Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/22**

Paper 2 Structured Questions **October/November 2018**

2 hours 15 minutes

No Additional Materials are required.

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.

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.

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CAMBRIDGE
International Examinations

Section A

Answer this question.

1 Rubber production in Liberia

Liberia is a west African country that has faced a number of serious problems in recent years. These have included a civil war and in 2014 the outbreak of the Ebola epidemic. There have also been improvements. The unemployment rate was 85% in 2004 but had fallen to 4% in 2016. This reduction has influenced both emigration and wages. Workers have received higher wages although some economists think that the higher wages have increased the country's inflation rate which in 2016 was 8%.

The country has a good supply of drinking water and a climate favourable to agriculture. More than 70% of the country's labour force is currently employed in agriculture. The country's main exports are rubber, iron ore, timber and gold.

A US multinational company (MNC) runs the world's largest single natural rubber farming operation in Liberia. The price of rubber fell by 75% between 2011 and 2016. The global supply of rubber had exceeded demand as a number of countries imposed import restrictions on rubber. In response to the lower price the US MNC cut its production, but still made a loss. The MNC does not want to go out of business and is trying to survive by cutting its costs. In the long run it hopes to maximise profits. When some of its 7000 workers retire, they will not be replaced. The MNC has introduced new production techniques and diversified into growing cocoa and coffee.

The Liberian government is providing subsidies to local rubber farmers to help them buy new equipment and introduce new farming methods. Despite the challenging situation, a number of local Liberian rubber farmers are increasing the size of their operations by buying up more land. Some others are diversifying by using wood from the rubber trees to make furniture.

While helping its rubber farmers, the Liberian government is also encouraging the expansion of the secondary and tertiary sectors. Between 2014 and 2016 it increased its expenditure on healthcare but this was at the expense of a number of public sector investment projects. Table 1 compares the infant mortality rate and healthcare expenditure per head in selected countries in 2015.

Table 1 Infant mortality rate and healthcare expenditure per head in selected countries in 2015

Country	Infant mortality rate (deaths per 1000 live births)	Healthcare expenditure per head (US$)
Cuba	4.5	459
Hungary	5.0	2096
India	41.5	248
Liberia	67.5	90
Turkey	18.8	1148
UK	4.4	3749

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(a) Identify, from the extract, **two** goals of business organisations. [2]

(b) Explain, using information from the extract, **two** reasons why the price of rubber fell between 2011 and 2016. [4]

(c) Analyse how an increase in wages could cause inflation. [5]

(d) Analyse to what extent the information in Table 1 suggests that healthcare expenditure per head is an important influence on the infant mortality rate. [4]

(e) Discuss whether or not having more of its workers employed in the tertiary sector would benefit the Liberian economy. [5]

(f) Explain, using information from the extract, how the concept of opportunity cost affects all rubber farmers in Liberia. [4]

(g) Discuss whether or not a high rate of unemployment would always cause emigration. [6]

Section B

Answer any **three** questions.

2 Mexico has recently experienced relatively low inflation and the Mexican government wants to maintain this price stability. Despite this its currency has fallen in value with each Mexican peso exchanging for less foreign currency. The government is also trying to reduce pollution in the country. One key cause of pollution in Mexico is car travel. Driving has both private and external costs.

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

(b) Explain **two** ways a government could reduce external costs. [4]

(c) Analyse how a high rate of inflation affects the functions of money. [6]

(d) Discuss whether or not a fall in its foreign exchange rate will benefit an economy. [8]

3 In 2016, the Indonesian government increased its spending on healthcare and education and considered raising the school leaving age. The government also planned to increase taxation. Such a move might conflict with its aim of reducing unemployment at a time when a number of countries were at risk of entering a recession.

(a) Identify **two** types of tax. [2]

(b) Explain **two** benefits to a government from a fall in unemployment. [4]

(c) Analyse, using a production possibility curve (PPC) diagram, the effects of high unemployment in a country. [6]

(d) Discuss whether or not a government should raise the school leaving age. [8]

4 UK students often take jobs during their holidays and some save part of their income to pay their tuition fees. UK graduates earn, on average, £8500 a year more than non-graduates. Economics graduates had the second highest average earnings of all UK graduates in 2016. The top 10% of economics graduates earned £115 000 a year.

(a) Define *earnings*. [2]

(b) Explain **two** non-wage factors that influence an individual's choice of occupation. [4]

(c) Analyse why economics graduates are well-paid. [6]

(d) Discuss whether or not people in developed countries are likely to save more than people in developing countries. [8]

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5 Productivity has fallen recently in Finland particularly in the public sector. The country has a relatively high number of small firms. In recent years the price elasticity of demand and the price elasticity of supply of the products made by Finnish firms have changed.

(a) What is the difference between the private sector and the public sector? [2]

(b) Explain **two** reasons why productivity may fall. [4]

(c) Analyse how an increase in the price elasticity of demand (PED) and the price elasticity of supply (PES) of its products could benefit a firm. [6]

(d) Discuss whether or not small firms are likely to survive in the long run. [8]

6 A relatively high proportion of people from the Philippines either work in call centres or abroad. Call centres employ 1.2 million people in the Philippines and account for 8% of the country's Gross Domestic Product. Due to the time difference with the US, the main market for call centre services, many Filipinos have to work at night. The call centres are introducing new technology including robots.

(a) Define *Gross Domestic Product (GDP)*. [2]

(b) Explain **two** reasons why a person may be willing to work at night. [4]

(c) Analyse how having some of its population working abroad may benefit an economy. [6]

(d) Discuss whether or not advances in technology benefit an economy. [8]

7 The price of gold rose in 2016. This encouraged owners of gold mines to employ more resources to increase the supply of gold. The level of competition in gold production varies in the different gold producing countries. A number of countries, including India, impose a tariff on imported gold.

(a) Identify **two** factors of production involved in mining gold. [2]

(b) Explain **two** reasons why a government may impose a tariff on imported gold. [4]

(c) Analyse how perfect competition differs from monopoly. [6]

(d) Discuss whether or not an economy should mine and sell all of its gold now. [8]

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