Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/23**

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

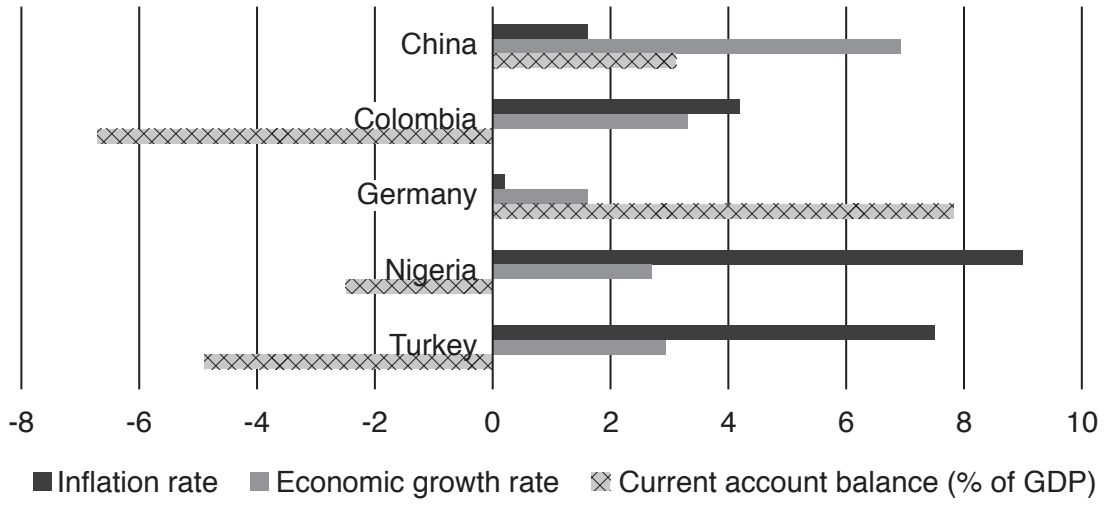
Answer this question.

1 Nigeria adopts a floating exchange rate

In June 2016, Nigeria adopted a floating exchange rate after the country's central bank had spent months trying to maintain its fixed exchange rate. It had used foreign currency reserves to buy its currency, imposed tariffs and limited the amount of foreign currency that Nigerians could purchase.

Most economists thought that the value of Nigeria's currency would depreciate. A lower value of the Nigerian naira might help increase output and reduce the deficit on the current account of the country's balance of payments. In 2015, Nigeria experienced a deficit on its current account for the first time in 20 years. Countries with a current account deficit often have a higher inflation rate and a lower economic growth rate than those with a current account surplus. Fig. 1 shows the inflation rate, economic growth rate and the current account balance of selected countries in 2015.

Fig. 1 The inflation rate, economic growth rate and current account balance of selected countries in 2015



A current account deficit can lower the exchange rate and so may increase import prices. A higher price of imports, including imported food, can accelerate inflation.

In 2015, as well as experiencing a current account deficit, tax revenue fell in Nigeria and was lower than government expenditure. Some economists predicted that the government would cut spending on education and healthcare in 2016 to reduce the gap between tax revenue and government spending.

The Nigerian government has been trying to reduce poverty in the country. In 2015, more than 60% of the population were living in poverty. Among the causes of the high level of absolute poverty was an unemployment rate of 9.5%. One policy measure proposed to reduce poverty in Nigeria is for the government to raise the wages of low-paid workers.

The government also wants to diversify the economy because the oil industry accounts for almost 90% of the country's export earnings. The oil industry pays high wages to some of its workers and relatively high interest rate payments to local banks. It also creates water pollution and air pollution.

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(a) Identify, from the extract, **two** methods of trade protection. [2]

(b) Analyse what may cause a depreciation in an exchange rate. [5]

(c) Analyse to what extent the information in Fig. 1 suggests that countries with current account deficits have higher inflation rates and lower economic growth rates than those with current account surpluses. [4]

(d) Explain, using information from the extract, **two** reasons why poverty may have increased in Nigeria in 2015–16. [4]

(e) Discuss whether or not a cut in government spending on education would reduce the gap between government spending and tax revenue. [5]

(f) Explain, using information from the extract, **two** external costs that arise from oil production in Nigeria. [4]

(g) Discuss whether or not an increase in the wages of low-paid workers will reduce poverty. [6]

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Section B

Answer any **three** questions.

2 A United Arab Emirates (UAE) airport announced a record profit of $1.9 billion in 2016. This was despite a fall in its total revenue. In 2016, the UAE considered introducing Value Added Tax (VAT). The introduction of an indirect tax may have an impact on unemployment. The UAE has a very low unemployment rate which is one reason why multinational companies (MNCs) set up in the UAE.

(a) Define *total revenue*. [2]

(b) Explain how a firm may earn a profit despite a fall in revenue. [4]

(c) Analyse how the introduction of an indirect tax may cause unemployment. [6]

(d) Discuss whether or not MNCs are likely to set up in countries with low unemployment. [8]

3 The price of dental treatment is increasing in most countries. For example, the average price of filling a tooth is $180 in the US. The number of dentists is increasing in the US. The largest proportion of the US labour force is employed in the tertiary sector. Price changes have an impact on the supply of products in the tertiary sector as well as in the primary and secondary sectors.

(a) Identify **two** reasons why someone may choose to train to become a dentist. [2]

(b) Explain **two** reasons why manufactured goods are usually in more price-elastic supply than agricultural goods. [4]

(c) Analyse the advantages of an increase in a country's labour force. [6]

(d) Discuss whether or not a government should provide free dental treatment. [8]

4 In 2015, Spain experienced a higher death rate than birth rate for the first time since 1939. It is forecast that its population will fall by 5.6 million over the next 50 years. Such a decline would be likely to influence the number and size of the country's firms and have an impact on the environment. There are a variety of ways of increasing a country's population.

(a) Define *death rate*. [2]

(b) Explain **two** policy measures a government could introduce to encourage families to have more children. [4]

(c) Analyse the impact a declining population could have on the environment. [6]

(d) Discuss whether or not a firm that produces a wide range of products can take advantage of economies of scale. [8]

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5 In 2016, the world shortage of peanuts increased their price. China, which has traditionally been a net exporter of peanuts, was about to become a net importer. South Africa, which is an exporter of high-quality, high-cost peanuts used in chocolate confectionery, experienced the worst drought on record. A higher number of South African farmers applied for bank loans in the same year.

(a) What is the difference between the *price* of a product and the *cost* of a product? [2]

(b) Explain **two** influences on a country's demand for food. [4]

(c) Analyse why a country may change from a net exporter of a product into a net importer of the product. [6]

(d) Discuss whether or not a central bank should limit the amount that a commercial bank can lend to its customers. [8]

6 The United Nations (UN) has set out development goals for countries to achieve by 2050. These goals include:

- conserve natural resources
- ensure education for all
- end poverty everywhere
- promote sustained economic growth

(a) Identify **two** ways a government could conserve its country's resources. [2]

(b) Explain **two** external benefits that can arise from education. [4]

(c) Analyse how a cut in the rate of interest could reduce poverty. [6]

(d) Discuss whether or not economic growth always increases living standards. [8]

7 High technology (hi-tech) firms use a range of resources including labour and land. One US hi-tech firm has produced a new price index which it claims is more accurate than the Consumer Prices Index (CPI). Central banks try to achieve the most accurate measure of inflation because inflation has effects on a range of people, including savers and borrowers, and on the level of investment in a country.

(a) Identify the *reward* received by labour and the *reward* received by enterprise. [2]

(b) Explain how inflation may affect borrowers and savers. [4]

(c) Analyse why it is important to a government that inflation is measured accurately. [6]

(d) Discuss whether or not an increase in investment would reduce a deficit on the current account of the balance of payments. [8]

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