Cambridge Assessment International Education

# Cambridge O Level

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

Paper 2 Structured Questions **October/November 2022**

**2 hours 15 minutes**

*4108606534*

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. Any blank pages are indicated.

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## Section A

Read the source material carefully before answering Question 1.

**Source material: Changes in Ecuador's economy**

| Ecuador Fact file | 2019 | | 2014–2016 |
|---|---|---|---|
| Population | 18m | Change in price in Ecuador's oil | –50% |
| Number of Ecuadoreans living and working abroad | 3m | Change in supply of Ecuador's oil | –8% |

Oil makes up one third of Ecuador's exports. Ecuador has, however, decided to produce less oil and more of other goods and services. This decision has affected how products are made in Ecuador. For example luxury textile production, such as luxury scarves and jumpers, uses fewer capital goods than oil production. Tourism relies on natural resources including sunshine and beaches.

One reason Ecuador's government has encouraged less reliance on oil, is the large changes that often occur in the oil market. Between 2014 and 2016, demand for Ecuador's exports fell which caused a significant reduction in export revenue. This reduction, combined with a decrease in government spending, caused the country's output to decline.

Between 2016 and 2019, there was some improvement in Ecuador's economy. Incomes and household spending increased and more cars were purchased. Table 1.1 shows the GDP per head ($) and car ownership (per 1000 people) in selected countries in 2019.

**Table 1.1 GDP per head ($) and car ownership (per 1000 people) in selected countries 2019**

| Country | GDP per head ($) | Car ownership (per 1000 people) |
|---|---|---|
| Ecuador | 6200 | 160 |
| New Zealand | 44000 | 865 |
| Senegal | 1600 | 50 |
| Spain | 32000 | 650 |
| Switzerland | 83000 | 720 |
| Uruguay | 18000 | 300 |

Ecuador's government borrowed from China to spend on building more roads. The construction of these roads increased employment and was expected to influence transport costs in the long run.

Between 2016 and 2019, Ecuador's textile industry benefited from the improvement in the road network. Despite strong competition from foreign textile firms, Ecuador's textile firms increased the scale of their production. Wages paid in the textile industry did not rise significantly. A very small wage increase can affect trade union activity and emigration.

Some of Ecuador's workers emigrate to find jobs in other countries, particularly Italy, Spain and the US. These workers have a range of skills and they work in a variety of jobs abroad, some of which provide training. Many, but not all, workers send money home to their families.

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

**1** **(a)** Calculate the price elasticity of supply of Ecuador's oil. [1]

**(b)** Identify **two** key resource allocation questions. [2]

**(c)** State why sunshine has no opportunity cost. [2]

**(d)** Explain **two** reasons why Ecuador experienced a recession between 2014 and 2016. [4]

**(e)** Analyse how building more roads can increase a country's economic growth rate. [4]

**(f)** Analyse the relationship between GDP per head and car ownership. [5]

**(g)** Discuss whether or not the profits of Ecuador's textile firms are likely to have increased between 2016 and 2019. [6]

**(h)** Discuss whether or not Ecuador benefits from the emigration of some of its workers. [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 you have studied.

**2** Washington State is the state which grows the most apples in the US. In 2019, apple production increased in Washington State but the market was in disequilibrium. Apple farming is a labour-intensive industry because apples are picked by hand. The market for apples in the US is competitive.

**(a)** Define *market disequilibrium.* [2]

**(b)** Explain opportunity cost and how it can influence a farmer's decision to grow apples. [4]

**(c)** Analyse how labour-intensive production can benefit an economy. [6]

**(d)** Discuss whether or not consumers benefit from a competitive market. [8]

**3** Romania's indirect tax rate was 19% between 2017 and 2019. There is a high proportion of foreign multinational companies (MNCs), especially US MNCs, in Romania. MNCs have helped to increase productivity in Romania and lower its unemployment rate. There are also benefits of MNCs to their home countries.

**(a)** Define, with an example, an *indirect tax.* [2]

**(b)** Explain **two** benefits of MNCs to their home countries. [4]

**(c)** Analyse how an increase in productivity can affect unemployment. [6]

**(d)** Discuss whether or not a decrease in a country's unemployment rate will reduce poverty. [8]

**4** Poland is the world's top exporter of toothpaste, a product that is in inelastic demand. In 2019, some Polish firms producing toothpaste considered a horizontal merger. Also in 2019, the wages of dentists increased globally. This increase was particularly high in the UK where dentists received, on average, a 25% wage rise.

**(a)** Identify **two** determinants of price elasticity of demand. [2]

**(b)** Explain **two** advantages to a firm of a horizontal merger. [4]

**(c)** Analyse, using a demand and supply diagram, how the market for toothpaste would be affected by an increase in population. [6]

**(d)** Discuss whether or not an increase in the wages of dentists will increase the number of dentists employed. [8]

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**5** Palau is a small island country in the Pacific Ocean. It has received considerable financial support from the US. Living standards are thought to be lower in Palau than in the US. Palau imposes some of the highest tariffs in the world. These trade tariffs affect Palau's current account of its balance of payments. In 2019, commercial bank lending to firms and households in Palau increased.

**(a)** Identify **two** components of the current account of the balance of payments. [2]

**(b)** Explain **two** reasons for differences in living standards between countries. [4]

**(c)** Analyse the reasons why a country may impose tariffs on imports. [6]

**(d)** Discuss whether or not an increase in commercial bank lending will increase economic growth. [8]

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