the extent of poverty in such countries.

**(a)** Describe **three** features of a developing country. [6]

**(b)** Describe the changes that are likely to occur as a country becomes more developed in

**(i)** its occupational structure, and

**(ii)** the geographical distribution of its population. [4]

**(c)** Explain what is meant by 'absolute poverty'. [2]

**(d)** Discuss whether government policies can always reduce poverty in a developing country. [8]

**7** Many countries have a deficit in the current account of their balance of payments but some countries, such as China, Germany and Japan, regularly have a surplus in their current account.

**(a)** Explain **two** consequences of a current account deficit. [4]

**(b)** Analyse what can cause a surplus in the current account of the balance of payments. [8]

**(c)** Discuss whether a current account surplus is always to be regarded as desirable. [8]

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