



ECONOMICS

Higher Level

Tuesday 18 May 1999 (morning)

Paper 3

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

SECTION A

Answer ONE question from this section.

Question 1

Study the extract below and then answer the questions which follow.

HUMAN DEVELOPMENT IS THE END, ECONOMIC GROWTH IS A MEANS

- (1) Many policy-makers assume that a rapidly expanding economy will sweep poverty and deprivation away and that the solution to people's needs is growth. They believe the benefits of economic growth will always 'trickle down' into people's lives. As a result, a central priority is given to the measurements of growth and an understanding of its dynamics. The common indicators are those of GNP and GDP, often on a per capita basis.
- (2) Policy makers are often preoccupied by the quantity of growth rather than with its structure and quality. While in the countries belonging to the Organisation for Economic Cooperation and Development (OECD) economic growth in 1993 coexisted with an average unemployment rate of 8%, in developing countries 'jobless growth' meant long hours and very low incomes for hundreds of millions of people in low productivity work in agriculture and the informal sector.
- (3) It is evident that some societies are experiencing negative growth, the growth rates of others are falling, while others are failing to distribute the benefits of growth. Critics question the effects of growth, whether growth is sustainable and whether conventional criteria of growth such as GDP per capita remain appropriate.
- (4) Some economists believe that in the early stages of growth the benefits will inevitably accrue to the rich. But the view that economic growth in its early stages is inevitably associated with a deteriorating distribution of income has been disproved by recent evidence of a positive correlation between economic growth and income equality (as represented by the share of the poorest 60% of the population). The new insight is that an equitable distribution of public and private resources can enhance the prospects for further growth.
- (5) The 1996 Human Development Report (HDR) asserts that human development is the end, economic growth is a means. So, the purpose of growth should be to enrich people's lives and human development should not be measured by the abundance of commodities. For the authors of the HDR, new indicators of progress must be used and in their construction we should heed Gandhi's dictum: 'The earth provides enough to satisfy every man's need but not every man's greed'. The Human Development Index (HDI) is a relatively recent indicator of development, constructed by the UNDP (United Nations Development Programme) to capture a wider conception of human development and to explore the relationship between growth and human development.

Adapted from the *Human Development Report* 1996. Published for the United Nations
Development Programme

- (a) Explain what is meant by the following terms used in the passage:
- (i) the Human Development Index (HDI) (Paragraph 5) *[2 marks]*
 - (ii) 'jobless growth' (Paragraph 2) *[2 marks]*
- (b) What is the difference between negative and falling rates of growth? (Paragraph 3) *[3 marks]*
- (c) What are the weaknesses and strengths of the Human Development Index (HDI) as an indicator of progress in comparison to GDP/GNP per capita? (Paragraph 5) *[5 marks]*
- (d) Suggest reasons for the existence, identified in paragraph 4, of a 'positive correlation between economic growth and income equality'. *[5 marks]*
- (e) Discuss the view that the benefits of economic growth will always 'trickle down' into people's lives. (Paragraph 1) *[8 marks]*

Question 2

Study the following items and use the data to answer the questions which follow.

Item 1

**How should
Governments Intervene in
Labour Markets?**

GOVERNMENTS INTERVENE in the workplace and in the lives of workers in many ways. But there is a growing debate over whether such interventions are really in the workers' best interest. One side calls for aggressive action to protect workers, through regulations on minimum wages, restrictions on firing (dismissing workers), and the like. The other side argues against such meddling, because it discourages job creation and helps only a privileged subset of workers, while hurting or, at best, neglecting the most vulnerable.

World Development Report 1996, World Bank

Item 2

Per capita income of the poorest 20% 1993 (Purchasing Power Parity \$)		
Country	Average per capita income	Per capita income of the poorest 20%
USA	24,240	4,814
Japan	20,850	9,070
Netherlands	17,330	7,105
United Kingdom	17,210	3,958
Korea, Rep. of	9,630	3,563
Chile	8,400	1,386
Hungary	6,050	3,297
Brazil	5,370	564
Guatemala	3,350	352
Indonesia	3,150	1,370
Nigeria	1,400	357
India	1,220	537
Bangladesh	1,290	613
Nepal	1,020	464
Guinea-Bissau	840	88
Tanzania	580	70

Human Development Report 1996 – UNDP

Item 3

**Employment for wages is a less important
share of the total in poorer countries**

Wage employment as a share of total employment, by sector and country income group (percentage total)

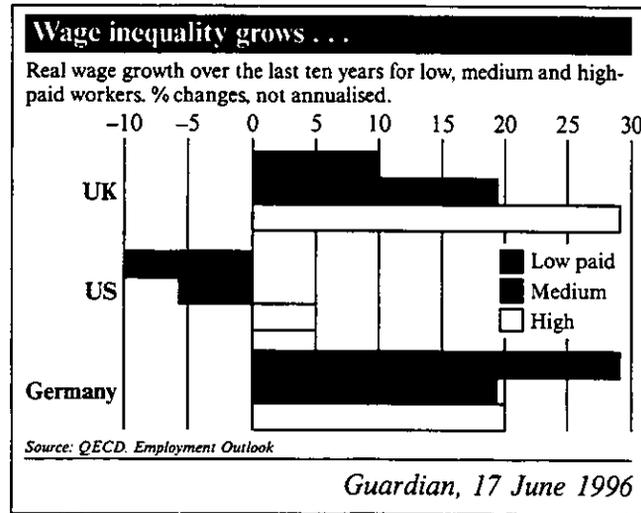
Sector	Low- income	Middle- income	High- income
Agriculture	3.6	25.6	38.2
Industry	29.8	76.7	89.1
Services	46.4	68.2	85.6
All sectors	17.1	57.4	84.4

Note: Data are projected from a sample of countries in each income group.

Source: ILO 1986 with ILO data updates.

World Development Report 1995, World Bank

Item 4



- (a) (i) With reference only to Item 2, briefly describe the pattern of income distribution **within** and **between** the countries shown, using a small selection of representative countries with a high, middle and low average per capita income. [3 marks]
- (ii) Suggest factors which might account for this pattern. [5 marks]
- (b) Item 1 refers to the minimum wage as a form of intervention in labour markets.
 - (i) What is meant by a minimum wage? [2 marks]
 - (ii) Explain two other ways in which governments could intervene in labour markets. [3 marks]
- (c) Use the data and your knowledge of economics to examine the arguments for and against the introduction of a minimum wage in Developed Countries and Less Developed Countries. [8 marks]
- (d) With reference to your own country, which type of labour market policy do you consider to be most appropriate? [4 marks]

SECTION B

Answer ONE question from this section.

Question 3

- (a) Distinguish between private costs and benefits and social costs and benefits. *[8 marks]*
- (b) Explain how an increase in the number of cars on the roads of a country might lead to a misallocation of resources. *[8 marks]*
- (c) Evaluate ways in which a government might remedy this misallocation. *[9 marks]*

Question 4

- (a) Carefully explain what it is that price, income and cross elasticities of demand are meant to measure. *[10 marks]*
- (b) Discuss the practical importance of the concept of price elasticity of demand for
 - (i) business organisations.
 - (ii) the government. *[15 marks]*

Question 5

- (a) Briefly explain the various major objectives of macroeconomic policy. *[10 marks]*
- (b) Critically examine the view that the control of inflation should always be the most important objective of governments. *[15 marks]*

Question 6

- (a) What factors explain the growth in importance of multinational corporations over recent decades? Illustrate your answer where possible by making reference to your own or other countries. *[12 marks]*
 - (b) Do multinational corporations work in favour of or against the interests of Less Developed Countries? *[13 marks]*
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