Cambridge Assessment International Education

Cambridge O Level

ECONOMICS **2281/22**

Paper 2 Structured Questions **October/November 2020**

2 hours 15 minutes

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You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **four** questions in total:
  Section A: answer Question 1.
  Section B: answer **three** questions.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 90.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **8** pages. Blank pages are indicated.

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Section A

Read the source material carefully before answering Question 1.

Source material: The destruction of forests in Indonesia

Indonesian fact file	2017 Indonesia	2017 world
palm oil production (million metric tons)	36.0	60.0
rice production (million metric tons)	74.2	483.9
unemployment rate (%)	5.4	5.7
population growth rate (%)	1.2	1.4

Indonesia is the world's largest producer of palm oil. The costs involved in producing palm oil include rent of land, fertiliser, palm oil seeds, maintenance of irrigation systems and casual labour. Fires are set to clear forests to make way for palm oil plantations. These fires destroy the homes of many species of wildlife and release harmful gases into the air. Since 2011, Indonesia has been paid to conserve its forests by the Norwegian government.

While Indonesia is the largest producer of palm oil, it is the third largest producer of rice. Indonesia exports 85% of its palm oil but sometimes has to import rice to meet domestic demand. Its international trade in palm oil and rice is influenced by changes in its foreign exchange rate. The price of the Indonesian currency, the rupiah, fell in 2017.

Rice production also contributes to air pollution. Rice farmers burn the stubble left after harvesting to clear the fields and to raise the fertility of the land so they can produce more rice. Some environmentalists argue that stubble burning should be banned.

The Indonesian economy, along with the world economy, continues to grow. Economic growth can cause pollution. It can also affect a country's GDP per head ranking and Human Development Index (HDI) ranking as shown in Table 1.1.

Table 1.1 GDP per head ranking and HDI ranking for selected countries in 2016

country	GDP per head ranking	HDI ranking
Luxembourg	2	20
Mauritius	64	64
Indonesia	99	113
Cuba	120	68
Ghana	134	134
Ethiopia	167	174

Indonesia experiences net emigration. Some Indonesians work abroad and send money home to their families. People also come from abroad to work in Indonesia, some in relatively highly paid jobs in the country's expanding tourism industry. Indonesia currently attracts fewer tourists than its neighbours, Singapore and Malaysia. It does, however, have many natural tourist attractions and is currently price competitive.

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Answer all parts of Question 1. Refer to the source material in your answers.

1 **(a)** Calculate the percentage of total world output of palm oil produced by Indonesia in 2017. [1]

(b) Identify **two** variable costs of producing palm oil. [2]

(c) Explain **one** opportunity cost of conserving forests in Indonesia. [2]

(d) Explain **two** external costs of the destruction of forests in Indonesia. [4]

(e) Draw a demand and supply diagram to show the effect of a ban on burning stubble on the market for rice. [4]

(f) Analyse the relationship between countries' GDP per head ranking and HDI ranking. [5]

(g) Discuss whether or not the immigration of workers would be likely to benefit the Indonesian economy. [6]

(h) Discuss whether or not the Indonesian tourism industry will increase in the future. [6]

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Section B

Answer any **three** questions.

Each question is introduced by stimulus material. In your answer you may refer to this material and/or to other examples that you have studied.

2 Mexico has a history of trade deficits. The government is moving the economy closer to free trade, to try to improve its macroeconomic performance. It was predicted in 2017 that Mexico's economy would experience a small rise in its unemployment rate. In 2017 the economy's inflation rate was 6.6%, the highest rate since 2001. A number of policy measures may be used to reduce inflation, including increasing the rate of income tax.

(a) Define *trade in goods balance.* [2]

(b) Explain **two** benefits producers may gain from free trade. [4]

(c) Analyse, using a production possibility curve (PPC) diagram, the effect of an increase in unemployment on an economy. [6]

(d) Discuss whether or not an increase in the rate of income tax will reduce inflation. [8]

3 The population of Hungary is the most obese in Europe. Hungarians eat fewer vegetables than most Europeans and more food types that may be considered to be demerit goods. In 2017, the Hungarian government introduced a tax on unhealthy food, known as the chips tax. The tax has had some success in moving demand to healthier foods. Some economists suggest that governments should use price controls as well as taxes to influence the food market.

(a) Define *demerit good*. [2]

(b) Explain the difference between an extension in demand and an increase in demand. [4]

(c) Analyse the effects on income distribution and tax revenue of an increase in indirect taxes. [6]

(d) Discuss whether or not a government should impose a maximum price on food. [8]

4 Italy is home to the world's oldest bank and some of the world's oldest car producers. Internationally, both industries are facing a number of challenges. The wages of bank workers and car workers are increasing. Demand for bank loans and for cars is changing, in part, due to changes in population size. It is predicted that the price elasticity of demand (PED) for cars will also change in the future.

(a) State **two** functions of a commercial bank. [2]

(b) Explain **two** reasons why emigration from a country may increase. [4]

(c) Analyse the possible causes of a rise in the wages of bank workers. [6]

(d) Discuss whether or not demand for cars will become more price-elastic in the future. [8]

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5 Wage rate growth has increased recently in Kazakhstan, but its economic growth rate has slowed. This is, in part, due to a fall in exports. To try to increase the economic growth rate, the government has increased its spending on investment. In August 2015, it adopted a floating foreign exchange rate system in an attempt to improve the country's macroeconomic performance.

(a) Define *wages.* [2]

(b) Explain **two** reasons, other than methods of protection, why a country's exports may fall. [4]

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

(d) Discuss whether or not a country should switch from a fixed foreign exchange rate system to a floating foreign exchange rate system. [8]

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