Cambridge Assessment International Education

Cambridge O Level

ECONOMICS **2281/22**

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

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. Any blank pages are indicated.

Section A

Read the source material carefully before answering Question 1.

Source material: Bank mergers

Nigeria and US fact file	**Nigeria 2019**	**US 2019**
Change in GDP	2.3%	4.9%
Inflation rate	11.5%	1.8%
US dollar to Nigerian naira exchange rate	1 dollar = 400 naira	

In 2019, there was a merger between three Nigerian commercial banks to form Nigeria's largest commercial bank. In 2019, two US commercial banks merged to form the US's 6th largest commercial bank. In the US, the three largest banks controlled 32% of the market. In the US and Nigeria, large banks have opened more branches, carried out advertising campaigns and improved online banking.

Bank mergers can result in some bank employees losing their jobs. Unemployment did rise in Nigeria in 2019. This is likely to have affected the government's budget as both government tax revenue and government spending will have changed. Most commercial bank workers are well-educated. The number of years of education people receive can affect a country's birth rate. Fig. 1.1 shows average years of schooling and the birth rate in selected countries in 2019.

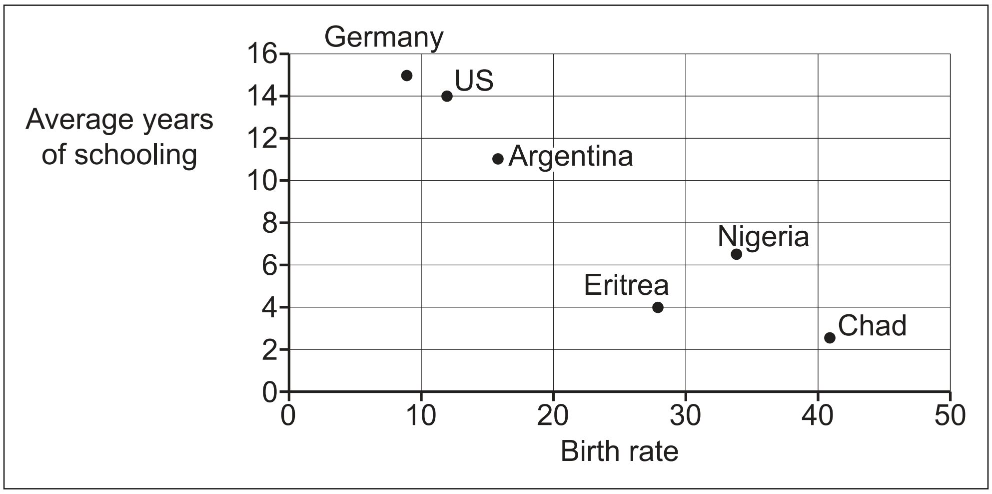

Fig. 1.1 Average years of schooling and birth rate in selected countries 2019

Some households in both Nigeria and the US, who spend more than they earn, borrow from commercial banks. Some children in Nigeria, in low-income households, do not have enough to eat due to the high price of food. A government subsidy to farmers could be used to help low-income Nigerian households. The subsidy could also help to reduce the deficit on the current account of its balance of payments. This will depend on Nigeria's inflation rate compared with other countries and incomes at home and abroad.

In the US, nearly 35% of children are overweight. One cause of this is the consumption of high-sugar food and drinks. The US government could impose a minimum price on such products, including chocolate. A minimum price could move the market closer to where social benefit equals social cost. However, some consumers think it would be unfair and some firms think it would reduce profits. A minimum price may also impose a cost on the government and its success would be influenced by how high the minimum price is set.

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

1 **(a)** Calculate how many dollars 6400 Nigerian naira would have bought in 2019. [1]

(b) Identify **two** ways a bank could increase demand for its services. [2]

(c) State why a merger between two commercial banks is a horizontal merger. [2]

(d) Explain **two** reasons why a large US commercial bank may charge a high price for its services. [4]

(e) Analyse how an increase in unemployment may affect the Nigerian government's budget. [4]

(f) Analyse the relationship between countries' average years of schooling and birth rates. [5]

(g) Discuss whether or not a subsidy, given to farmers by the Nigerian government, would reduce the deficit on the current account of its balance of payments. [6]

(h) Discuss whether or not the US government should impose a minimum price on chocolate. [6]

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 The economic problem results in choices and opportunity cost. People have to decide what job to do and where to live. In recent years Australia has recruited teachers from a number of countries including Canada, the UK and the US. Most of these teachers specialise in a single subject.

(a) Define *opportunity cost*. [2]

(b) Explain the economic problem and why it is always likely to exist. [4]

(c) Analyse why the wages of all teachers may increase. [6]

(d) Discuss whether or not a teacher would benefit from specialisation. [8]

3 In 2019, Russia had an unemployment rate of 4.6%. Russia experienced full employment in the past. Its government wants unemployment to be lower. In 2018, the Russian government cut its spending which may have increased poverty. In both 2018 and 2019, the government did not change its income tax rate. Russia operates a proportional tax rate system.

(a) Define *full employment*. [2]

(b) Explain the difference between a proportional income tax system and a progressive income tax system. [4]

(c) Analyse why a cut in government spending might increase poverty. [6]

(d) Discuss whether or not a fall in a country's unemployment rate always benefits workers. [8]

4 Advances in technology have changed how trees (wood) are cut down, transported and used in the manufacture of furniture, such as tables. Wood is in inelastic supply. Wood can be supplied in all economic systems. However, public goods are not supplied in a market economic system.

(a) Define *inelastic supply*. [2]

(b) Explain why public goods would not be supplied in a market economic system. [4]

(c) Analyse, using a demand and supply diagram, the effect on the market for furniture of an increase in the price of wood. [6]

(d) Discuss whether or not advances in technology will benefit a country's population. [8]

5 While 15% of US exports go to Mexico, 80% of Mexico's exports go to the US. In 2019, the US government imposed some methods of protection to reduce imports from Mexico. This US action caused a fall in Mexico's foreign exchange rate. Despite a rise in its inflation rate, Mexico's central bank reduced the rate of interest from 7.75% at the end of 2019 to 6.5% in March 2020.

(a) Identify **two** methods of protection. [2]

(b) Explain **two** reasons why a government may want to reduce imports. [4]

(c) Analyse how a fall in a country's foreign exchange rate could increase its inflation rate. [6]

(d) Discuss whether or not a decrease in the rate of interest will increase a country's GDP. [8]

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