N19/3/ECONO/SP2/ENG/TZ0/XX

Diploma Programme
Programme du diplôme
Programa del Diploma

Economics
Standard level
Paper 2

Thursday 7 November 2019 (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]**.

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Section A

Answer **one** question from this section.

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

Japan–European Union Economic Partnership Agreement (JEEPA)

❶ In July 2017, the Japan–European Union Economic Partnership Agreement (JEEPA) was announced and it may come into force in 2019. Jointly, Japan and the European Union (EU) currently account for 28 % of global gross domestic product (GDP). The trade agreement could raise the EU's exports to Japan by 34 % and Japan's exports to the EU by 29 %. Economists say that this trade agreement marks a determined effort to combat rising protectionism and sends a powerful signal that cooperation, not trade protection, is the way to tackle global challenges.

❷ The largest benefit to Japan will be for Japanese car manufacturers, as Europe will gradually lower tariffs from 10 % on Japanese cars. Car tariffs are a big concern for Japanese car manufacturers, who struggle to compete with South Korean car manufacturers. South Korean cars are sold to the EU tariff-free thanks to a free trade agreement signed in 2011. Within Europe, car manufacturers are one of the largest sources of jobs. Car manufacturers in the EU are concerned that cutting tariffs on car imports from Japan may lead to a large increase of Japanese cars into the European market.

❸ The trade agreement will also resolve non-tariff barriers, such as technical requirements and regulations. More importantly, however, the EU and Japan will make their environmental and safety standards on cars the same, which will make trade easier.

❹ Japanese politicians have been defending their relatively inefficient farmers for a long time. Now, Japan will lower tariffs on European meat, dairy products and wine, cutting 85 % of the tariffs on food products coming into Japan. This includes removing the current 30 % tariff on some European cheeses, such as cheddar and gouda cheese. However, imported camembert cheese will face a **quota**. This may be because Japan produces some camembert cheese.

❺ JEEPA is particularly alarming for United States (US) beef and pork farmers because Japan has been the biggest export market for US beef and the second biggest export market for US pork. Any preferential tariff that EU farmers receive will make it much tougher for American farmers to sell meat in Japan.

❻ With this trade agreement, the EU and Japan are trying to promote the values of economic cooperation and environmental conservation, which are both important for long-term economic growth and **sustainability**. However, JEEPA faces significant challenges because it will have to be passed by the Japanese Parliament, the European Parliament and European national governments. There is no guarantee that all governments will agree to the economic partnership.

[Source: adapted from The Japan-EU Trade Agreement: Pushing Back Against Protectionism, http://globalriskinsights.com, 15 July 2017; Japan-EU trade agreement may hurt U.S. meat producers, by Katherine Hyunjung Lee, Jul 12, 2017, *Medill News Service*, https://dc.medill.northwestern.edu; and A new trade deal between the EU and Japan, *The Economist* (London, England), Jul 8th 2017, https://www.economist.com/finance-and-economics/2017/07/08/a-new-trade-deal-between-the-eu-and-japan. © The Economist Newspaper Limited, London, July 8th 2017]

(This question continues on the following page)

(Question 1 continued)

(a) (i) Define the term *quota* indicated in bold in the text (paragraph ❹). [2]

(ii) Define the term *sustainability* indicated in bold in the text (paragraph ❻). [2]

(b) Using an AD/AS diagram, explain the impact of the trade agreement between Japan and the EU (JEEPA) on Japan's economic growth (paragraph ❶). [4]

(c) Using an international trade diagram, explain the likely impact of Japan "removing the current 30 % tariff" on the level of cheddar cheese imports (paragraph ❹). [4]

(d) Using information from the text/data and your knowledge of economics, evaluate the possible consequences of the trade agreement between Japan and the EU (JEEPA). [8]

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

Bank of Canada raises interest rates for the first time in seven years

❶ For seven years Canada's central bank, the Bank of Canada, kept its official interest rate at 0.5 %. This period of easy monetary policy may be coming to an end. The Bank of Canada has just raised its official interest rate from 0.5 % to 0.75 %, claiming that there is new confidence in the Canadian economy. Figures show that the 3.5 % growth in gross domestic product (GDP) in the first quarter of 2017 is above its potential. In addition, the Bank of Canada expects growth in consumer spending, exports and business investment to stimulate economic growth in the months ahead. Such factors might contribute to inflationary pressure in the future.

❷ One of the issues that might have delayed the interest rate increase in Canada is that the inflation rate is still low and falling. Central banks typically raise interest rates when inflation is rising. That is not the problem in Canada, where the consumer price index (CPI) has been rising at well below the Bank of Canada's 2 % inflation target. However, the governor of the Bank of Canada says that he is looking at forecasts of future inflation rates, noting that the data suggest the interest rate increase is necessary. An official statement from the Bank of Canada notes that growth is increasing across all industries and regions and that the economy has started to improve. There is no longer a need for the low interest rate.

❸ Positive economic growth figures, the optimism shown by the Bank of Canada, and the recent interest rate increase have caused a rapid appreciation of the Canadian dollar against the United States (US) dollar over recent months. There are now expectations that the Bank of Canada will raise the interest rate once or possibly twice more before the end of the year, as signs continue to point to a healthy economy. This would likely cause further strengthening of the Canadian dollar against the US dollar.

❹ An economist has said that the gain in the Canadian dollar against the US dollar may have a large effect on importers and exporters, although it will likely be months before consumers see the effects. She further noted that the effects would vary across different industries. There is some concern about the consequences for the Canadian current account. Currently the **current account deficit** is at 3.6 % of GDP.

❺ A stronger currency is also likely to encourage more Canadians to travel south to the US.

[Source: adapted from Bank of Canada raises interest rates for first time in seven years, *The Globe and Mail*, July 12, 2017, https://beta.theglobeandmail.com]

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(Question 2 continued)

Table 1: Canada's main exports

Product category	% of exports
Motor vehicles and parts	18
Consumer goods	14
Energy products	14
Metal and non-metallic mineral products	11
Forestry products: building and packaging materials	8
Basic and industrial chemical, plastic and rubber products	6
Farm, fishing and intermediate food products	6

[Source: adapted from https://tradingeconomics.com, accessed 4 September 2017]

Table 2: Canada's main export destinations

Country	% of exports
US	76
European Union	8
China	4
Japan	2
Mexico	2

[Source: adapted from https://tradingeconomics.com, accessed 5 October 2017]

(a) (i) Outline **two** roles of a country's central bank (paragraph ❶). [2]

(ii) Define the term *current account deficit* indicated in bold in the text (paragraph ❹). [2]

(b) Using an AD/AS diagram, explain the likely impact on the Canadian economy of the increase in the official interest rate (paragraph ❶). [4]

(c) Using an exchange rate diagram, explain **one** reason for the appreciation of the Canadian dollar (paragraph ❸). [4]

(d) Using information from the text/data and your knowledge of economics, discuss the possible effects on the Canadian economy of the strengthening of the Canadian dollar against the US dollar. [8]

Section B

Answer **one** question from this section.

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

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(Question 3 continued)

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Table 3: Selected economic data for Côte d'Ivoire

	Female	Male
Estimated **gross national income (GNI)** per capita in purchasing power parity (PPP) terms (US$, 2011)	2136	4155
Mean years of schooling	3.9	6.1
Human Development Index (HDI) value	0.421	0.517
Labour force participation rate, (%, ages 15 and older)	52.4	80.9
Share of seats in parliament (%)	9.2	90.8

[Source: adapted from http://hdr.undp.org, reproduced under terms of Creative Commons Attribution 3.0 IGO licence, https://creativecommons.org/licenses/by/3.0/igo/legalcode.]

(a) (i) Define the term *micro-credit* indicated in bold in the text (paragraph ❻). [2]

(ii) Define the term *gross national income (GNI)* indicated in bold in **Table 3**. [2]

(b) Using a demand and supply diagram, explain how the decrease in the minimum price of cocoa would affect the welfare loss associated with the minimum price (paragraph ❶). [4]

(c) Using a demand and supply diagram, explain why the government's decision to "cut the minimum price" it pays cocoa farmers is likely to decrease farmers' incomes (paragraph ❶). [4]

(d) Using information from the text/data and your knowledge of economics, discuss how the empowerment of women could help Côte d'Ivoire to achieve economic development. [8]

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

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(Question 4 continued)

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(a) (i) Define the term *official development assistance (ODA)* indicated in bold in the text (paragraph ❶). [2]

(ii) Define the term *infrastructure* indicated in bold in the text (paragraph ❸). [2]

(b) Using a production possibilities curve (PPC) diagram, explain how damage to bridges, roads and other infrastructure would have affected Nepal's production possibilities (paragraph ❷). [4]

(c) Using a circular flow of income diagram (in an open economy), explain the impact that increased export revenues could have on Nepal's national income (paragraph ❼). [4]

(d) Using information from the text/data and your knowledge of economics, evaluate the view that Nepal should encourage foreign direct investment (FDI) in order to achieve economic development. [8]