



**ECONOMICS
STANDARD LEVEL
PAPER 2**

Wednesday 10 November 2004 (morning)

2 hours

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer one question.
- Use diagrams and real-world examples where appropriate.

SECTION A

Answer **one** question from this section.

Either

Question 1

Study the tables below and answer all the parts of the question that follow.

The tables below show comparative economic data for five different countries in 2001.

Table 1 – National Income Statistics

	Singapore	Taiwan	South Korea	Hong Kong	Japan
GDP (\$ bn)	86	282	423	162	4 148
GDP (% real change pa)	– 2.04	– 1.91	3.26	0.15	– 0.46
GDP per head (\$)	20 880	12 620	8 870	24 048	32 720
GDP per head (\$ at PPP*)	27 120	22 630	15 770	28 173	26 480

* PPP = Purchasing power parity

Table 2 – Macroeconomic data

	Singapore	Taiwan	South Korea	Hong Kong	Japan
Consumer price inflation (%)	1.0	0.0	4.1	– 1.6	– 0.7
Recorded unemployment (%)	3.33	4.58	3.70	4.93	5.03
Labour costs per hour (\$)	6.81	5.44	7.53	5.47	19.52

Table 3 – Foreign trade and debt data

	Singapore	Taiwan	South Korea	Hong Kong	Japan
Current account balance (\$ bn)	23.3	19.0	8.6	12.0	88.0
Current account balance (% of GDP)	27.2	6.7	2.0	7.4	2.1
Foreign exchange reserves (\$ bn)	75	122	103	111	395
External debt (\$ bn)	9.2	18.5	121	47.1	n/a
Debt-service ratio, paid (%)	2.1	2.2	12.9	2.3	n/a

[Source: adapted from *the Economist Intelligence Unit* – January 2003]

- (a) Define the following terms, indicated in bold in the tables:
- (i) consumer price inflation (**Table 2**) *[2 marks]*
 - (ii) current account balance (**Table 3**). *[2 marks]*
- (b) (i) Identify the countries which had economic growth in 2001. *[2 marks]*
- (ii) What further information might you need in order to assess the levels of economic development of the countries shown in the tables? *[4 marks]*
- (c) Using the information in **Table 1**, explain why there are differences between the figures for GDP per head (\$) and GDP per head (\$ at PPP). *[5 marks]*
- (d) Using information in the tables, identify the country that you feel is the most dependant upon international trade. Explain your answer. *[3 marks]*
- (e) Using the evidence from the tables and your knowledge of economics, identify the country that you feel to be in the strongest economic position. Justify your answer. *[7 marks]*

Or

Question 2

Study the items below and answer all the parts of the question that follow.

Rise in price of oil adds to world's problems

- ❶ As the world economy struggles to get out of a downturn, the prospect of a sustained rise in oil prices is coming at the worst possible time, threatening to harm already fragile **economic growth**.
- ❷ Expectations of military conflict in Iraq and a falling supply of oil to the United States from Venezuela have pushed the price of a barrel of crude oil to around \$30 – up more than 40 per cent from a year ago. Crude oil prices in February rose 67 cents to \$31.87 (US) a barrel.
- ❸ Most analysts expect prices to remain above the range of \$22 to \$28 a barrel favoured by the Organization of Petroleum Exporting Countries for at least the next few months. If that level holds beyond the early portion of this year, the effect on the global economy could be significant. An economist in London, estimates that a \$10 rise in the price of oil, sustained over a full year, would knock half a percentage point off global economic growth. “Every time there has been a huge oil price increase, there has been a serious effect on global growth” he said.
- ❹ Europe, with its dependency on imported oil, could face the biggest problem. In part, that is because the euro-zone economy is already at a fragile stage. Economists predict that economic growth in the 12-country single currency region will be, on average, only half as strong as growth in the United States over the coming year, dragged down by near-recessionary weakness in Germany.
- ❺ The situation is complicated by the fact that the European currency, the euro, has been appreciating in the currency markets, pushing past parity with the dollar. The **appreciation** has both positive and negative implications for Europe. Inflation, a persistent worry of the European Central Bank, could be suppressed because a stronger currency makes imports cheaper. However, a stronger currency will damage European export industries. The added effect of the higher oil prices means that initially energy-sensitive industries would be hurt the most and an upward spiral in oil prices would eventually work its way through much of the economy.
- ❻ Effects in the USA are likely to be different. The greater flexibility of the US economy would help to offset some of the inflationary pressure from oil price increases. Globalization has brought a surge in low-cost imports, and the USA has a more flexible job market. These factors will reduce the upward pressure on labour costs.

[Source: adapted from *The International Herald Tribune* Friday 23 January 2002]

- (a) Define the following terms, indicated in bold in the text:
- (i) economic growth *[2 marks]*
 - (ii) appreciation. *[2 marks]*
- (b) Using supply and demand analysis explain **two** possible reasons for the increase in the price of oil, identified in the text. *[6 marks]*
- (c) (i) Using an aggregate demand/aggregate supply diagram and evidence from the text, explain why the euro-zone economy is at risk of inflation. *[4 marks]*
- (ii) Using an aggregate demand/aggregate supply diagram and evidence from the text, explain why the euro-zone economy is at risk of unemployment. *[4 marks]*
- (d) Using the evidence from the text and your knowledge of economics, evaluate possible reasons which explain why economic growth in the euro-zone “will be, on average, only half as strong as growth in the United States”. *[7 marks]*

SECTION B

Answer **one** question from this section.

Question 3

- (a) What are the main characteristics of a free market economy and a centrally planned economy? *[10 marks]*
- (b) Evaluate the possible consequences that may be encountered when an economy makes a transition from central planning towards a free market. *[15 marks]*

Question 4

Discuss the possible consequences that might occur when a government attempts to reduce inflation. *[25 marks]*

Question 5

- (a) What might cause a depreciation of a country's currency? *[10 marks]*
- (b) Discuss whether a country benefits more from a low value of its currency or a high value of its currency. *[15 marks]*

Question 6

- (a) What are the main types of aid available to less developed countries (LDCs)? *[10 marks]*
 - (b) To what extent is aid effective in terms of addressing the problems faced by LDCs? *[15 marks]*
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