UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/23**

Paper 2 Structured Questions **October/November 2013**

2 hours

Additional Materials: Answer Booklet/Paper

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READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A
Answer Question 1.

Section B
Answer any **three** questions.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **4** printed pages.

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UNIVERSITY *of* CAMBRIDGE International Examinations

Section A

Answer this question.

1 Pakistan aims to increase its rate of economic growth

The annual rate of economic growth in Pakistan has until recently averaged 5.8%. This high rate of economic growth has been largely due to a change in the contribution of the different industrial sectors to Gross Domestic Product (GDP). By 2011, the proportion contributed by the primary sector had fallen to 20% and by the secondary sector to 27%, while the proportion contributed by the tertiary sector rose to 53%.

However, the Pakistan Institute of Development Economics (PIDE) is concerned about the rate of economic growth in the country now and in the future. The annual growth rate had fallen to 2.6% in 2011 and it was not expected to rise above that figure in the next few years. The PIDE was asked to suggest how the rate could be substantially increased.

The PIDE recommended the use of monetary policy, through lowering interest rates and increasing the money supply, to stimulate growth. It was concerned, however, that such a policy, while encouraging growth, could increase the inflation rate. In 2011, the rate of inflation in Pakistan was 13.2%. The PIDE therefore tried to find other ways to encourage an increase in the country's rate of economic growth.

(a) Define the term 'Gross Domestic Product'. [3]

(b) **(i)** Give **one** example of each of the three industrial sectors. [3]

(ii) Explain whether the change in the industrial sectors in Pakistan mentioned in the extract is the one normally expected to occur as a country develops. [3]

(c) Explain how the use of monetary policy, through lowering interest rates and increasing the money supply, could be used to stimulate the rate of economic growth in a country. [5]

(d) Discuss whether other policies, apart from monetary policy, might be more successful in raising the rate of economic growth in Pakistan. [6]

Section B

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

2 Labour is one of the most important factors of production.

(a) Using examples, define the factor of production, labour. [4]

(b) Explain why production is sometimes very labour-intensive. [6]

(c) Discuss whether a worker should always be encouraged to join a trade union. [10]

3 The costs of production in the motorcycle industry have risen significantly in recent years.

(a) Analyse what might have caused the costs of production in the motorcycle industry to have risen significantly in recent years. [4]

(b) Using a demand and supply diagram, analyse the effect of an increase in production costs in the motorcycle industry on the equilibrium price and the equilibrium quantity of new motorcycles. [6]

(c) Explain the concept of price elasticity of supply. [4]

(d) Discuss to what extent time is the main influence on the price elasticity of supply. [6]

4 People all over the world are continually being encouraged to spend their money rather than save it.

(a) Describe **three** influences on spending, apart from changes in taxation. [6]

(b) Explain how people's spending could be affected by changes in both direct and indirect taxes. [6]

(c) Discuss whether a government should be concerned if people began to spend most of their money. [8]

5 Firms can vary greatly in size from a sole proprietor to a very large monopoly.

(a) Describe the advantages and disadvantages of a sole proprietor business organisation. [4]

(b) Explain the different goals that such a business organisation might have. [5]

(c) Analyse **two** reasons for the different sizes of firms in an economy. [4]

(d) Discuss whether a monopoly is always in the best interest of consumers. [7]

6 Economists are concerned with both the size of population and the standard of living of different countries.

(a) Explain why the rate of population growth in some countries is greater than in others. [5]

(b) Explain what is meant when a country is described as being over-populated or under-populated. [5]

(c) Discuss whether the Human Development Index (HDI) is the best way of comparing the standard of living in different countries. [10]

7 Specialisation and exchange rates are two important aspects of international economics.

(a) Explain why specialisation is an important aspect of international trade. [5]

(b) Describe the potential disadvantages of international specialisation. [4]

(c) Describe the differences between a fixed and a floating exchange rate. [4]

(d) Discuss whether a floating exchange rate system is always preferable to a fixed exchange rate system. [7]