Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/22**

Paper 2 Structured Questions **October/November 2015**

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 Mexico: rising to the top?

It has been predicted that Mexico will be one of the world's top ten economies by 2020. Changes in the industrial structure of the country have been occurring for some time. In 2008, 12% of the labour force were employed in the primary sector (mainly agriculture), 26% in the secondary sector (mainly manufacturing) and 62% in the tertiary sector (services). By 2012, employment had fallen by 1% in the primary sector and by 2% in the secondary sector.

In recent years, Mexico has been removing trade protection measures such as tariffs and quotas. The country now has free trade with more than 40 other countries. International trade plays a key role in the Mexican economy, with a third of its output being exported and imports accounting for more than a third of the products bought in Mexico. Nearly 80% of Mexico's exports go to the United States of America (US). Mexican firms have a wide choice of sources for imported raw materials and a large international market in which to sell their products. The main destination of Mexico's falling number of emigrants is the US.

After an economic downturn in 2009, the Mexican economy has been growing. Incomes have risen and life expectancy has increased. Table 1 shows the income levels and life expectancy for a number of countries.

Table 1: Gross Domestic Product (GDP) per head and life expectancy in selected countries in 2012

Country	GDP per head (US$)	Life expectancy (years)
Bangladesh	700	69
Canada	48 000	83
Mexico	9 200	77
Peru	5 400	72
Portugal	22 100	80
South Africa	7 500	55

Although the standard of Mexico's education is not very high, poverty is declining in the country as living standards are rising. More people now have access to better quality health care. In contrast to its neighbour the US, unemployment has been declining in Mexico.

Costs of production in Mexico are rising more slowly than in China. Mexico imports products from China and also competes with China in a number of export markets.

Some of Mexico's top exporting firms are monopolies within the country. One is Pemex, the state-owned oil and gas monopoly. The firm sells oil throughout the world. Some economists claim that Mexican consumers would benefit from Pemex being sold to the private sector.

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(a) Using information from the extract, calculate what percentage of Mexico's labour force was employed in the tertiary sector in 2012. [2]

(b) Using information from the extract, explain **two** benefits of free trade for Mexican firms. [4]

(c) **(i)** Explain why people in countries with a higher GDP per head have a longer life expectancy than people in countries with a lower GDP per head. [2]

(ii) Using Table 1, comment on whether the information supports the view that countries with a higher GDP per head have a longer life expectancy than countries with a lower GDP per head. [3]

(d) Using information from the extract, explain **two** reasons why emigration from Mexico has fallen. [4]

(e) Discuss whether rises in costs of production in China will benefit the Mexican economy. [5]

(f) Explain **two** ways in which a monopoly differs from perfect competition. [4]

(g) Discuss whether selling a state monopoly, such as Pemex, to the private sector would benefit consumers in Mexico. [6]

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Section B

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

2 The United Nations' World Tourism Organisation has estimated that the proportion of the world's population who have visited another country will have reached only 7% by 2020. Increasing international travel might create jobs and influence incomes. However, it would also put pressure on finite resources and would create external costs.

(a) Define 'resources'. [2]

(b) Explain how international travel may create external costs. [4]

(c) Analyse how an increase in international travel may influence incomes. [6]

(d) Discuss whether demand for international travel is likely to continue to increase. [8]

3 A heatwave in July 2013 in the United Kingdom resulted in sales of ice cream more than doubling. Extra workers were taken on to meet the higher demand. In recent years, the demand and supply conditions of ice cream have changed, leading to demand and supply becoming more elastic. The market has also been influenced by government policies and by changes in the country's economic growth rate.

(a) Define 'supply'. [2]

(b) Explain **two** ways a government could influence the price of a product. [4]

(c) Analyse why demand for a product may become more price elastic. [6]

(d) Discuss whether the wages of all workers will increase during a period of economic growth. [8]

4 On average, Norwegians work only 27 hours a week. They also take more, and longer, holidays than most other countries' workers. In 2013, Norway had the second highest productivity in the world. It was also ranked number one in the Human Development Index (HDI). Unlike many other countries, Norway has had almost full employment in recent years.

(a) Define 'productivity'. [2]

(b) Explain **two** reasons why productivity may increase. [4]

(c) Analyse why a country may have a high HDI value. [6]

(d) Discuss whether a country would benefit from having full employment. [8]

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5 In 2009, a digital currency called Bitcoin was invented. Between 2009 and 2014 there was a growth in the number of people and firms accepting it as a medium of exchange and store of value. Financial experts have called for digital money to be regulated by central banks. One of their concerns is that it could increase the money supply and cause inflation.

(a) Define 'medium of exchange'. [2]

(b) Explain **two** ways in which a central bank differs from a commercial bank. [4]

(c) Analyse how an increase in the money supply may cause inflation and a fall in saving. [6]

(d) Discuss whether price stability should be a government's main economic aim. [8]

6 Capital goods make up over half of Japanese exports. In 2013, although Japan's imports rose more rapidly than its exports, there was still a surplus on the current account of its balance of payments. Across the world, increasing trade was leading to new airports being opened to meet the demand for transporting goods.

(a) Define 'capital good'. [2]

(b) Explain **two** reasons why a country's export revenue might increase when export prices rise. [4]

(c) Analyse how a government could increase the surplus on the country's current account of the balance of payments. [6]

(d) Discuss whether new airports should be built and operated by governments or the private sector. [8]

7 Myanmar (Burma) is seeking to move from being a developing to a developed country. It has a lower savings ratio than most other Asian economies, with its people spending most of their income. The country's Government is encouraging investment from abroad to increase its economic growth. The Government is using fiscal policy in an attempt to reduce poverty, which affects a third of its population.

(a) Identify **two** characteristics of a developed country. [2]

(b) Explain **two** reasons why people may spend most of their income. [4]

(c) Analyse how an increase in investment may increase a country's economic growth rate. [6]

(d) Discuss whether fiscal policy measures will reduce poverty. [8]

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