

Economics
Standard level
Paper 2

Thursday 2 November 2017 (morning)

1 hour 30 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- You are not permitted access to any calculator for this paper.
- Section A: answer one question.
- Section B: answer one question.
- Use fully labelled diagrams and references to the text/data where appropriate.
- The maximum mark for this examination paper is **[40 marks]**.

Section A

Answer **one** question from this section.

1. Study the extract below and answer the questions that follow.

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2. Study the extract below and answer the questions that follow.

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Section B

Answer **one** question from this section.

3. Study the extract and data below and answer the questions that follow.

Ethiopia

- ❶ Ethiopia has the second-highest population in Sub-Saharan Africa, with a population of 96.9 million, and a fairly high population growth rate of 3%. Ethiopia is also one of the world's poorest countries. The country's gross domestic product (GDP) per capita is substantially lower than the regional average.
- ❷ However, the economy has experienced strong economic growth over the past decade, more than double the regional average of 5.3%. Currently, agriculture is the major sector of the economy: 80% of the labour force is engaged in agriculture and it contributes about 50% to the nation's GDP.
- ❸ The World Bank says that Ethiopia needs to diversify its economy so that more employment is generated by the manufacturing sector. Although small scale enterprises are doing well, their rapid growth is negatively affected by many obstacles. Access to credit is very difficult, and so domestically funded **investment** is hard to achieve, causing a significant investment gap. There are also problems with the provision of infrastructure like electricity, telecommunications and access to roads, particularly in rural areas.
- ❹ The government has been encouraging foreign direct investment from **multinational corporations (MNCs)** to attempt to solve some of Ethiopia's economic problems and to break the poverty cycle. Much of the investment has come from China, whose total investment in the country has reached almost US\$17 billion.
- ❺ China has established Ethiopia as one of its six "special economic zones" in Africa. The two countries have signed five cooperation deals relating to technologies, electric power, finance, energy and aviation.
- ❻ Last year, the Huajian Group, a Chinese shoe manufacturer, announced a US\$2.2 billion investment plan in Ethiopia. They intend to set up an industrial zone, which is expected to contain approximately 45 textile and garment, leather and leather-products, chemical and pharmaceuticals, agricultural-processing and metal engineering factories. In the first year of the project, there should be 3000 jobs created. By the end of the project, approximately 30 000 workers are expected to find employment there.
- ❼ Worries exist in Ethiopia about the country's large trade imbalance with China and the influx of Chinese goods – China accounts for 21% of total imports into the country but only 11% of Ethiopia's exports go to China. There are also concerns relating to the over-use of resources.

[Source: © International Baccalaureate Organization 2017]

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(Question 3 continued)

Figure 1 – Development data for Ethiopia (2014)

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- (a) (i) Define the term *investment* indicated in bold in the text (paragraph ③). [2]
- (ii) Define the term *multinational corporations (MNCs)* indicated in bold in the text (paragraph ④). [2]
- (b) Using a poverty cycle diagram, explain how investment from abroad might “break the poverty cycle” (paragraph ④). [4]
- (c) Using data from **Figure 1**, explain why there is a difference between Ethiopia’s HDI world ranking and its GNI per capita world ranking. [4]
- (d) Using information from the text/data and your knowledge of economics, evaluate the possible impact on the Ethiopian economy of the foreign direct investment from China. [8]

Turn over

4. Study the extract below and answer the questions that follow.

Aid to Papua New Guinea (PNG)

- ❶ A group of Australian politicians is visiting Papua New Guinea (PNG), a former colony, to see first-hand where Australia’s AU\$477 million in foreign aid is being used. The aid is being spent on women and children who are crime victims, immunizations for young children to protect them from diseases such as polio, efforts to eradicate tuberculosis, provision of free education for girls, pre-school and early learning, and training for the next generation of PNG police officers. There is a lot of aid money being spent but it is making very little difference.
- ❷ Though PNG is close to Australia, it is very far away in terms of economic development. One non-governmental organization (NGO), Save the Children, reported that “the level of need in PNG is astonishing. Children are far more likely to die before their fifth birthday here in PNG than most other places in the world. There is a huge amount of violence against women and children”. The value of its Human Development Index (HDI) is 0.466, ranking it 156 out of 187 countries.
- ❸ One of the Australian politicians is concerned that corruption is so widespread that it is preventing efforts to get PNG’s educational, health and justice systems to operate effectively. “Make no mistake, there are many problems, including problems with security, family violence and many other socio-economic concerns,” he said. “However, I think corruption is the largest issue confronting the challenges of PNG. You have to question whether you can address these issues without dealing with the issue of corruption first.”
- ❹ “These challenges cannot be met without a system of government that is functioning properly. This is a society that has been propped up by aid and the actions of NGOs. The government simply does not work.”
- ❺ Another member of the visiting group thinks improving agricultural productivity is a way forward for PNG economically and socially, with great potential for **economic growth**. A project spokesperson said that increased foreign aid could lift productivity and improve growth, by assisting PNG farmers to improve irrigation* and supply routes. He also said that research and development, in addition to training local farmers could help. Another project that the group is visiting runs a programme to encourage women to be more involved in decision-making in the growing and selling of coffee, a crop that is important to the PNG economy.
- ❻ The leader of the visiting group says that “our aid money here should ensure that more children are born in environments with supervised medical care, and that there is a police and justice system that protects the rights of children. Children should have the right to be free from violence and free from sexual assault, and should have access to the great transformative power of education”.

[Source: Ellen Whinnet, “PNG: Where Foreign Aid Barely Scratches the Surface”, *Herald Sun*, 14 August 2015]

* irrigation: a method for regularly supplying water to plants. It is used to assist in the growing of agricultural crops particularly during periods of low rainfall.

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(Question 4 continued)

- (a) (i) List **two** components of the Human Development Index (HDI) (paragraph ②). [2]
 - (ii) Define the term *economic growth* indicated in bold in the text (paragraph ⑤). [2]
 - (b) Using a demand and supply diagram, explain how the market for coffee in Papua New Guinea could be affected by improved irrigation (paragraph ⑤). [4]
 - (c) Using an externalities diagram, explain why the introduction of free education for girls corrects a market failure (paragraph ①). [4]
 - (d) Using information from the text/data and your knowledge of economics, evaluate the role of foreign aid in contributing to economic development in Papua New Guinea. [8]
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