Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/22**

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 Mining diamonds in Botswana

Botswana is the world's largest producer of diamonds. Indeed, in 2015 diamonds accounted for a third of the country's Gross Domestic Product (GDP) of US$18 billion and for 80% of the country's exports.

The country currently gets most of its income from mining and selling rough (uncut) diamonds. It receives only US$700 for a 1.5 carat rough diamond. The diamond is then cut, polished and finished, usually in other countries. India is the market leader in cutting and polishing diamonds. The cost of cutting and polishing diamonds in India is only a quarter of the cost in Botswana. The global average cost of finishing a 1.5 carat diamond is US$8000. The diamond is sold to the customer with a 25% profit margin.

Botswana is trying to develop industries connected with diamond mining, such as cutting, polishing and jewellery making including diamond rings. Fig. 1 shows how the global market for diamond rings changed in 2015.

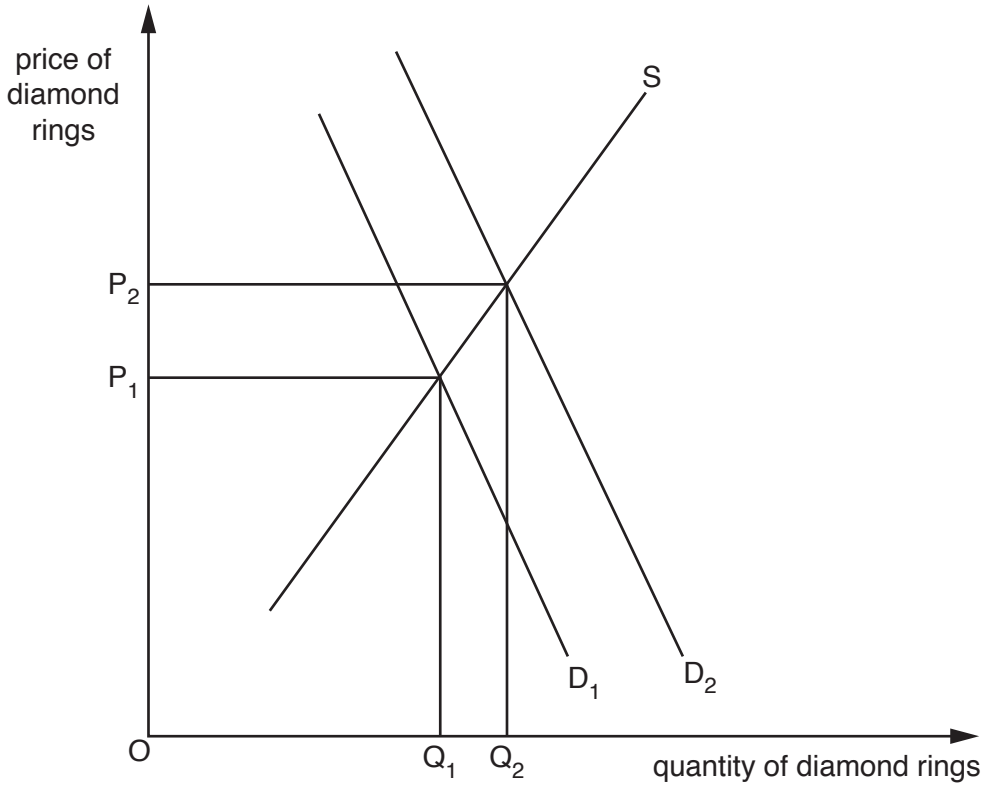

Fig. 1 The global market for diamond rings in 2015

The Botswanan Government has also encouraged the world's largest diamond company to set up in Gaborone, the capital of Botswana. Some government ministers, however, are concerned that Botswana is too dependent on diamonds. They warn that there is a finite supply of diamonds and urge the government to encourage diversification.

As well as diamonds, the country has a number of other strengths. It has good infrastructure, a developed education system and free hospital treatment.

(a) Identify, using information from the extract, **two** reasons why a foreign diamond company may set up in Botswana. [2]

(b) Explain **two** benefits that a country may gain from the presence of a foreign multinational company. [4]

(c) Calculate, using information from the extract:

(i) the value of diamonds produced in Botswana in 2015 [2]

(ii) the average price of a 1.5 carat diamond in 2015. [2]

(d) Analyse why a country could have lower production costs for a particular good than another country. [5]

(e) Discuss whether Botswana should mine all its diamonds and sell them as quickly as possible. [5]

(f) Explain, using information from the extract and Fig. 1, what happened to the market for diamond rings in 2015. [4]

(g) Discuss the economic arguments for and against providing free hospital treatment to patients. [6]

Section B

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

2 Indonesia's output is influenced by its factors of production. A production possibility curve diagram can be used to show this relationship between resources and output. Indonesia does have extensive fishing waters but does not actually catch many fish. Most of its fishing firms are small and they compete against much larger foreign firms. These larger foreign firms have been attracted into Indonesia's waters because of increasing demand for fish. The price elasticity of demand for different types of fish has changed in the last few years.

(a) Identify the **two** human factors of production. [2]

(b) Explain **two** economic concepts shown by a production possibility curve diagram. [4]

(c) Analyse why demand for a product may become more elastic over time. [6]

(d) Discuss whether small firms can compete successfully against large firms. [8]

3 In 2015 some German commercial banks reduced their already very low interest rates on deposit accounts. The German Government was hoping that such a change would encourage more Germans to buy shares in German firms. The ability of German firms to buy capital goods would be increased if they could sell more shares or borrow more from commercial banks.

(a) Identify **two** ways a commercial bank differs from a central bank. [2]

(b) Explain the connection between opportunity cost and the purchase of shares. [4]

(c) Analyse how a fall in the rate of interest may affect a country's exchange rate. [6]

(d) Discuss whether an increase in spending on capital goods will help to achieve the aims of government policies. [8]

4 More people are becoming billionaires at the same time that other people are living in poverty. While some people enjoy luxuries others lack even basic essentials. To enable more people to achieve a minimum living standard some economists support the redistribution of income.

(a) What is meant by 'redistribution of income'? [2]

(b) Explain **two** reasons why the rich spend more in total than the poor. [4]

(c) Analyse why the elimination of absolute poverty would not solve the economic problem. [6]

(d) Discuss whether Gross Domestic Product (GDP) per head is the best measure of comparative living standards. [8]

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5 Between 2009 and 2014, Delaware was the only US state to experience a fall in earnings. In the same period, however, it had an unemployment rate below the national average and a higher proportion of workers belonging to a trade union. The state is forecast to have one of the fastest ageing populations of any state in the USA in the next twenty years.

(a) Define a 'trade union'. [2]

(b) Explain **two** possible causes of a fall in a worker's earnings. [4]

(c) Analyse the causes of unemployment. [6]

(d) Discuss whether an ageing population benefits an economy. [8]

6 In 2015 the world saw many changes in demand and advances in technology. People were using new ways to transfer money and there was an increase in the number of stock exchanges. Some governments also raised the school-leaving age, that is the minimum age at which children are legally allowed to leave school.

(a) What is sold on a stock exchange? [2]

(b) Explain how money helps specialisation and trade to occur. [4]

(c) Analyse how advances in technology can affect demand and supply. [6]

(d) Discuss the economic arguments for and against a government raising the school-leaving age. [8]

7 Spain has had one of the highest unemployment rates in Europe. Moreover, 3.5 million of those unemployed had been out of work for at least a year by 2015. The Spanish Government has introduced a range of policy measures, including increased government spending, to reduce unemployment and poverty. It has also tried to help firms make the supply of their products more elastic.

(a) Identify **two** problems that prevent a worker finding employment. [2]

(b) Explain **two** costs of long-term unemployment to those who are unemployed. [4]

(c) Analyse why price elasticity of supply can differ between products. [6]

(d) Discuss whether increasing government spending will reduce poverty. [8]

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