Cambridge International Examinations
Cambridge Ordinary Level

**ECONOMICS** **2281/23**

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.

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## Section A

Answer this question.

**1 Changes in the global balance of economic power**

In 2014, global Gross Domestic Product (GDP) stood at US$78 000 billion. A year later it had increased to US$80 730 billion. In the past, countries such as the USA and Germany might have been expected to have made the largest contribution to the increase in GDP. China accounted for 20% of the increase in world output in 2015. China is set to become the largest economy. It is becoming a stronger competitor in a number of markets. This increased price competitiveness is the result of a number of factors including maintaining a low exchange rate, providing subsidies to a number of industries and increased labour productivity. However, in 2015 the Chinese Government was considering whether to reduce the size of the country's steel industry, possibly by cutting the subsidy it received. Fig. 1 shows how the market for steel might be affected by such a change.

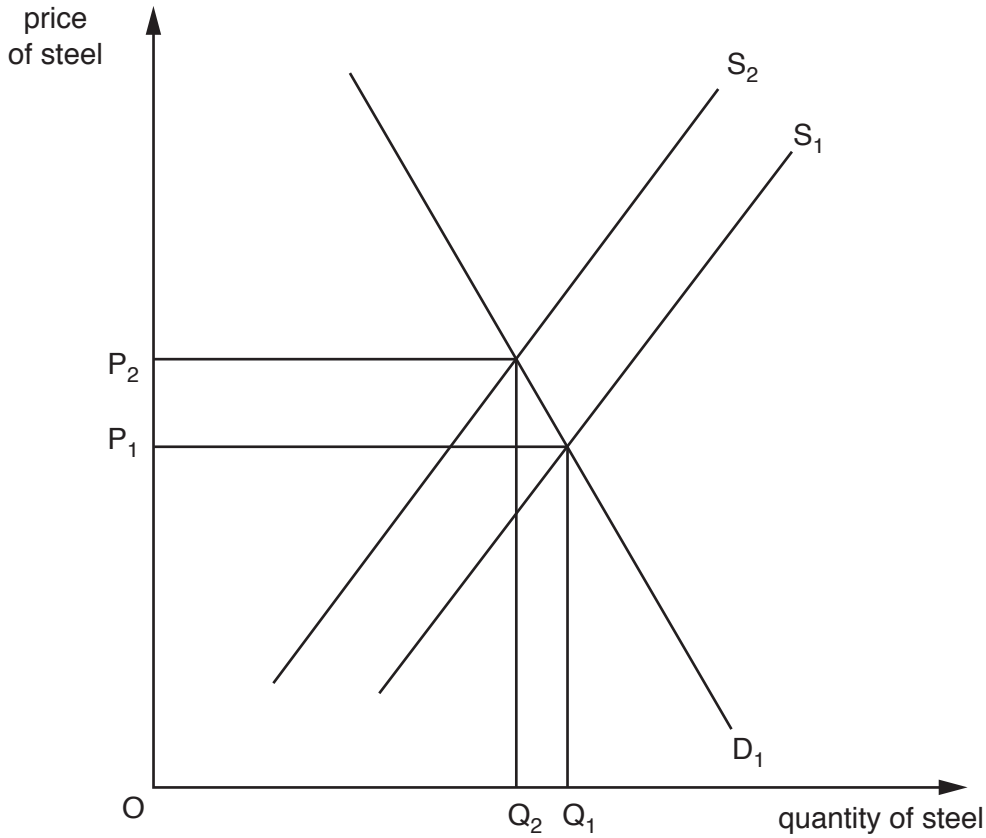


**Fig. 1 The market for steel in China in 2015**

Some developed countries have been struggling recently. For example, Australia has seen its economic growth rate declining. To try to increase domestic economic activity the Reserve Bank of Australia has cut interest rates.

Developing and emerging economies' economic growth rates are increasing. In Africa, this is in part because of the discovery and exploitation of oil and mineral resources. These countries have different exchange rate systems and have different records of success in attracting multinational companies. Many African countries use protectionist measures but some are moving towards free trade.

In most developing and emerging economies the birth rate is falling. The impact of this change is influenced by the relative size of the fall. For instance, Nauru is one of the smallest countries in the world having a population of only 10 000. Its birth rate fell from 26 to 25 in 2015.

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**(a)** Identify, from the extract, **two** monetary policy measures. [2]

**(b)** Explain **two** causes of a fall in the birth rate. [4]

**(c)** Calculate, using information from the extract:

**(i)** the value in US$ of China's contribution to global GDP growth in 2015 [2]

**(ii)** the number of children born in Nauru in 2015. [2]

**(d)** Analyse, using a production possibility curve diagram, how the discovery of new oil reserves would affect an economy. [5]

**(e)** Discuss whether a firm would benefit from a fall in its country's exchange rate. [5]

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

**(g)** Discuss whether engaging in free trade increases living standards in a country. [6]

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## Section B

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

**2** In Saudi Arabia, output of cement has risen as a result of an increase in demand from the construction industry for building houses, schools, hospitals and roads. The market for cement is also being affected by price changes, export bans and mergers between companies making cement.

**(a)** Define 'demand'. [2]

**(b)** Explain **two** reasons why a country might want to restrict exports. [4]

**(c)** Analyse how information on the price elasticity of demand for its product can influence a firm's pricing decisions. [6]

**(d)** Discuss whether a merger of two firms in the same industry will be likely to reduce the price of the product. [8]

**3** In June 2015, trade unions in Argentina demanded higher wages and lower taxes. As well as pressure for increased wages the economy was facing a number of other challenges. It was trying to promote the formation of public limited companies and economic growth.

**(a)** Identify **two** reasons why governments impose taxes. [2]

**(b)** Explain **two** advantages a business organisation may gain from becoming a public limited company. [4]

**(c)** Analyse how a cut in tax rates could increase tax revenue. [6]

**(d)** Discuss whether an economy would benefit from an increase in the strength of its trade unions. [8]

**4** In August 2015, China devalued its currency, the yuan. The Chinese Government was trying to increase output, including the output of food. It had experienced a slow-down in its economic growth. However, some other countries had actually experienced a decrease in output. One of the causes of the decline in economic growth in some countries was problems connected with their commercial banks. Some commercial banks were at risk of going out of business.

**(a)** Define 'devaluation'. [2]

**(b)** Explain **two disadvantages** of a decrease in a country's output. [4]

**(c)** Analyse the effect on the market for food of an increase in population combined with a prolonged period of bad weather. [6]

**(d)** Discuss whether a central bank should lend to commercial banks which get into financial difficulties. [8]

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**5** In 2015, the island of Puerto Rico announced it was considering ending some of its trade embargoes. Its government was also reviewing the amount it was planning to spend. Incomes have been increasing in Puerto Rico with some workers doing better than others. There have also been changes on the micro level, with elasticities of demand and supply changing in some markets.

**(a)** Identify **two** reasons why a government may place an embargo on the import of a product. [2]

**(b)** Explain **two** reasons why some young workers may earn more than some old workers. [4]

**(c)** Analyse the factors that can make the supply of a product more price-elastic. [6]

**(d)** Discuss whether a decrease in government spending will benefit an economy. [8]

**6** Trade protection reduces the opportunity for countries to specialise and influences the current account positions that countries have on their balance of payments. There are differences in the amount and types of trade protection used by developed and developing countries. Developed countries also usually have a lower death rate than developing countries.

**(a)** Define 'trade protection'. [2]

**(b)** Explain **two** advantages of countries specialising. [4]

**(c)** Analyse why developed countries usually have lower death rates than developing countries. [6]

**(d)** Discuss whether a rise in income tax will reduce a current account deficit. [8]

**7** In 2015, the UK economy experienced an increase in production and relatively low unemployment. There was, however, little growth in labour productivity and earnings. The government continued to spend more than it was receiving in tax revenue and considered changing some of its monetary policy measures.

**(a)** Identify **two** causes of inflation. [2]

**(b)** Explain **two** reasons why government spending may be greater than tax revenue. [4]

**(c)** Analyse how an increase in labour productivity can increase living standards. [6]

**(d)** Discuss whether monetary policy measures can increase economic growth. [8]

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