



88135113



**ECONOMICS
STANDARD LEVEL
PAPER 2**

Tuesday 5 November 2013 (morning)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- You are not permitted access to any calculator for this paper.
- Section A: answer one question.
- Section B: answer one question.
- Use fully labelled diagrams and references to the text/data where appropriate.
- The maximum mark for this examination paper is *[40 marks]*.

SECTION A

Answer **one** question from this section.

1. Study the extract below and answer the questions that follow.

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(Question 1 continued)

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2. *Study the extract below and answer the questions that follow.*

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(Question 2 continued)

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SECTION B

Answer **one** question from this section.

3. Study the extract below and answer the questions that follow.

Botswana is the sixth best for investment in Africa

- ❶ Botswana has been ranked the sixth best **foreign direct investment** destination out of 45 sub-Saharan states. Botswana's main advantages include a population with a high average level of income, good transport and other infrastructure, an efficient legal system, low corruption, low tax rates, an efficient financial sector and a good human rights record.
- ❷ The country also has a history of strong economic growth, democracy and prudent economic management, as well as low political risk. It is one of Africa's most stable countries and it is the continent's longest continuous multi-party democracy. On the other hand, wages are high relative to productivity, there is excessive bureaucracy, high HIV prevalence, insufficient skills in the workforce and high income inequality.
- ❸ Botswana is the world's biggest producer of diamonds, which accounts for nearly half of the government's revenue and over a third of its GDP. Botswana's government has invested this revenue wisely in infrastructure.
- ❹ Diamond production may be exhausted by 2030 so the government is promoting the **diversification** of the economy. The government is considering different supply-side policies to encourage industrial development.
- ❺ Despite the impressive progress in per capita income, rates of poverty and inequality are still high.
- ❻ Botswana's government is progressing well with the implementation of policy reforms required to meet the Millennium Development Goals (MDGs) by 2015. Significant progress has been made in education and in health through considerable investments that the government has made to improve human capital.

[Source: MMEGI online]

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(Question 3 continued)

- (a) (i) Define the term *foreign direct investment* indicated in bold in the text (paragraph ❶). [2 marks]
- (ii) Define the term *diversification* indicated in bold in the text (paragraph ❷). [2 marks]
- (b) Explain **two** reasons why multinational corporations (MNCs) may have been attracted into Botswana (paragraphs ❶ and ❷). [4 marks]
- (c) Explain **two** possible benefits for economic development of the Botswana government's investment in infrastructure (paragraph ❸). [4 marks]
- (d) Using information from the text/data and your knowledge of economics, evaluate possible supply-side policies that the Botswana government could use to achieve economic development. [8 marks]

4. Study the extract and data below and answer the questions that follow.

Economic growth and poverty in India

- ❶ Although India has one of the fastest growing economies in the world, it is unlikely that the Millennium Development Goal of halving the rate of poverty by 2015 will be achieved. An important factor is growing income inequality. Calculations of Gini coefficients show that inequality increased by about 14% between 2001 and 2011.
- ❷ India has about one third of the world’s population living in extreme poverty (living on less than \$1.25 a day). Three quarters of its population live in moderate poverty (less than \$2 a day). It is estimated that nearly half the Indian population suffers from malnutrition. Part of India’s poverty problem is a result of poor governance and failure to address the underlying causes of poverty.
- ❸ Growth averaged 8.6% per year in the years 2005–2011 compared with the 10% needed over 20 years to lift the poor out of their poverty. The central bank governor says that the lack of steps to improve the supply-side of the economy will make it difficult for India to maintain its high growth rates.
- ❹ The Indian Nobel Prize winner Amartya Sen argues that **economic growth** should not be “our ultimate objective, but a very useful means to achieve ... a better quality of life”.

[Source: adapted from “Growth and other concerns”, *The Hindu*, 14 February 2011;
 “Poverty reduction in India briefing”, uk.oneworld.net, May 2011 and
 “Addressing income distribution”, *The Financial Express*, 15 January 2011]

Table 1

	India	Moldova
GNI (GNP) per capita (PPP \$) (2007)	2840	2980
GDP per capita (PPP \$)(2007)	2753	2551
Human Development Index (HDI) (2007)	0.612	0.720

[Source: adapted from “World Development Indicators”, *The World Bank*, accessed 2011 and
 “Human Development Reports”, *United Nations Development Programme*, accessed 2011]

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(Question 4 continued)

	India	Bangladesh
GNI (GNP) per capita (PPP \$) (2007)	2840	1350
Average annual growth rate (%) (1990–2007)	4.5	3.1
Improved sanitation facilities (% of population with access) (2008)	31	53
Life expectancy at birth (years) (2009)	64	67
Malnutrition rate (% of population that is malnourished) (2006)	47.9	47.0
Infant mortality rate (per 1000 live births) (2009)	50	41

[Source: adapted from “World Development Indicators”, *The World Bank*, accessed 2011. World Bank.]

- (a) (i) Define the term *economic growth* indicated in bold in the text (*paragraph 4*). [2 marks]
- (ii) State why the GNI (GNP) per capita for Moldova and India is higher than their GDP per capita (*Table 1*). [2 marks]
- (b) Referring to Table 1, explain **two** possible reasons why India and Moldova have different Human Development Index (HDI) values from each other. [4 marks]
- (c) Using a Lorenz curve diagram showing India’s changing income distribution, explain how India’s Gini coefficient will have changed (*paragraph 1*). [4 marks]
- (d) Using information from the text/data in Table 2 and your knowledge of economics, examine Amartya Sen’s argument that economic growth should not be “our ultimate objective, but a very useful means to achieve ... a better quality of life” (*paragraph 4*). [8 marks]