Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/23**

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.

At the end of the examination, fasten all your work securely together.
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.

CAMBRIDGE
International Examinations

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Section A

Answer this question.

1 Progress in Rwanda

Rwanda is a small, landlocked African country. In recent years, its economic performance has improved significantly. For instance, in 2012 it achieved an increase in its Gross Domestic Product (GDP) of 7.5%, stable inflation and a fall in unemployment. Perhaps most noticeably, poverty is being reduced. Between 2006 and 2012, more than 1 million were taken out of poverty and by 2012, 58% of the population of 12 million were not in poverty.

The government is following a number of policies to reduce poverty. One of these is to increase government spending on education and healthcare. Now more than 90% of children attend primary school and the percentage of children going to secondary school is increasing. Child mortality has fallen and the population's general health has improved.

Half of the country's population is aged under 25. The country is densely populated, with 430 people per square kilometre. In 2013 it experienced net immigration, giving the country a positive migration rate, with more people entering the country than leaving it. Migration is one influence on a country's economic growth rate (see Table 1).

Table 1: Migration and economic growth rates for selected countries in 2012

Country	Migration rate (per 1000 population)	Economic growth rate (% change in GDP)
Cuba	–3.6	3.1
Macau	+3.5	10.0
Rwanda	+1.0	7.5
South Africa	–6.2	2.6
Uganda	–0.1	4.2

Another influence on the economic growth rate is productivity. The Rwandan Government is seeking to raise productivity in agriculture, which accounts for 80% of employment. There has been little investment in this sector. Many farms lack equipment such as ploughs and tractors. Domestic agricultural output does not always match domestic demand. This results in the country often having to import food. The government is trying to encourage farmers to farm in a sustainable way and to concentrate on products that have a price-inelastic demand.

Rwanda is facing a number of challenges. The Rwandan Government has removed import tariffs on a number of products, including some food items. Energy costs are relatively high and the banking sector is not very developed. In 2012 only a fifth of Rwandan adults had a bank account but reductions in poverty and a growth in the banking sector are likely to change saving and borrowing in Rwanda in the future.

(a) Using information from the extract, calculate the number of people living in poverty in Rwanda in 2012. [2]

(b) Explain how in a country such as Rwanda, an increase in government spending on education and healthcare could reduce poverty. [5]

(c) Using information from the extract, explain **one** reason why the average age of Rwanda's population may increase in the future. [2]

(d) Using Table 1, comment on whether economists would expect to see the relationship shown between the migration rates and the economic growth rates. [4]

(e) Using information from the extract, explain whether agriculture in Rwanda is capital-intensive or labour-intensive. [2]

(f) Discuss whether concentrating on products with inelastic demand will benefit farmers. [5]

(g) Using information from the extract, explain **two** reasons why the price of food in Rwanda may fall. [4]

(h) Discuss whether an increase in borrowing by households and firms in a country will benefit its economy. [6]

Section B

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

2 Demand for luxury products, including expensive perfume, increased significantly in China from 2007 to 2012. The average revenue from selling these products also rose. Many luxury products have elastic demand. A high proportion of the luxury products sold in China are currently imported. Some firms are now considering producing in China rather than exporting to China.

(a) Define 'average revenue'. [2]

(b) Explain **two** reasons why luxury products often have elastic demand. [4]

(c) Analyse how a perfume producer could make the supply of its products more price elastic. [6]

(d) Discuss whether a firm would make more profit from producing in a foreign market rather than exporting to that market. [8]

3 An increasing number of people in both market and mixed economies are becoming overweight. In 2013 the Dubai Government offered residents a gram of gold for every kilogram of weight lost over a period of 30 days. Such a policy measure was designed to reduce the external costs arising from overeating, including the eating of too much chocolate. To reduce market failure, governments give subsidies to both consumers and producers.

(a) Define 'market economy'. [2]

(b) Explain **two** external costs that could arise from people overeating. [4]

(c) Analyse **three** reasons why the demand for chocolate may rise in the future. [6]

(d) Discuss whether a government subsidy to producers will reduce market failure. [8]

4 One Finnish mobile (cell) phone manufacturing firm makes about 20% of the total output of all goods produced in Finland. This public limited company employs a higher number of workers and buys more capital goods than most other Finnish firms. It also supplies a high proportion of the country's exports.

(a) Define 'public limited company'. [2]

(b) Explain **two** reasons for the differences in the size of firms in the same industry. [4]

(c) Analyse why a firm may decide to change the proportion of capital and labour it employs. [6]

(d) Discuss whether a large firm is likely to sell its products at a lower price than a small firm. [8]

5 Between 2011 and 2012 the number of people employed by the public sector in Egypt increased significantly. Egyptian trade unions which represent labour employed in the public sector welcomed this increase. However, more powerful trade unions might cause inflation which, in turn, might cause unemployment.

(a) Define ‘labour’. [2]

(b) Explain why a rise in employment would benefit trade unions. [4]

(c) Analyse how trade union action could cause inflation. [6]

(d) Discuss whether inflation would cause unemployment. [8]

6 In 2013 the Argentinian Government was trying to stop the fall in the international value of the Argentinian peso, by imposing quotas. The depreciation of the peso was unexpected as the country was experiencing a rising current account surplus on its balance of payments. Usually such a change in the current account would lead to an appreciation.

(a) Define ‘quota’. [2]

(b) Explain the structure of the current account of the balance of payments. [4]

(c) Analyse why it would be expected that a rising current account surplus would lead to an appreciation in the country’s foreign exchange rate. [6]

(d) Discuss whether a government should try to prevent a depreciation in the country’s currency. [8]

7 The Netherlands is a country with a high Human Development Index (HDI) ranking and a high Gross Domestic Product (GDP). A recession in 2012 resulted in a fall in consumer expenditure. This caused a gap between government spending and tax revenue. In order to close the gap, the Netherlands’ Government cut its spending. It might have used monetary policy to increase economic growth and raise tax revenue.

(a) Identify **two** influences on the amount households spend. [2]

(b) Explain why tax revenue may fall during a recession. [4]

(c) Analyse how a cut in government spending may reduce a country’s HDI ranking. [6]

(d) Discuss whether use of monetary policy will increase economic growth. [8]

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