



**ECONOMICS**

**Standard Level**

Monday 17 May 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

## SECTION A

Answer ONE question from this section.

### Question 1

Study the extract below and answer the questions that follow.

#### OIL IMPORTS ARE UP. FRETTING ABOUT IT IS DOWN.

By Matthew L Wald

(1) In his second inaugural address last week, Bill Clinton made promises on the usual problems, like race relations, education and health. But another recurrent problem, the nation's dependence on imported oil, went unmentioned. Needing cash last year, the government sold 25 million barrels from its strategic reserve. That stockpile might have been precious in a crisis.

(2) But there will not be another crisis quite like the oil shortages of 1973 to 1974 and 1979 to 1980, experts say, and there are reasons that might justify America's wasteful actions. Last year, domestic crude oil production decreased, but the oil companies delivered 2.8 per cent more fuel to their customers.

(3) Efforts to find substitute fuels for vehicles continue, along with programs to pump more domestic oil and conserve use. But dependence on foreign sources will grow anyway, the General Accounting Office (G.A.O.) said last month, because rising demand will outstrip all these efforts as the economy grows. Combined

with declining domestic production, imports could rise to 60 per cent of consumption by 2015, the G.A.O. said.

(4) Hazel R. O'Leary, whose job as an Energy Secretary ended when Mr. Clinton became president, said in an interview just before her departure that the American people needed to get the message, but delivering it was beyond the ability of an Energy Secretary. She said it would take another oil shock.

(5) And that appears about as certain as another hurricane in Florida or earthquake in California. The only question is when. Many of the elements are already in place. Larry Goldstein, the president of the Petroleum Industry Research Foundation, said that idle production capacity is only about three million barrels a day, all of it in the Persian Gulf. "If you were to have a disruption in Kuwait or Saudi Arabia," he said, "the ability of the world to make it up is zero. And nobody would honestly say the Middle East is more secure today than it was a decade ago."

(6) But Mr. Goldstein and other experts say oil is no longer at the top of America's problem list for a number of reasons.

(7) In fact, the so-called North-South confrontation of the 1970s, with rich oil-consuming nations confronting poor energy-producing ones, is mostly gone. Daniel Yergin, president of Cambridge Energy Research Associates, pointed out that in the 1970s and 1980s, oil-producing countries nationalized their industries, but now they are privatizing them and asking for Western investment. "It's back to a high degree of interdependence," he said. "Everybody wants to be on the same team now."

(8) And America itself has changed. The amount of goods and services that 20 years ago required five barrels of oil to make now takes only three. Not only have utilities switched to coal and natural gas, but the output of the American economy has also shifted away from products using vast amounts of energy, like heavy manufactured goods, to those that use hardly any like movies and computer software.

Source: Adapted from *New York Times Weekly Review (Mexican Edition)* 26 January 1997

- (a) Explain the meaning of the terms:
- (i) oil shock (Paragraph 4) *[2 marks]*
  - (ii) privatizing (Paragraph 7) *[2 marks]*
- (b) Using supply and demand diagrams, analyse and explain the following statements:
- (i) 'That stockpile might have been precious in a crisis' (Paragraph 1). *[4 marks]*
  - (ii) 'Efforts to find substitute funds continue...but...rising demand will outstrip all these efforts as the economy grows' (Paragraph 3). *[6 marks]*
- (c) Give two possible reasons why 'domestic crude oil production decreased, but the oil companies delivered 2.8 per cent more fuel to their customers' (Paragraph 2). *[4 marks]*
- (d) On the basis of the information in the text, would you advise the USA government to encourage further oil production, or adopt an alternative policy? Justify your answer. *[7 marks]*

**Question 2**

Study the following information.

**BOX 1**

**Tigers or tortoises?**

**Economists are wondering how fast the former communist economies of Eastern Europe will be able to grow.**

At last, there is plenty of good economic news coming out of Eastern Europe. True, there are still a few problem countries around in the region, such as Belarus. But in many countries recession has long since turned into recovery. The transitional economies of Poland and Slovakia, for instance, have been growing by about 6% a year since 1994. Can such rates of economic growth be sustained, or even raised? The very fast growing economies of the world such as Malaysia and Thailand may have the right conditions for sustained long run economic growth.

**BOX 2**

**HOW THEY COMPARE**

Factors influencing economic growth, 1995	Very fast-growing economies*	Poor EU economies**	Czech Republic	Poland	Hungary
Government consumption as % of GDP	14.9	44.3	46.6	47.3	53.0
Savings as % of GDP	29.8	20.1	21.2	18.8	17.1
Investment as % of GDP	29.9	23.0	30.4	16.9	21.3

\* "Very fast growing economies": Chile, Hong Kong, South Korea, Mauritius, Singapore, Taiwan, Thailand

\*\* "Poor EU economies": Greece, Ireland, Portugal, Spain

Source: Adapted from *The Economist* 26 October 1996

<b>BOX 3</b>			
<b>1997 World GDP growth league (projected)</b>			
<b>FASTEST</b>	<b>%</b>	<b>SLOWEST</b>	<b>%</b>
1 Italy	10.0	1 Pakistan	-1.0
2 China	9.3	2 Libya	-4.0
3 Vietnam	8.9	3 Romania	-4.0
4 Malaysia	8.0	4 Bulgaria	1.0
5 Albania	8.0	5 Kazakhstan	1.0
6 Indonesia	7.4	6 Ukraine	1.0
7 South Korea	7.3	7 Uzbekistan	1.0
8 Thailand	7.1	8 Jamaica	1.1
9 Singapore	6.8	9 Switzerland	1.3
10 Georgia	6.0	10 Saudi Arabia	1.5

Source: *The Independent* (London) 10 November 1996

(a) Define the following terms from Box 1:

- (i) economic growth [2 marks]
- (ii) transitional economies [2 marks]

(b) Refer to Box 2 and assess how each of the following might affect the rate of economic growth:

- (i) government consumption as a percentage of GDP [4 marks]
- (ii) savings as a percentage of GDP [3 marks]
- (iii) investment as a percentage of GDP [3 marks]

(c) Refer to some of the countries named in Boxes 2 and 3, or any other country with which you are familiar, and discuss one other factor that might affect the rate of economic growth. [4 marks]

(d) Are citizens of high growth countries necessarily better off than citizens of low growth countries? [7 marks]

**SECTION B**

*Answer ONE question from this section.*

**Question 3**

- (a) Define 'price elasticity of demand' and explain how it is measured. *[8 marks]*
- (b) With the use of examples, explain why some products have a low price elasticity while others have a high elasticity. *[8 marks]*
- (c) If you were employed as an economist by a business, explain why a knowledge of the price elasticity of demand of your product would be useful. *[9 marks]*

**Question 4**

- (a) What are the costs of a high rate of inflation? *[12 marks]*
- (b) What policies are effective in reducing inflation? *[13 marks]*

**Question 5**

'Globalisation can be defined as the ability to produce any good (or service) anywhere in the world using capital, technology and components from anywhere and to sell the output anywhere and place the profits anywhere' (Peter Jay 1996). Discuss the economic and social consequences of globalisation. *[25 marks]*

**Question 6**

- (a) Describe the ways in which More Developed Countries provide 'aid' to Less Developed Countries. *[10 marks]*
  - (b) Which is the most effective way to encourage development – aid or trade? Justify your answer. *[15 marks]*
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