

Economics
Standard level
Paper 2

Thursday 27 October 2022 (morning)

1 hour 45 minutes

Instructions to candidates

- Do not open this paper until instructed to do so.
- You are permitted access to a calculator for this paper.
- Unless otherwise stated in the question, all numerical answers must be given exactly or correct to two decimal places.
- You must show all your working.
- 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]**.

Answer **one** question.

1. Read the extracts and answer the questions that follow.

Text A — Bangladesh: the economic role of women

- 1 Bangladesh is a densely populated country in Asia. Its currency is the Bangladeshi taka (BDT). The annual rate of growth of gross domestic product (GDP) has steadily increased from 5.6% in 2010 to 8.1% in 2019. **Absolute poverty** has declined, but inequality has risen, partly due to higher unemployment rates for women than men. Moreover, the labour force participation rate for women is much lower than the rate for men. Over 80% of the women's jobs are in the **informal economy**, and these jobs are low paid and insecure. Women need regular paid work, which not only raises household income but also improves economic well-being in terms of education and health.
- 2 The structure of the economy is changing. The growth of cities is due to the expansion of the manufacturing sector, which now contributes a larger share to GDP than the agricultural sector. These changes have increased the number of women in the labour force. In particular, the growth of the ready-made garments (RMG) industry (mass-produced clothing) has given women the opportunity to move into formal employment. The RMG industry provides jobs for almost 4 million low-skilled and semi-skilled workers, accounting for over 40% of total manufacturing employment. The majority of these jobs are being filled by women, with the result that the gap between the wages of men and women is gradually being reduced.
- 3 There are concerns about working and safety conditions in the RMG factories. After an accident in a factory in 2013, reforms are being implemented, partly in response to criticisms from overseas retailers and consumers who purchase the garments. The minimum wage has been increased, inspections are carried out, and there are fewer small, unsafe factories.
- 4 While working conditions are improving, such reforms raise the costs of manufacturing garments. Furthermore, the international garment market is becoming more competitive, putting pressure on Bangladeshi factories to reduce costs.
- 5 The overseas demand for Bangladeshi garments had been rising strongly until 2019. However, demand has recently fallen, reducing firms' revenue. The reduction in revenue and the need to lower costs have forced certain firms to reduce the size of their labour force by dismissing some of their female workers.
- 6 The number of ethically and environmentally concerned consumers is increasing globally. Rather than trying to lower costs, firms can be more successful if they produce "green ready-made garments" by implementing sustainable practices. About 100 garment factories in Bangladesh have already been certified as producers that meet specified environmental standards. In addition, global retailers and fashion brands are supporting recycling initiatives through the Circular Fashion Partnership.

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(Question 1 continued)**Text B — Trade prospects for exports of ready-made garments (RMG)**

- 1 Exports of RMG account for over 84 % of Bangladesh’s total exports. At present, Bangladesh is the world’s second largest garment exporter after China. Bangladeshi exports could further increase as Chinese garments become more expensive due to rising wages in China.
- 2 Bangladesh is designated as an Economically Least Developed Country (ELDC) and is therefore able to sell goods in Europe and China without any quotas or tariffs being imposed. However, Bangladesh will graduate from ELDC status by 2026 and will then no longer be eligible for preferential trade agreements. Moreover, the USA, which is the largest export market for Bangladeshi garments, has applied a 15 % tariff on imports from Bangladesh since 2013, citing concerns about working conditions in factories.

Text C — Role of foreign direct investment in the RMG sector

- 1 Vietnam and Myanmar have significantly increased their garment exports to China due to foreign direct investment (FDI) from China. Chinese investors have set up factories that import raw materials from China and re-export the finished goods back to China.
- 2 Consequently, to compete successfully in the huge Chinese market, Bangladesh needs to attract more FDI from China. Bangladesh is developing the required infrastructure, such as transport links. It is also necessary to diversify into expensive high-end fashion, market more aggressively, and use branding strategies.
- 3 The funds from additional FDI would be helpful, because the relative contribution of Official Development Assistance (ODA) to Bangladesh’s budget is declining. Furthermore, the foreign exchange obtained from foreign investors assists in financing the current account deficit.

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Turn over

(Question 1 continued)

Table 1: Economic data for Bangladesh

	2010	2019
Real gross national income (GNI) per capita (US\$)	844	1348
Population (million)	147.6	163.0
Labour force (million)	57.1	70.1
Number of unemployed (million)	1.93	2.96
FDI, net inflows (US\$ billion)	1.23	1.91
Exports of goods and services (US\$ billion)	18.5	46.4
Imports of goods and services (US\$ billion)	25.1	64.9
Exchange rate (BDT per US\$)	69.6	84.5

Table 2: Development data for Bangladesh

	2010	2019
Gini coefficient	0.32	0.40*
Absolute poverty (% of population)	19.4	9.2
Urban population (% of population)	30.5	37.4
Female labour force participation rate (% of female population ages 15+)	29.8	36.4
Male labour force participation rate (% of male population ages 15+)	83.2	81.5

* estimate

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(Question 1 continued)

- (a) (i) Define the term *absolute poverty* indicated in bold in the text (**Text A**, paragraph **1**). [2]
- (ii) Define the term *informal economy* indicated in bold in the text (**Text A**, paragraph **1**). [2]
- (b) (i) Using information from **Table 1**, calculate the unemployment rate for Bangladesh in 2019. [2]
- Assume a shirt was made in Bangladesh and priced at 400 Bangladeshi taka (BDT400). This was equivalent to a price of US\$5.75 in 2010.
- (ii) Using information from **Table 1**, calculate the price of this shirt in US\$ in 2019. [2]
- (iii) State whether the Bangladeshi exchange rate depreciated or appreciated between 2010 and 2019. [1]
- (c) Using a demand and supply diagram, explain why falling demand will reduce Bangladeshi firms' revenue (**Text A**, paragraph **5**). [4]
- (d) Using an international trade diagram for the **US market**, explain how the imposition of a 15% tariff on imported garments from Bangladesh would affect the revenue earned by Bangladeshi producers (**Text B**, paragraph **2**). [4]
- (e) Using an exchange rate diagram, explain how the change in imports of goods and services from 2010 to 2019 is likely to have affected the exchange rate of the Bangladeshi taka (**Table 1**). [4]
- (f) Using a Lorenz curve diagram, explain what happened to the distribution of income in Bangladesh between 2010 and 2019 (**Table 2**). [4]
- (g) Using information from the text/data and your knowledge of economics, discuss the extent to which the ready-made garments (RMG) sector in Bangladesh contributes to achieving the Sustainable Development Goal: "Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all". [15]



Turn over

2. Read the extracts and answer the questions that follow.

Text D — Macroeconomic policies in Uruguay

- 1 Compared to many other Latin American countries, Uruguay has a high Human Development Index (HDI). This is due to its higher gross national income (GNI) per capita and wider access to health care and education.
- 2 One aim of Uruguay's fiscal policy has been income redistribution. For example, in 2017 the tax rate applied to the highest income bracket was raised from 25 % to 36 %. Spending on social programmes, which are targeted towards the poor, has also increased. However, while expenditure on schools is benefitting all families, expenditure on higher education still tends to favour higher-income families, because there are relatively few students from low-income families in universities.
- 3 Recently, concern about a growing **budget deficit** has led to new budget guidelines being implemented. These guidelines aim to reduce borrowing and the national debt by encouraging the government to increase tax revenue and/or reduce expenditures. The main policy goal of Uruguay's central bank is to keep a low rate of inflation. It has announced that it will reduce the inflation target to below 6 % by September 2022.
- 4 Several constraints to growth remain, which may limit progress towards sustainable development. Despite plans to upgrade road networks and construct a new central railway, investment in infrastructure needs to be increased further. Education and training could also be improved to meet the needs of new sectors, such as the information and communication technology (ICT) industry.
- 5 State-owned enterprises, including railways and suppliers of fuel, water and electricity, are a significant part of the Uruguayan economy. The prices charged by these enterprises tend to be high relative to prices in other countries. As part of a strategy to eliminate excessive costs, the government has proposed measures to improve efficiency in state-owned enterprises and to gradually reduce prices.
- 6 The International Monetary Fund (IMF) considers that more labour market flexibility is needed to make it easier for workers to change jobs and for firms in growing sectors such as ICT to hire workers. The government is, therefore, considering deregulation of the labour market.
- 7 Overall, by boosting competitiveness and private investment through supply-side policies, the government aims to raise growth and employment.

(This question continues on the following page)



(Question 2 continued)

Text E — Health care system in Uruguay

The public and private sectors that offer health care in Uruguay were combined into one system in 2007, with both overseen by the government and both eligible to receive subsidies. Most medical care is free for low-income patients. The first row of data in **Table 3** shows that per capita demand for health care increased by 54.22% from 2010 to 2018. The advantages are seen in longer life expectancy figures, which imply an increase in productivity, and other benefits.

Table 3: Health care expenditure and GNI per capita for Uruguay

	2010	2018
Expenditure on health care per capita (nominal US\$)	1031	1590
GNI per capita (nominal US\$)	10440	15910

Text F — Trade and exchange rates

- 1 Over 50% of Uruguayan exports are forestry and agricultural goods, including soybeans, rice, and cattle meat. Increasing global demand and a significant rise in commodity prices from 2000 to 2012 encouraged investment in the agricultural sector. However, the price of soybeans has been declining since 2013, partly due to rising productivity in agriculture. Climate-related shocks, such as droughts in 2017 and 2020, and economic crises in the major export markets of Brazil and Argentina have also caused difficulties for producers.
- 2 Therefore, Uruguay aims to diversify its export markets. For example, with the growth of the ICT sector, Montevideo (the capital city of Uruguay) has become a leading software development centre. In addition, Uruguay is broadening its markets towards Europe and Asia. Under a proposed trade agreement between the European Union (EU) and the South American trade bloc, Mercosur (Argentina, Brazil, Paraguay, Venezuela, and Uruguay), 93% of all tariffs will gradually be eliminated. However, a quota will be imposed on cheese imports from the EU.
- 3 To help the economy adjust to external shocks and to avoid large fluctuations in the exchange rate of the peso (Uruguay's currency), the central bank uses its plentiful reserve assets of foreign currencies. In 2019, the decline in agricultural export revenues put downward pressure on the peso exchange rate. However, the central bank was able to prevent a large depreciation by using its reserve assets in the foreign exchange market.

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(Question 2 continued)

Table 4: Economic data for Uruguay

	2010	2019
Real gross domestic product (GDP) (annual growth rate, %)	7.80	0.22
Unemployment rate (%)	7.2	9.4
Inflation rate (%)	6.7	7.9
Real interest rate on loans (%)	5.2	3.6
Balance of trade in goods and services (US\$ million)	630	3400

Table 5: Development data for Uruguay

	2010	2019
Human Development Index (HDI)	0.78	0.82
HDI Ranking	58	55
Life expectancy at birth (years)	76.8	77.9
Gini coefficient	0.45	0.40

Table 6: Balance of payments data for Uruguay in 2019

	US\$ billion
Exports of goods and services	16.3
Imports of goods and services	12.9
Net income and current transfers	–2.65
Net foreign direct investment (FDI)	1.19
Net portfolio investment	1.33

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(Question 2 continued)

- (a) (i) Define the term *budget deficit* indicated in bold in the text (**Text D**, paragraph **3**). [2]
- (ii) Define the term *portfolio investment* indicated in bold in **Table 6**. [2]
- (b) (i) Using information from **Text E and Table 3**, calculate the income elasticity of demand for health care in Uruguay between 2010 and 2018. [3]
- (ii) Using information from **Table 6**, calculate the current account balance in 2019. [2]
- (c) Using an externalities diagram, explain why the government should subsidize health care (**Text E**). [4]
- (d) Using an AD/AS diagram, explain how climate-related shocks, such as droughts, could affect real GDP growth (**Text F**, paragraph **1**). [4]
- (e) Using an international trade diagram, explain the effect on consumers in Uruguay if a quota is imposed on cheese imports from the EU (**Text F**, paragraph **2**). [4]
- (f) Using an exchange rate diagram, explain how the central bank in Uruguay can use reserve assets to prevent the depreciation of the peso (**Text F**, paragraph **3**). [4]
- (g) Using information from the text/data and your knowledge of economics, evaluate the effectiveness of the government's macroeconomic policies in achieving economic growth **and** economic development in Uruguay. [15]
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