

ECONOMICS

Standard Level

Thursday 11 November 1999 (afternoon)

Paper 2

2 hours

This examination paper consists of 2 Sections.

Section A consists of 2 data-response questions.

Section B consists of 4 essay questions.

The maximum mark for each question is 25.

The maximum mark for this paper is 50.

INSTRUCTIONS TO CANDIDATES

Do NOT open this examination paper until instructed to do so.

Answer ONE question from Section A and ONE question from Section B.

Use diagrams where appropriate.

EXAMINATION MATERIALS

Required:
None

Allowed:
A simple translating dictionary for candidates not working in their own language
Calculator

889-050

6 pages

SECTION A

Answer ONE question from this section.

QUESTION 1

Study the tables below and answer the questions that follow.

Item 1 OECD* donors' aid as a % of GNP

Country	1993	1996
Canada	0.45	0.31
Denmark	1.03	1.04
France	0.63	0.48
Japan	0.26	0.20
New Zealand	0.25	0.21
Sweden	0.98	0.82
United Kingdom	0.31	0.27
USA	0.15	0.12

[Source: Year 1993, *The Reality of Aid* 1995; Year 1996, *Aidwatch* July 1997]

Item 2 OECD donors' aid volume \$m

Country	1993	1996
Canada	2372	1782
Denmark	1340	1773
France	7915	7430
Japan	11 259	9437
New Zealand	98	122
Sweden	1769	1968
United Kingdom	2908	3185
USA	9721	9058

[Source: Year 1993, *The Reality of Aid* 1995; Year 1996, *Aidwatch* July 1997]

Item 3 Shaping the 21st Century

<ul style="list-style-type: none"> ◆ The United Nations Development Programme estimates the annual cost of achieving universal access to basic social services at \$40 billion. This figure comprises: <ul style="list-style-type: none"> • basic education \$6bn • basic health and nutrition \$13bn • reproductive health and family planning \$12bn • low cost water and sanitation \$9bn ◆ The value of the world economy is \$25 trillion. 	<ul style="list-style-type: none"> ◆ The World Bank estimates that 1.3 billion people live in absolute poverty. ◆ In 1996, OECD donors signed up to <i>Shaping the 21st Century</i> which identifies specific, achievable goals, including: <ul style="list-style-type: none"> • halving the proportion of people living in absolute poverty by 2015 • providing universal primary education by 2015 • reducing the mortality rate of under-5s by two-thirds by 2015
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[Source: adapted from *Aidwatch*, July 1997]

* OECD: Organisation for Economic Cooperation and Development

- (a) With reference to Items 1 and 2
- (i) explain why the aid contributions of Japan and the USA are the largest if measured in terms of volume but are among the smallest when measured as a % of GNP. *[2 marks]*
 - (ii) briefly describe the principal changes that have taken place between 1993 and 1996 in the level of aid provided by OECD donors both as a % of GNP and in terms of volume. *[2 marks]*
 - (iii) account for the changes you have identified in question (a) (ii) above. *[5 marks]*
- (b) State **two** examples of the different forms that OECD donors' aid might take. *[2 marks]*
- (c) Use the data and your knowledge of this topic to
- (i) define **absolute poverty** (Item 3). *[2 marks]*
 - (ii) select one of the specific goals of *Shaping the 21st Century* (Item 3) and explain the impact that meeting this goal might have on the development of a country. *[5 marks]*
 - (iii) discuss whether an increase in aid would enable the goals of *Shaping the 21st Century* (Item 3) to be met. *[7 marks]*

QUESTION 2

Study the following extract

Winners and losers in Mexico

- (1) Since the mid-1980s Mexico has been a world pace-setter in pursuing policies conducive to **globalization**. It has deregulated financial markets, exposed agriculture and manufacturing to increased competition through the reduction of trade barriers and privatized public assets on a large scale – including most of the commercial banking system.
- (2) Liberalization and deregulation have led to widely divergent sets of opportunities and threats for different regions and socio-economic groups. For owners of capital, the privatization of state industries and the 1992 land reform allowing investors to purchase smallholder land have created new sources of wealth. In the midst of one of the worst economic crises the country has ever faced, the number of billionaires increased from 10 to 15. In 1996 their combined wealth was equal to 9% of Mexico's GDP.
- (3) Large-scale commercial farms and private industries geared towards the North American market have also benefited. New jobs are being created in the northern states, but these are not the states in which the social dislocation and loss of livelihoods are occurring on the largest scale. The share of the population living in absolute poverty increased from 19% in 1984 to 24% in 1989. In urban areas, the number of people living in absolute poverty then fell slightly until 1992. But in rural areas, where more than 80% of those in absolute poverty live, the number of poor people increased throughout the period, rising from 6.7 million to 8.8 million.
- (4) Analysis suggests that Mexico will gain in net income terms as a result of specialization facilitated by the North American Free Trade Agreement. But behind this overall projection are the losers – mostly producers of maize, the country's staple food. Maize accounts for around half of Mexico's agricultural land area – and maize production plays a key part in rural livelihoods.
- (5) The vast majority of Mexico's maize farmers operate on poor land with limited access to credit, inputs and equipment. In rain-fed areas yields average around a fifth of those in the US Midwest, with which Mexico's maize farmers will have to compete as trade restrictions are withdrawn.
- (6) According to one study, between 700,000 and 800,000 livelihoods will be lost as maize prices fall as a result of competition from cheaper imports. This will affect 15% of the economically active population in agriculture, with profound implications for rural poverty and regional inequality. More than 30% of the rural population lives below the income poverty line, and the poorest rural areas have significantly less access to water, electricity and housing. With real wages in rural labour markets declining and unemployment rising, off-farm employment is unlikely to compensate for income losses from maize. As a result, households will be forced into increasingly desperate survival strategies, including migrating to commercial farm areas, to urban centres and to the United States.

[Extract from Kevin Watkins 1997 *Globalization and liberalization: the implications for poverty, distribution and equality*]

- (a) With reference to paragraphs 1 and 4 explain
- (i) what is meant by the term **globalization** (paragraph 1). *[2 marks]*
 - (ii) what is the North American Free Trade Agreement (NAFTA) (paragraph 4). *[2 marks]*
 - (iii) what is meant by the phrase “the specialization facilitated by the North American Free Trade Agreement” (paragraph 4). *[3 marks]*
- (b) Use the passage to:
- (i) identify briefly which groups win and lose from Mexico’s policies of liberalisation and deregulation. *[2 marks]*
 - (ii) suggest possible reasons as to why this is so. *[5 marks]*
- (c) (i) Discuss why the policies adopted by Mexico since the mid-1980s might have been conducive to globalisation. *[5 marks]*
- (ii) Discuss whether globalization offers the best way forward for Mexico. *[6 marks]*

SECTION B

Answer ONE question from this section.

QUESTION 3

- (a) Explain the functions that prices perform in a market economy. *[10 marks]*
- (b) Discuss the view that education and health are best provided through the market rather than by the state. *[15 marks]*

QUESTION 4

- (a) Carefully distinguish between saving and investment. *[10 marks]*
- (b) Assess the importance of saving and investment in the process of economic development. Refer in your answer to both Less Developed and More Developed Countries. *[15 marks]*

QUESTION 5

Why do some countries attempt to fix their exchange rates while others allow them to float? *[25 marks]*

QUESTION 6

- (a) Explain the difference between inward orientated and outward orientated development strategies. *[10 marks]*
 - (b) Which strategy do you consider to be the most effective? Justify your answer. *[15 marks]*
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