

Economics
Standard level
Paper 2

Thursday 1 November 2018 (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 following extract and answer the questions that follow.

South Africa's grain millers oppose corn tariff

- ❶ A battle is taking place between South African corn farmers and the corn millers who process corn. Grain South Africa (Grain SA) is the organization that represents the interests of corn farmers. It has asked the country's International Trade Administration Commission (ITAC) to protect local corn farmers from low global corn prices by imposing a tariff on corn imports.
- ❷ South Africa's corn millers are opposing the request by Grain SA to implement the tariff on corn imports. The corn millers argue that a tariff will cause a burden for consumers and cattle farmers. In South Africa, corn is an essential food and also a source of feed for livestock.
- ❸ According to Reuters news service, South Africa is "Africa's largest corn producer and is relied upon by neighboring Sub-Saharan nations to [reinforce] their own corn supplies and feed their people." A drought in South Africa has dramatically increased the price of corn. In addition, the reduced supply has prompted the need for imports. "South Africa [has traditionally been] a net exporter of corn ... [but] for the second year in a row, [the economy] will become a net importer of corn." The need to import corn has shocked both the corn farmers and the government.
- ❹ The United States (US) is the world's largest corn producer. An unusually large harvest has increased US supply and more than halved the price of US corn to its current price of US\$145 a ton. However, in South Africa, because of the drought, prices for domestically produced corn have more than doubled to reach an all-time high of US\$348 a ton. The low import prices of US corn have made it very difficult for South African corn farmers to earn sufficient income to survive the drought, which is why they have asked ITAC for protection.
- ❺ However, a spokesperson for the corn millers said "we are strongly opposed to any attempt to apply a tariff. Why do we need protection for a commodity in which we are so self-sufficient?" However, Grain SA have claimed that corn farmers cannot compete with the big corn-exporting countries, such as the US and Mexico, because their governments are subsidizing corn farmers. According to Grain SA, South African farmers get almost no assistance. This is why they have requested that ITAC implement the tariff to protect corn farmers from these unfair trade practices.
- ❻ According to economists, South Africa will probably need to import about 970 000 tons of corn this year and a further 3.8 million tons in the following 12 months. To make matters worse, the rand (South Africa's currency) has experienced a sharp **depreciation** against the US dollar. Combined, the need to import corn and the depreciation are likely to negatively impact South Africa's **current account**.

[Source: adapted from "Grain Millers Oppose South African Corn-Import Tariff Review," by Tshepiso Mokheba and Andre Janse Van Vuuren, <http://www.bloomberg.com/news/articles/2016-02-21/grain-millers-oppose-south-african-corn-import-tariff-review>, accessed 28 August 2016, used with permission of Bloomberg L.P. Copyright©2017. All rights reserved, and "South Africa's corn crop dilemma and the likely fixes: Braun," by Karen Braun, 8 April 2016, [reuters.com](http://www.reuters.com/article/us-safrica-maize-braun-corn-idUSKCN0X51QY), © 2016 reuters.com, <http://www.reuters.com/article/us-safrica-maize-braun-corn-idUSKCN0X51QY>. All rights reserved.]

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(Question 1 continued)

- (a) (i) Define the term *depreciation* indicated in bold in the text (paragraph ⑥). [2]
- (a) (ii) Define the term *current account* indicated in bold in the text (paragraph ⑥). [2]
- (b) Using an exchange rate diagram, explain how “the need to import corn” will affect the value of the South African rand (paragraph ⑥). [4]
- (c) Using a demand and supply diagram, explain the effect of government subsidies on the US corn market (paragraph ⑤). [4]
- (d) Using information from the text/data and your knowledge of economics, evaluate the economic impacts of trade protection in the South African corn market. [8]

2. Study the following extract and answer the questions that follow.

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(Question 2 continued)

- (a) (i) Define the term *inflation* indicated in bold in the text (paragraph 6). [2]
- (ii) Define the term *devaluation* indicated in bold in the text (paragraph 7). [2]
- (b) Using an exchange rate diagram, explain how the central bank could “use its foreign reserves” to restore the value of the Nigerian naira (paragraph 5). [4]
- (c) Using an AD/AS diagram, explain how a decision to “tighten monetary policy” might be harmful to the economy (paragraph 7). [4]
- (d) Using information from the text/data and your knowledge of economics, evaluate the likely effects of Nigeria’s change from a fixed exchange rate system to a managed exchange rate system. [8]

Section B

Answer **one** question from this section.

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

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(Question 3 continued)

- (a) (i) Define the term *entrepreneurship* indicated in bold in the text (paragraph 4). [2]
- (a) (ii) Define the term *economic growth* indicated in bold in the text (paragraph 5). [2]
- (b) Using an externalities diagram, explain how “deforestation caused by harvesting timber” has caused a market failure in Guatemala (paragraph 2). [4]
- (c) Using a production possibilities curve (PPC) diagram, explain the likely effect of the “Feed the Future” project on Guatemala’s economy (paragraph 3). [4]
- (d) Using information from the text/data and your knowledge of economics, discuss the extent to which domestic factors, such as education and health, the use of appropriate technology, access to micro-credit and the empowerment of women, may contribute to economic development in Guatemala. [8]

4. Study the following extract and answer the questions that follow.

Burundi

- ❶ Burundi is a small landlocked African country. Densely populated, it has a population of approximately 10.6 million inhabitants. The economy is dominated by subsistence agriculture, which employs 90 % of the population, though cultivatable land is extremely scarce. More than a decade of conflict led to the destruction of much of the country's physical, social and human capital. However, substantial improvements have occurred since the conflict ended in 2006, thanks largely to the success of measures implemented to reduce the excessive control of the military.
- ❷ Even though Burundi is enjoying its first decade of sustained economic growth, poverty remains widespread. Burundi's ranking on the Human Development Index (HDI) increased by 2.5 % per year between 2005 and 2013 as education and health outcomes have significantly improved over the period, yet the country still ranks low at 180th out of 187 countries in 2013. Per capita gross national income more than doubled between 2005 (US\$130) and 2013 (US\$280).
- ❸ Burundi is making the transition from a post-conflict economy to a stable and growing economy. Economic reforms and institution building are ongoing. After significant improvements to achieve peace and security, the country's development program is shifting gradually towards modernizing public finance. However, the government has limited "fiscal space" because tax collection is very hard to carry out and tax receipts are low.
- ❹ With its limited resources, the government is attempting to strengthen basic social services and upgrade infrastructure and institutions, particularly in the energy, mining, and agricultural sectors. This has been accompanied by increasing participation of the private sector. The goal now is to grow a more stable, competitive and diversified economy with enhanced opportunities for employment and improved standards of living.
- ❺ Over the last decade, annual economic growth in Burundi has been between 4 % and 5 %. Inflation continues to decline reaching 3.9 % in July 2016, down from 24 % in March 2012, reflecting a careful **monetary policy** helped by a recent decrease in the prices of imports, especially oil, which is an essential commodity.
- ❻ Burundi's main exports are agricultural; coffee and tea account for 90 % of foreign exchange earnings, and exports are a relatively small share of Gross Domestic Product (GDP).

[Source: adapted from "The World Bank in Burundi: Overview," The World Bank, <http://www.worldbank.org/en/country/burundi/overview>. Licensed under a Creative Commons Attribution-ShareAlike 3.0 Unported license. <https://creativecommons.org/licenses/by-sa/3.0/>]

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(Question 4 continued)

- (a) (i) List **two** components of the Human Development Index (HDI) (paragraph ②). [2]
 - (a) (ii) Define the term *monetary policy* indicated in bold in the text (paragraph ⑤). [2]
 - (b) Using a production possibilities curve (PPC) diagram, explain the effect on economic growth of the “destruction of much of the country’s physical, social and human capital” (paragraph ①). [4]
 - (c) Using an AD/AS diagram, explain why the “decrease in the prices of imports, especially oil” might reduce inflationary pressure (paragraph ⑥). [4]
 - (d) Using information from the text/data and your knowledge of economics, evaluate the challenges to economic growth and economic development faced by Burundi. [8]
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