Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/22**

Paper 2 Structured Questions **October/November 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.

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 From inflation to deflation

For some time, many central banks have tried to achieve a target inflation rate of about 2%. A small and steady rise in the price level can bring a number of benefits to an economy. For central banks and governments, the problem used to be stopping the inflation rate from going above the target rate while keeping the unemployment rate low. Now the problem has changed, and the risk is that inflation will fall below this target rate. At the end of 2014 the consumer prices index in China stood at 100.5. The inflation rate in the country in 2015 was 2%. Meanwhile, a number of countries in Europe experienced deflation. This had several consequences, including increasing the gap between the wages of skilled and unskilled workers.

One major reason for the downward pressure on inflation was a fall in the global price of oil from US$120 to US$66 a barrel in 2015. This reduced the price of energy and transport. Lower transport costs had a noticeable impact on the price of food. Fig. 1 shows how the market for food was affected in 2015.

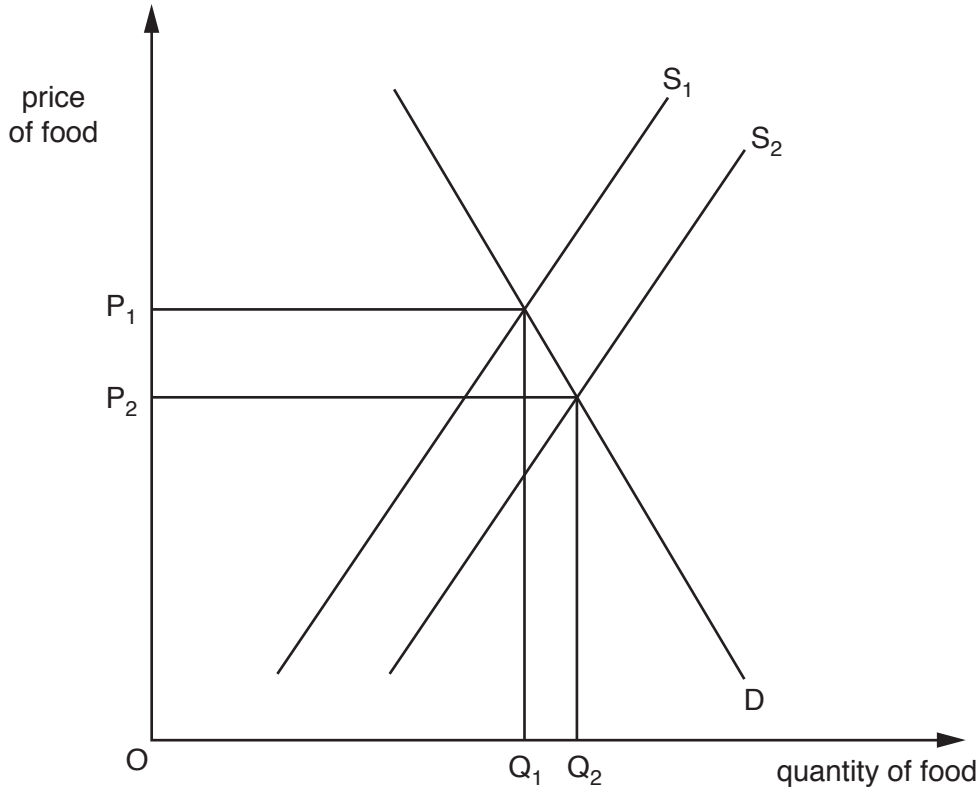

Fig. 1 The market for food in 2015

At the same time as falling inflation, some countries experienced falling unemployment. Other countries, however, experienced both falling inflation and rising unemployment. For example, France saw unemployment rising between 2014 and 2015. This put upward pressure on French Government spending.

(a) Identify, from the extract, **two** aims of government policies. [2]

(b) Explain **two** problems caused by inflation. [4]

(c) Calculate, using information from the extract:

(i) the percentage fall in the global price of a barrel of oil in 2015 [2]

(ii) the consumer prices index in China at the end of 2015. [2]

(d) Analyse why an increase in unemployment might cause an increase in government spending. [5]

(e) Discuss whether the supply of workers for unskilled jobs will be high in a country. [5]

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

(g) Discuss whether a decrease in income tax would reduce deflation. [6]

Section B

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

2 Singapore is usually ranked as one of the best countries in which to do business. It is an open economy engaging in free trade. It has a history of strong entrepreneurship, low unemployment, low average costs and relatively low tax rates. Its example may encourage other countries to remove trade restrictions.

(a) Define 'average costs'. [2]

(b) Explain **two** factors that would increase the supply of entrepreneurs in an economy. [4]

(c) Analyse how the market for a product would be affected by a reduction of the tax on the product combined with a fall in the price of a complement. [6]

(d) Discuss whether low unemployment in a country will encourage multinational companies (MNCs) to set up there. [8]

3 Rich people in some countries are now working for more hours on average than poor people. One reason for this is thought to be that well-paid jobs provide more job satisfaction. Gaining enjoyment from work can lead to high labour productivity.

(a) What is a possible opportunity cost of working? [2]

(b) Explain **two** reasons why older workers tend to earn more than younger workers. [4]

(c) Analyse, using a production possibility curve diagram, how an increase in labour productivity will affect an economy. [6]

(d) Discuss whether the rich in one country will save more than the rich in another country. [8]

4 In Pakistan there is a limited choice of cars to buy. The country has a population of approximately 190 million but only about 120 000 cars a year are produced there. The firms producing cars in Pakistan are protected from foreign competition by a range of methods of trade protection.

(a) Name **two** factors of production used in making cars. [2]

(b) Explain how **two** methods of trade protection may reduce imports. [4]

(c) Analyse the social costs created by car production and car use. [6]

(d) Discuss whether demand for cars is likely to increase in the future. [8]

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5 Nauru is one of the smallest countries in the world with a population of only 10 000. Fifty years ago the population was one of the richest per head in the world, largely the result of exporting the phosphate created over many centuries by sea-bird droppings. This labour-intensive industry has declined significantly. Now incomes are much lower and one third of workers are jobless.

(a) What is meant by a 'labour-intensive industry'? [2]

(b) Explain **two** reasons why a country may stop exporting a product. [4]

(c) Analyse the effects of an increase in unemployment on inflation. [6]

(d) Discuss whether having a relatively small population is an advantage or a disadvantage for an economy. [8]

6 Moldova has a population of 3.5 million. It is one of the poorest countries in Europe, with relatively low living standards. In 2015, the country experienced a recession and a doubling of its inflation rate. Moldova's central bank increased its interest rate from 8.5% to 15.5%.

(a) Identify **two** influences on the size of a country's population. [2]

(b) Explain **two** causes of an increase in living standards. [4]

(c) Analyse how an increase in the rate of interest could increase unemployment. [6]

(d) Discuss whether a government should increase tax rates during a recession. [8]

7 The Gulf countries, some of which are quite specialised, import a high proportion of the food their inhabitants eat. For example, the United Arab Emirates imports 83% of all the food that it consumes. The Gulf countries are trying to reduce their reliance on imports of food.

(a) Define 'specialisation'. [2]

(b) Explain **two disadvantages** that workers may experience from specialising. [4]

(c) Analyse how a country could reduce its reliance on imports. [6]

(d) Discuss whether producing more food will increase living standards. [8]

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