Cambridge O Level

Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/23**

Paper 2 Structured Questions **October/November 2016**

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 **4** printed pages and **1** Insert.

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CAMBRIDGE International Examinations

Section A

Answer this question.

1 Fishing in Mauritania

Much of Mauritania's land is desert and regular droughts put pressure on the country's supply of food. The African country does, however, have the advantage of coastal waters which are among the world's most plentiful ocean fishing grounds.

Approximately 95% of the fish caught by Mauritania's small fishing vessels are exported. Earnings from the sale of fish abroad contribute to the current account of the country's balance of payments. In 2013 the country had a trade in goods surplus and a current transfers surplus.

There is little processing of the fish into higher value products in Mauritania, except at a small number of factories at Nouakchott, the country's capital. This failure to process the fish is having an impact on the country's earnings from the fish it catches and on its economic growth. The country's total output did actually increase from US$8 billion in 2012 to US$8.5 billion in 2013. That year also saw a change in the country's population. The birth rate was 31.83, the death rate was 8.35 and the migration rate was –0.85 per thousand of the population.

Some economists in Mauritania criticise their government for allowing other countries, including Algeria, Morocco, Japan and Russia, to catch large quantities of fish in Mauritania's waters. They have recently objected to the government signing an agreement with the European Union (EU) that allows more than one hundred large EU vessels to fish in Mauritania's waters in return for a payment of US$105 million per year. These EU vessels, with their highly skilled workers, are catching large volumes of fish, including highly valued squid, and are thought to be threatening the sustainability of Mauritania's fishing industry.

Mauritanian economists are predicting that fish stocks could decline significantly in the next twenty years. The country's economy is currently heavily dependent on the primary sector. Improvements in the productivity of both its fishing and agricultural industries would help to reduce both the unemployment and poverty in the country.

(a) Describe the opportunity cost of Mauritania exporting fish. [2]

(b) Calculate Mauritania's economic growth rate in 2013. [3]

(c) Using information from the extract, draw a demand and supply diagram to show the effects of the predicted change in fish stocks on the market for fish. [4]

(d) State the **two** parts of a country's current account balance **not** identified in the extract. [2]

(e) Analyse **two** reasons why the average cost of the EU fishing industry is lower than the Mauritanian fishing industry. [4]

(f) Discuss whether a decrease in unemployment will always reduce poverty. [5]

(g) Using information from the extract, explain whether the population of Mauritania increased or decreased in 2013. [4]

(h) Discuss whether an economy should or should not conserve its fish stocks. [6]

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Section B

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

2 In March 2014, teachers in Argentina went on strike after their unions failed to reach an agreement about wage rates. The government offered a 25% pay rise but the unions were demanding a pay rise above the country's 32% inflation rate. The government claimed that large pay rises would cause unemployment. It also stated that the economy's prospects would soon improve as a result of its devaluation of the country's exchange rate at the start of the year.

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

(b) Explain **two** influences on the strength of a trade union. [4]

(c) Analyse how wage rises may cause unemployment. [6]

(d) Discuss whether a government should devalue the country's exchange rate. [8]

3 In 2014 the US's second-largest cigarette maker, made a bid to take over the country's third-largest cigarette maker. It was expected that if the merger went ahead, the price of cigarettes would increase. The effect of a rise in price on quantity demanded would be determined by the price elasticity of demand.

(a) Identify **two** external costs of smoking. [2]

(b) Explain how perfectly inelastic demand differs from inelastic demand. [4]

(c) Analyse **two** ways, apart from imposing an indirect tax, in which a government could discourage smoking. [6]

(d) Discuss whether a merger between two large firms in the same industry will increase the price of the product. [8]

4 Peru has been moving from a mixed economic system closer to a market economic system in recent years. One feature of this has been an increase in the number of small firms being set up. Some small firms' short-term goal is profit maximisation whilst others aim for growth. In the long term these two goals may both be achieved. Some small firms develop into large firms listed on their country's stock exchange.

(a) Define 'a mixed economy'. [2]

(b) Explain why the growth of a firm may lead to profit maximisation in the long term. [4]

(c) Analyse how a country's stock exchange can benefit its economy. [6]

(d) Discuss the advantages and disadvantages of small firms. [8]

5 The 48 countries with the lowest Human Development Index (HDI) values have 28 million citizens working abroad. These workers save some of their earnings to send home to their relatives. Research shows that most transferred money is spent on food and housing by their families, raising their standard of living. These remittances in 2013 were double the value of foreign direct investment received by these countries.

(a) How does the amount and the proportion of income spent on food change as people get richer? [2]

(b) Explain the difference between saving and borrowing. [4]

(c) Analyse **three** ways in which a country's HDI value could increase. [6]

(d) Discuss whether a government should encourage some of the country's people to work abroad. [8]

6 Microfinance involves giving small loans at a low rate of interest to poor people. Such people normally cannot get loans from commercial banks. Microfinance is designed to promote development and started in Bangladesh. A study by the World Bank in 2014 found that microfinance increases consumer expenditure, the value of household assets, the size of the labour force and spending on children's education.

(a) Define 'the rate of interest'. [2]

(b) Explain **two** reasons why the poor may find it difficult to get loans from commercial banks. [4]

(c) Analyse how an increase in spending on education could increase inflation in the short run but decrease it in the long run. [6]

(d) Discuss whether an increase in consumer expenditure would be beneficial for an economy. [8]

7 Mozambique is a developing economy with a relatively high economic growth rate. In recent years there has been a depreciation in the value of its currency, the metical, against the US dollar. This has had an influence on the country's unemployment rate. Some economists in Mozambique have called for an increase in tariffs on imports to reduce unemployment.

(a) Define 'a depreciation' in the value of a currency. [2]

(b) Explain **two** causes of a high economic growth rate. [4]

(c) Analyse how the pattern of employment within a country tends to change as the economy develops. [6]

(d) Discuss whether an increase in tariffs on imports would reduce unemployment. [8]

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