

The City School

Mid Year Examination

2016 - 2017

Class 11



CANDIDATE NAME:

INDEX NUMBER:

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DATE: _____

ECONOMICS

Paper 2 Structured Questions

2281/22

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

An answer booklet is provided with this question paper.

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.

Invigilated by: _____ **Checked by:** _____ **Marks Talled by:** _____

This document consists of 06 printed pages

SECTION A

Answer this question.

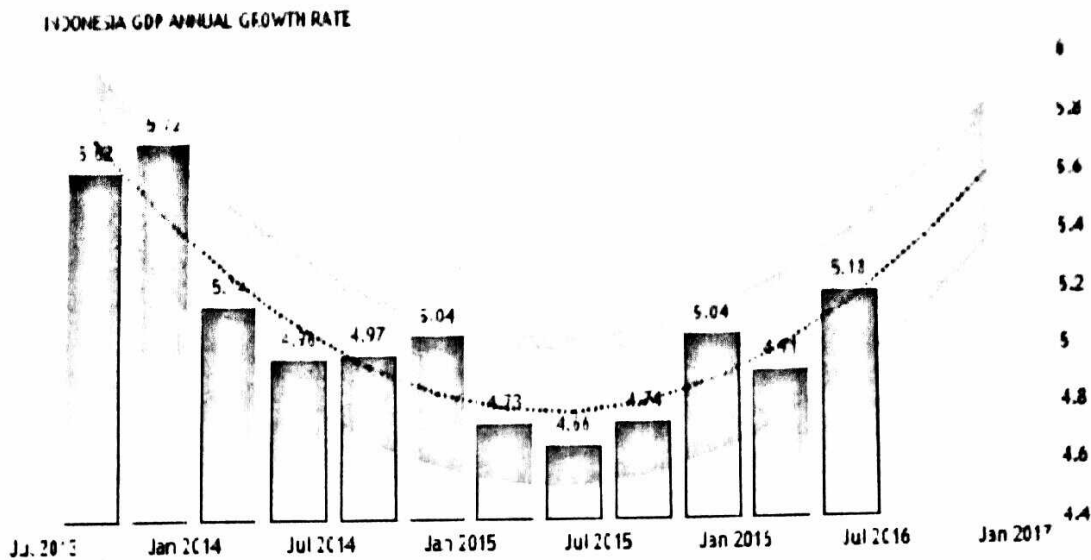
1. Crisis in the chocolate market

There are concerns that the price of chocolate could rise significantly in the next few years. This is because of increasing demand for chocolate, particularly in emerging countries, and supply problems in the countries that produce cocoa beans.

Cocoa beans, the main ingredient in chocolate, are grown mainly in the west coast of Africa by small farms using labour-intensive methods. In 2012 Côte d'Ivoire (Ivory Coast) produced 37% of the world's output of cocoa beans, followed by Indonesia which produced 13%.

Côte d'Ivoire is becoming well known for supplying good quality cocoa beans. Concentrating on supplying the product its resources are most suited to has increased output in the country. Gross Domestic Product per head rose to US\$1240 in 2013. Some farmers and farm workers, however, still live on less than US\$2 a day.

In Indonesia, the income of most cocoa farmers and farm workers increased along with the rise in the country's average income between 2013 and 2014. Their purchasing power was, however, affected by the consumer prices index rising from 108.0 in 2013 to 115.2 in 2014. While people's medical care in Indonesia is improving with more doctors per head, the government is seeking to raise education standards.



Among the problems being experienced by cocoa bean producers is an ageing labour force, with the industry experiencing difficulties attracting young farmers and farm workers. The industry also regularly experiences problems caused by pests and diseases, including black pod disease.

At the same time people in Asia, particularly China, are eating more chocolate and drinking more chocolate drinks. People in the United States of America and the European Union are also eating more chocolate, although concerns about the health effects of eating large quantities of chocolate are beginning to affect demand. For many people, however, chocolate is addictive. Chocolate producers seek to take advantage of this by increasing the gap between revenue and costs. Most chocolate producers come from developed countries and most are public limited companies trying to keep their shareholders happy. These producers take advantage of their market power to keep the price they pay for cocoa beans relatively low whilst the price they charge to consumers who buy their chocolate is kept relatively high.

- a) Using information from the extract, identify two indicators of improved living standards in Indonesia. [2]
- b) Explain whether the extract suggests the demand for chocolate is price-elastic or price inelastic in developed countries. [2]
- c) In which year Indonesia's GDP was at its highest? Explain. [4]
- d) Calculate the rate of inflation in Indonesia in 2014. [3]
- e) What is the difference between real and nominal GDP. [4]
- f) Discuss whether the price of chocolate is likely to increase in the future. [5]
- g) Using information from the extract, explain reasons for rise in demand for chocolates [4]
- h) Discuss whether an ageing population should always be regarded as an economic problem. [6]

SECTION B

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

2. a) Explain the economic problem of scarcity. [3]
b) Define the concept of opportunity cost. [3]
c) Distinguish, using examples, between the different factors of production. [6]
d) Discuss whether a country should conserve or use its natural resources. [8]
3. In January and February 2014 there were calls for the UK Government to build more flood defences. Homes, factories and other resources were damaged and some destroyed by floods.

It was argued that government intervention was needed in this case as there was evidence of market failure.

- a) Define 'market failure'. [2]
b) Explain how government regulation may reduce market failure. [4]
c) Analyse the effect of a decrease in resources on government economic aims. [6]
d) Discuss whether the social benefits of building flood defences will exceed the social costs involved. [8]
4. Many governments seek to discourage people from smoking cigarettes, whilst encouraging them to eat more fruit, including bananas and apples. The government's ability to influence people's consumption is determined, in part, by the price elasticity of supply and the price elasticity of demand of the products, and by changes in market conditions.
- a) Define 'price elasticity of supply'. [2]
b) Explain three reasons why the supply of bananas may decrease. [6]
c) Analyse what effect a rise in the price of apples, which are a substitute for bananas, will have on the market for bananas. [4]
d) Discuss whether a government should increase the tax on cigarettes. [8]

5. Burundi is a country in Sub-Saharan Africa. In 2013 the government of Burundi introduced VAT, an indirect tax, while lowering corporation tax (the tax on firms' profits), from 35% to 30%. The United Nations has encouraged Sub-Saharan African countries to increase their tax revenue in order to have more funds available to spend on reducing poverty. There is, however, a debate about whether imposing more taxes or removing some taxes is more beneficial for an economy.
- Define 'an indirect tax'. [2]
 - Explain how a cut in the rate of corporation tax could result in an increase in tax revenue. [4]
 - Using a demand and supply diagram, analyse the effect of removing an indirect tax on the market for the product. [6]
 - Discuss whether an increase in taxes will reduce inflation. [8]
6. Inflation is an economic problem faced by many economies, but governments differ in how they attempt to bring down the rate of inflation.
- Describe how changes in the price level are measured in an economy. [5]
 - Explain how a situation of 'too much money chasing too few goods' can lead to inflation. [5]
 - Discuss whether fiscal policy, rather than monetary policy, is always a better way to bring down the rate of inflation in an economy. [10]
7. Brazil's economic growth rate of 7.5% in 2010 was its highest since 1986. This was achieved, in part, by the government's expansionary fiscal policy. The rapid increase in output helped to reduce absolute poverty, relative poverty and unemployment. It also raised living standards in the country.
- What is the difference between absolute poverty and relative poverty? [4]
 - Explain two economic advantages of a fall in unemployment. [4]
 - Analyse how fiscal policy may reduce unemployment. [5]
 - Discuss whether economic growth always results in higher living standards. [7]