Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/21**

Paper 2 Structured Questions **May/June 2017**

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.

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CAMBRIDGE International Examinations

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Section A

Answer this question.

1 The New Suez Canal

In August 2015 the Egyptian Government opened a second Suez Canal, alongside the original canal, to enable more and larger ships to sail from the Mediterranean Sea to the Gulf of Suez. It cost more than US$8 billion to build, with land having to be purchased, capital equipment acquired and wages paid to the workers building the canal. This was at a time when there were calls for increased spending on healthcare, in particular improving the quality of public hospitals and improving education, especially adult literacy.

The Egyptian Government believes that the canal will attract more ships, both those carrying goods and those carrying people. The number of goods and people using sea transport is influenced by a variety of factors. These include the speed of the transportation, the level of economic activity and the price of other forms of transport. Some goods have to be transported quickly, and recent years have shown how sensitive demand for sea transport is to recessions and economic booms. Fig. 1 shows how the market for sea transport has recently been affected by the change in the market for air transport.

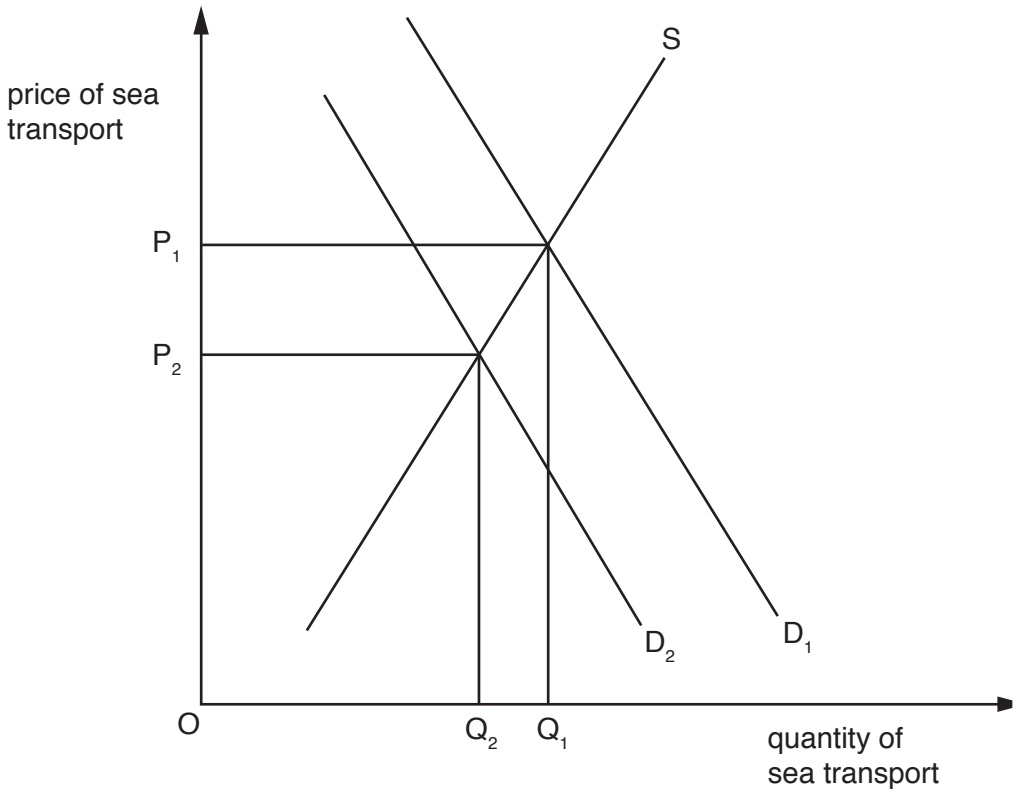

Fig. 1 The market for sea transport

The Egyptian Government is hoping that new industries connected to the shipping industry will be built along the canal. Developing infant industries may help to reduce the country's unemployment rate, which in 2015 was 12.5%.

In 2015, the country had a population of 90 million, a population growth rate of 1.5% and a labour force of 28 million. Its death rate was falling. The government's spending on healthcare was equivalent to 4% of Gross Domestic Product (GDP). 2015 also saw GDP at US$280 billion with an economic growth rate of 5%.

(a) Define 'private cost' and give an example from the extract. [2]

(b) Explain opportunity cost and give an example from the extract. [4]

(c) Calculate, using information from the extract:

(i) the number of people unemployed in Egypt in 2015 [2]

(ii) the amount the Egyptian Government spent on healthcare in 2015. [2]

(d) Analyse how a global recession could affect demand for sea transport. [5]

(e) Discuss whether a fall in a country's death rate will always result in an increase in its population size. [5]

(f) Explain, using information from the extract and Fig. 1, what happened to the market for sea transport as a result of the fall in the price of air transport. [4]

(g) Discuss whether a government should protect infant industries. [6]

Section B

Answer any **three** questions from this section.

2 Sales of bottled water in China doubled between 2010 and 2015. In 2013 China overtook the USA as the biggest market for water by volume, but not value as the price of a bottle was higher in the USA. The increase in global consumption of bottled water has increased the size of firms producing bottled water but has also increased pollution.

(a) Why is pollution an example of market failure? [2]

(b) Explain **two** causes of a shift of a supply curve to the right. [4]

(c) Analyse why the price of a product may be higher in the USA than China. [6]

(d) Discuss whether large firms or small firms benefit consumers more. [8]

3 Money and banking are closely linked. Money performs a number of functions, including being a standard for deferred payments, and it is used to pay workers, often directly into their bank accounts. The amount workers earn differs depending on the industry in which they work. Bank lending from both private sector and public sector (state-owned) banks has increased in some countries in recent years.

(a) Define 'a standard for deferred payments'. [2]

(b) Explain **two** reasons why agricultural workers may be paid less than manufacturing workers. [4]

(c) Analyse why private sector banks may earn higher profits than public sector banks. [6]

(d) Discuss whether an increase in bank lending will benefit an economy. [8]

4 In 2012 oil was discovered in Kenya, but in 2014 an American firm stopped its plans to explore for oil in the Arabuko Sokoke forest in the country. The relative sizes of Kenya's primary, secondary and tertiary sectors are changing. The amount of capital goods in the country is also increasing.

(a) Define the 'secondary sector' and give an example. [2]

(b) Explain **two** benefits that an economy may gain as a result of the discovery of oil on its land. [4]

(c) Analyse why the social costs of oil extraction may be greater than the private costs. [6]

(d) Discuss whether a country would benefit from devoting more resources to producing capital goods. [8]

5 In June 2015 the value of the Swiss franc rose by 30% against the euro. The countries that Switzerland exports to are changing. Exports to the USA, UK, India and South Korea are growing in importance, while exports to Germany, Italy and France are declining. A possible effect of an appreciation of the exchange rate is a fall in the inflation rate.

(a) Define 'inflation'. [2]

(b) Explain why a country's exports to one country may increase, while those to another country decrease. [4]

(c) Analyse how an appreciation of the exchange rate may reduce the country's inflation rate. [6]

(d) Discuss whether a low inflation rate always benefits an economy. [8]

6 Japan's birth rate is falling. Its population is ageing, and declining at a faster rate than any other country's population. This has an impact on the amount that the Japanese Government spends on pensions. Its government is considering measures to increase the country's birth rate and to encourage immigration.

(a) Identify **two** causes of a fall in a country's birth rate. [2]

(b) Explain **two** reasons why more educated people tend to live longer than less educated people. [4]

(c) Analyse, using a production possibility curve diagram, what effect net immigration is likely to have on an economy. [6]

(d) Discuss whether the government of a country should reduce the pensions it pays to retired people. [8]

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7 In recent years there has been an increase in prices in Mexico. Indirect taxes have also been increased. Bus fares and food have become more expensive. In 2015, the Mexican Government was planning to cut its spending by US$8.3 billion.

(a) Define 'indirect taxes' and give an example. [2]

(b) Explain **two** causes of an increase in demand for bus transport. [4]

(c) Analyse how a reduction in government spending on education could cause unemployment. [6]

(d) Discuss whether a government should increase taxes on food. [8]

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