Cambridge Assessment International Education

# Cambridge O Level

**ECONOMICS** **2281/22**

Paper 2 Structured Questions **May/June 2024**

**2 hours 15 minutes**

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.

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## Section A

Read the source material carefully before answering Question 1.

**Source material: The challenges facing the Tunisian government**

| **Tunisia fact file** | **2020** |
|---|---|
| Trade in goods and services balance | –$3bn |
| Primary and secondary income balance | $0.6bn |
| Unemployment rate | 17% |
| Tunisian dinar (TND) / US dollar exchange rate | 1TND = $0.35 |

Tunisia had a government budget deficit for a number of years. Between 2015 and 2020, the Tunisian government carried out reforms to reduce the tax burden, to rely more on indirect taxes and to make the tax system more efficient and more economical.

As well as taxing a range of products, the Tunisian government also regulates the price of some products including flour and milk. Government control of the price of flour and milk can help reduce poverty and prevent monopoly firms exploiting their market power. The Tunisian government also subsidises the production of electricity. The subsidy affects the cost of producing electricity, and the change in the price of electricity affects other firms' costs. This form of government spending can help reduce inflationary pressure but can also affect the efficiency of electricity production.

While some firms benefit from the subsidy on electricity production, they also experience periods when their other costs of production rise. Tunisian shoe producers have recently experienced a rise in wage costs and a decline in the number of workers they employ. The average wage paid to Tunisian workers and the Tunisian inflation rate changed between 2014 and 2020 as shown in Fig. 1.1.

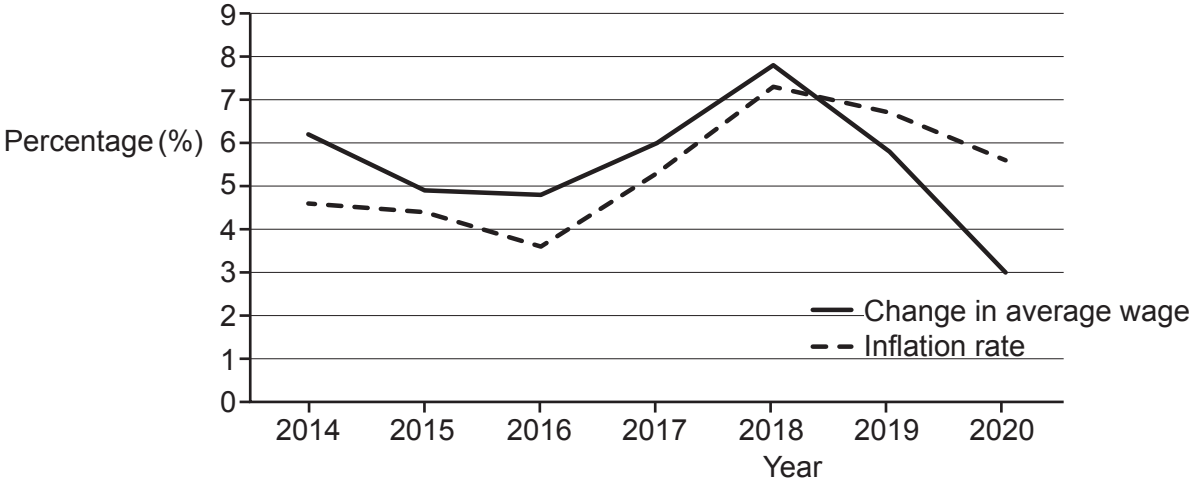


**Fig. 1.1 Change in average wage and the inflation rate in Tunisia 2014 – 2020**

Unemployment has been a problem in Tunisia for many years. In 2020, the government passed a law which promised that workers who had been unemployed for ten years or more would be employed by the public sector. To reduce the time spent moving between jobs, it increased labour market information available to workers and employers and did not raise unemployment benefit in line with inflation.

The Tunisian foreign exchange rate fluctuated in 2020. This affected the price of the country's exports and imports. It also affected the current account of its balance of payments, economic growth, inflation and unemployment.

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

**1** **(a)** Calculate Tunisia's balance on the current account of its balance of payments. [1]

**(b)** Identify **two** qualities of a good tax that the Tunisian government aimed to achieve. [2]

**(c)** Explain **one** reason why the Tunisian government regulates the price of flour and milk. [2]

**(d)** Explain **two** ways the Tunisian government tried to reduce frictional unemployment. [4]

**(e)** Analyse the relationship between the change in Tunisia's average wage and inflation rate. [4]

**(f)** Analyse, using a demand and supply diagram, how an increase in wage costs would affect the market for shoes. [5]

**(g)** Discuss whether or not the Tunisian government should continue to subsidise electricity production. [6]

**(h)** Discuss whether or not a rise in the value of the Tunisian dinar would benefit the Tunisian economy. [6]

## Section B

Answer any **three** questions.

Each question is introduced by stimulus material. In your answers you may refer to the material and/or other examples you have studied.

**2** In 2020, wages paid to Mexican workers, including those in the primary sector, fell. This fall contributed to a 9% rise in poverty in the country. In the same year, many small and medium-sized firms closed down. The country also suffered from traffic congestion. Its capital, Mexico City, is the world's most congested city.

**(a)** Identify **two** possible opportunity costs of producing primary sector products. [2]

**(b)** Explain **two** policy measures which may reduce poverty. [4]

**(c)** Analyse how the closure of firms may harm consumers. [6]

**(d)** Discuss whether or not a government should encourage people to walk to school and work. [8]

**3** South America is a large geographical area with millions of microeconomic decision-makers. During a recent pandemic, schools stayed closed for longer than anywhere else in the world. As a result, students received less education. The World Bank estimated that the average student would earn $24,000 less over their lifetime. Some students may earn only the minimum wage. In 2020, South America had an inflation rate of 6.3% and an economic growth rate of only 1.8%.

**(a)** Identify the difference between microeconomics and macroeconomics. [2]

**(b)** Explain how less education can reduce a person's lifetime earnings. [4]

**(c)** Analyse how the introduction of a minimum wage could affect unemployment. [6]

**(d)** Discuss whether or not an economy with a high inflation rate will have a low economic growth rate. [8]

**4** Tajikistan is one of Asia's low-income countries. Its currency, the somoni, has the key characteristics of money. More than one million Tajik people work abroad, mostly in Russia. In 2020, the Tajik government was concerned that the country's economy might experience a recession which could cause a fall in tax revenue. Despite this possibility, some Tajik firms bought new capital equipment.

**(a)** Identify **two** reasons why tax revenue is likely to fall during a recession. [2]

**(b)** Explain **two** characteristics of money. [4]

**(c)** Analyse the advantages an economy may gain from having some of its people working in other countries. [6]

**(d)** Discuss whether or not consumers would benefit from firms buying new capital equipment. [8]

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**5** Free goods and economic goods are consumed in Poland. In 2020, demand for both economic goods and factors of production increased in Poland. For example, Polish consumers demanded more football shirts and the Polish government increased its spending on housing for the country's population.

**(a)** Identify **two** free goods. [2]

**(b)** Explain **two** influences on demand for factors of production. [4]

**(c)** Analyse the effect of an increase in demand for football shirts on demand for football shorts and demand for basketball shirts. [6]

**(d)** Discuss whether or not an increase in government spending on housing would benefit an economy. [8]

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