Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/22**

Paper 2 Structured Questions **October/November 2016**

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 **4** printed pages and **1** Insert.

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CAMBRIDGE
International Examinations

Section A

Answer this question.

1 The Mints

Mexico, Indonesia, Nigeria and Turkey, known as the Mints, are four emerging economies that are predicted to grow rapidly. The four countries have relatively large populations, from 75 million in Turkey to 242 million in Indonesia in 2014. They also have high birth rates, from 17 in Turkey to 41.5 in Nigeria per 1000 people. Both income per head and the countries' Human Development Index ranking are improving. The changes, however, do not mean that everyone in the four countries is satisfied. As incomes increase, so do people's wants, and what people would like to consume exceeds the maximum output that countries are capable of producing.

Output and consumption are increasing in each of the four countries. Nigeria, for example, is predicted to be one of the world's 20 largest economies by 2020. Productivity is rising in most sectors of the Nigerian economy although it remains low in agriculture. Despite some security concerns, more multinational companies are setting up in the country, attracted by its expanding markets.

Nigeria and Turkey both had annual inflation rates above 8% in 2014. Indonesia's was 5.7% and Mexico's 5.2%. The Mexican Government had used monetary policy measures in that year to keep the inflation rate down. In August 2014 it opened up its energy market, allowing private sector firms to compete against the country's state-owned petroleum firm. It also increased spending on state-provided health care, which operates alongside private medical care.

The four countries saw fluctuations in their exchange rates in 2014. Indonesia's currency, the rupiah, changed from 10 685 per US$ the year before to 11 450 per US$ in 2014. Turkey's currency, the Turkish Lira, followed a similar trend.

Changes in the exchange rate can affect firms' costs of production, as can industrial action. In June 2014 Turkish trade unions organised a number of strikes seeking to gain better wages and working conditions for their members. However, the power of Turkish trade unions is limited by restrictive trade union legislation and a small membership, with only 9% of workers belonging to trade unions. This means that collective bargaining is not a key feature of Turkish labour markets and Turkish trade unions do not have much influence on economic policy.

(a) Using information from the extract, explain how the Mints illustrate the economic problem. [2]

(b) Calculate how many children were born in Turkey in 2014. [2]

(c) Using information from the extract, explain **two** reasons why the earnings of workers in Nigeria are likely to increase. [4]

(d) Explain whether the extract suggests that Mexico operates a market economic system or a mixed economic system. [3]

(e) Analyse how the change in Indonesia's exchange rate in 2014 is likely to have affected the country's import expenditure. [4]

(f) Discuss whether the Human Development Index is a good measure of living standards. [5]

(g) Using information from the extract, explain **two** functions of a trade union. [4]

(h) Discuss whether countries with high population growth have high economic growth. [6]

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Section B

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

2 There are a number of competing producers of jeans. These firms are now also facing competition from new sportswear designed to also be worn as leisurewear. This increased competition has made demand for jeans more price-elastic. For instance, a government report has estimated that the price elasticity of demand for one of the oldest firm's jeans in Asia is – 2.5.

(a) What is meant by a price elasticity of demand of – 2.5? [2]

(b) Explain the importance of price elasticity of demand for a government. [4]

(c) Using a demand and supply diagram, analyse the effect of a rise in the price of Firm X's jeans on the market for Firm Y's jeans. [6]

(d) Discuss whether long-established and well-known firms are likely to be more successful than firms that are new to an industry. [8]

3 In recent years productivity growth has been low in Brazil, which has kept average costs relatively high. Some economists claim this low growth in productivity is due to protectionism. The Brazilian Government imposes high tariffs on a range of imports, including smartphones; it argues that such protectionism saves Brazilian jobs.

(a) Define 'productivity'. [2]

(b) Explain the difference between average fixed cost and average variable cost. [4]

(c) Analyse the advantages that a country may gain from specialising in a product such as smartphones. [6]

(d) Discuss whether protectionism saves jobs. [8]

4 Household debt in South Korea in 2014 was reaching record levels. People were borrowing more and saving less: the savings ratio fell from 19% in 1985 to 4% in 2014. Despite the low rate of saving, there was little demand-pull or cost-push inflation. Indeed, in 2014 the country came close to experiencing deflation.

(a) Define 'deflation'. [2]

(b) Explain the difference between demand-pull inflation and cost-push inflation. [4]

(c) Analyse how a central bank might reduce household borrowing. [6]

(d) Discuss whether a government should encourage an increase in saving. [8]

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5 The unemployment rate in Wales fell from 8.2% in March 2013 to 6.8% in March 2014. One in four workers in Wales is employed in the public sector. A high proportion of workers are employed in multinational companies, including a Japanese car producer and a South Korean electronics firm.

(a) Define 'unemployment'. [2]

(b) Explain **two** benefits that a firm may gain from producing in another country. [4]

(c) Using a production possibility curve diagram, analyse the effect of a decrease in unemployment on an economy's output. [6]

(d) Discuss whether it is better to work in the public sector or the private sector. [8]

6 The largest Indonesian aviation firm is a public corporation that started production in 1976. It employs a relatively high value of capital goods and has a monopoly of aircraft construction in Indonesia. It has been making parts for foreign firms for some time but is now trying to sell aircraft to other countries. This involves it competing in a market where most of the firms are public limited companies.

(a) Identify who owns a public corporation and who owns a public limited company. [2]

(b) Explain why fixed costs are high in the aircraft-making industry. [4]

(c) Analyse what determines a firm's demand for capital goods. [6]

(d) Discuss whether the quality of products is likely to be higher in a monopoly or in a perfectly competitive market. [8]

7 Tax revenue from both direct and indirect taxes in Germany rose to US$860 billion in 2013. The increase was largely due to a fall in unemployment. Germany has a progressive tax system. In 2014, German politicians discussed whether the tax rates should be increased. Changes in tax rates influence the amount of tax revenue received and the nature of the tax system.

(a) Define 'a progressive tax'. [2]

(b) Explain the difference between direct and indirect taxes. [4]

(c) Analyse how a fall in unemployment can increase tax revenue. [6]

(d) Discuss whether a government should increase tax rates. [8]

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