**O Level Economics – Final Intensive Revision – Case Study Questions**

# Question 1 (May/June 2015)

# What does the future hold for Sweden?

Sweden is a highly developed European country which enjoys one of the highest standards of living in the world. In 2012, its citizens enjoyed an average income of US$49 000. The country’s labour force of five million is highly skilled. About 70% of schoolchildren go on to university. Over the years, investment has been high in Sweden and as a result there is a high value of capital goods for each worker to use. In 2012, however, its economic growth rate slowed. The Swedish Government was hoping that its decision to raise the retirement age to 67 would increase the country’s economic growth rate.

Sweden exports half of its output. It exports a range of products including cars and capital goods. Among the country’s imports are petrol, cars and iron. Table 1 shows the balance of the current account of its balance of payments over the period 2008–2013.

# Table 1: Sweden’s current account balance, 2008–2013

|  |  |  |
| --- | --- | --- |
| Year | Current account balance | |
| US$ billion | as a % of Gross Domestic Product (GDP) |
| 2008 | +38 | 6.9 |
| 2009 | +31 | 7.0 |
| 2010 | +31 | 6.8 |
| 2011 | +32 | 6.4 |
| 2012 | +39 | 7.1 |
| 2013 | +40 | 7.2 |

A country’s trade position is influenced by its inflation rate. Indeed, a fall in a country’s inflation rate can increase the international competitiveness of its products. The Swedish Government aims to keep the annual inflation rate at 2% or below. If there is a risk that the inflation rate will exceed the 2% target, the Swedish Central Bank will raise the interest rate. Such a change will be likely to influence consumer expenditure, investment and the exchange rate. In recent years, Sweden’s inflation rate has remained low, averaging 1.9% between 2008 and 2013.

The low inflation rate provides certainty for Swedish firms. The best known Swedish firm is probably IKEA, which produces furniture and household accessories. In 2012, it reduced its prices which, as on previous occasions, resulted in a rise in its revenue. In 2013, its owners stated that their main goal was to increase the size of the firm by opening new stores throughout the world, including in its expanding markets in China and Russia.

* 1. Using information from the extract, identify **two** reasons why Sweden is considered to be a highly developed country. [2]
  2. Explain how a rise in the retirement age may increase a country’s economic growth rate. [4]
  3. Using information in Table 1, describe what happened to:
     1. Sweden’s current account position over the period shown [2]
     2. Sweden’s GDP between 2009 and 2010. [2]
  4. Explain why a country may both export and import cars. [2]
  5. Using information from the extract, analyse how a rise in the rate of interest can reduce inflation. [5]
  6. Discuss whether a fall in a country’s inflation rate will increase the international competitiveness of its products. [5]
  7. Using information from the extract, explain whether demand for IKEA’s products is price elastic or price inelastic. [2]
  8. Discuss whether growth is the main goal of most firms. [6]

# Question 2 – May/June 2015

# Peru and Panama

Between 2005 and 2012, Peru and Panama experienced the fastest economic growth rates in the Americas. The two countries differ in the size of their populations and the size of their economies. In 2013, Peru had a population of 30 million and a Gross Domestic Product (GDP) of US$340 billion. In contrast, Panama had a population of 3.6 million and a GDP of US$60 billion. Life expectancy was higher in Panama with people, on average, living three years longer than in Peru.

Between 2008 and 2013, Peru had an average annual inflation rate of 2.7%. This was, in part because of careful control of the country’s interest rate and exchange rate by Peru’s Central Bank. Panama does not have a central bank and experienced a different average annual inflation rate (see Fig. 1).

# Fig. 1: The inflation rate in Panama, 2008–2013

10

8

inflation 6

rate (%) 4

2

0

2008 2009 2010 2011 2012 2013

years

Between 2008 and 2013, the unemployment rate fell more in Panama than in Peru. The decline in Panama’s unemployment rate was largely due to the building work being undertaken on a seven- year project to enlarge the Panama Canal. The lower unemployment rate enjoyed by Panama was one of the reasons why the level of poverty was lower than in Peru in 2013.

Peru experienced a trade in goods surplus whilst Panama had a trade in goods deficit. Both countries export gold and fish and import oil and cars. For both countries, the USA, China and Japan are important trading partners.

About 75% of workers in Peru are employed in the service (tertiary) sector compared with 80% in Panama. Among Panama’s key service industries are insurance and banking. Panama has the largest insurance market in Central America. The number of companies in the market, including multinational companies, is increasing. This is making the market more competitive. Multinational companies also operate in the country’s banking sector. It has a number of private sector commercial banks. It does not have a central bank and, therefore, does not have direct government regulation of its banking sector. Recent years have seen an increase in the average size of the commercial banks. There is some debate about whether larger banks benefit their customers.

* 1. Using information from the extract, identify **two** reasons why Panama had a higher Human Development Index (HDI) value than Peru in 2013. [2]
  2. Using information in Fig. 1:
     1. describe what happened to the price level in Panama between 2008 and 2009 [2]
     2. explain in which year the price level was highest in Panama. [2]
  3. Using information from the extract and in Fig. 1, explain the likely effects of Peru and Panama having different average annual inflation rates between 2008 and 2013. [4]
  4. Discuss whether a fall in the unemployment rate will reduce poverty. [5]
  5. Analyse why countries specialise and trade. [5]
  6. Using information from the extract, describe **two** functions of a central bank. [4]
  7. Discuss whether the growth of a commercial bank will benefit its customers. [6]

# Question 3 – Oct/Nov 2014

# Fiscal policy and an ageing population in Japan

A sales tax was introduced in Japan in 1989, initially at a rate of 3%, and this was later increased to 5% in 1997. The intention is to increase the rate to 8% in 2014 and to 10% in 2015. This will still leave the tax rate below other countries. The tax increase in 1997 was not opposed by many of the Japanese people, but since then Japan’s Gross Domestic Product (GDP) has fallen by 10%. It was US$5069 billion in 2011. There has been deflation and this has badly affected tax revenue, which has fallen 22% since 1997, leading to a doubling of the Japanese Government’s debt. The Japanese Government was required to spend a great deal of money in March 2011 when a devastating earthquake and tsunami (coastal flooding) struck the country’s north-eastern coast, leaving 20 000 people dead or missing; it has been estimated that the rebuilding work will cost US$260 billion. The Japanese Government’s debt is now at a very high level, as can be seen in Table 1.

# Table 1: Government debt as a percentage of GDP in 2011

|  |  |
| --- | --- |
| **Country** | **Government debt as a % of GDP** |
| Japan | 200 |
| Greece | 147 |
| Italy | 127 |
| Iceland | 120 |
| Portugal | 103 |

The Japanese Government has decided to increase sales tax to help pay for the pensions and health care of the ageing population. The problem is that the higher tax rate might lead to a fall in consumption, leading to an increase in unemployment. It may not help the country to get out of recession. The average annual growth in Gross Domestic Product over the last five years has been –0.3%.

Many Japanese people are anxious and worried about the future, especially fearing that the government might try to reduce its public sector debt, leading to further increases in unemployment. The rate of unemployment in Japan is currently above its average rate over the last ten years. Economists in Japan are thinking of ways to promote economic growth to get the country out of recession, such as through encouraging increased productivity and greater entrepreneurship.

It is certainly the case that there is a high savings ratio in Japan. This is despite the fact that interest rates are at their lowest ever level. There is a strong tradition of saving in Japanese culture and the level of interest rates is clearly only one influence on the decision of how much people save.

The ageing population is a particular problem in Japan. The percentage of the Japanese population that is over the age of 60 is 30.5%. The life expectancy of Japanese men is now 80.1 years and Japanese women 87.2 years, giving an average of 83.7 years. Table 2 shows how this compares with a number of other countries.

# Table 2: Average life expectancy in selected countries in 2011

|  |  |
| --- | --- |
| **Country** | **Average life expectancy** |
| Japan | 83.7 |
| Singapore | 81.0 |
| United Arab Emirates | 78.1 |
| Kenya | 56.9 |
| Afghanistan | 45.5 |

* 1. Explain what is meant by ‘deflation’. [2]
  2. Using information from the extract, calculate the level of government debt in US$ in Japan in 2011. [1]
  3. Using information from the extract, explain **two** reasons why Japan’s government debt, as a percentage of Gross Domestic Product, is so high. [4]
  4. Discuss whether an increase in the rate of a sales tax will cause unemployment. [6]
  5. Analyse how increased productivity and greater entrepreneurship could help an economy to get out of recession. [6]
  6. Using information from the extract, explain **two** influences, other than interest rates, on how much people save. [4]
  7. Using Table 2, calculate the difference between average life expectancy in Japan and Kenya. [1]
  8. Discuss whether an ageing population is always a problem for an economy. [6]

**Question 4 – Oct/Nov 2014**

# Economic problems in Bulgaria

Bulgaria is the poorest of the 27 countries (as of May 2013) in the European Union (EU). It joined the EU in January 2007. Average wages are only US$4.50 an hour and average monthly salaries are only US$465. The rate of unemployment in Bulgaria in 2012 was estimated at 12%, compared to an EU average of 9.4%. This level of unemployment, however, was much less than that in some EU countries, such as Greece, where the rate of unemployment was twice as high.

The population of Bulgaria is 7.5 million and yet over a million Bulgarians have left the country in recent years to work abroad, especially in Spain and Greece. The value of the money they have sent back home, known as migrant remittances, has risen from US$900 million in 2008 to US$990 million in 2012. Much of the work that these people do in Spain and Greece is seasonal and so there have been particular problems of seasonal unemployment, with some of the migrants losing their jobs and having to return home.

Within Bulgaria, a lot of workers have lost their jobs in the construction industry. It had been planned that a large number of hotels and holiday flats would be built along Bulgaria’s Black Sea coast. Since 2008, there has been a dramatic fall in the demand for these properties and many construction firms have gone out of business, having failed to obtain sufficient funds from financial institutions.

The Gross Domestic Product (GDP) of Bulgaria has only been growing by 1.7% per year in recent years. In 2012 the GDP was US$48.0 billion. One of the problems in measuring GDP in Bulgaria is that it has been estimated that as much as 30% of the economy goes unrecorded. There is a great deal of activity in what has been termed the hidden or informal economy. Not all income earned is declared for tax purposes, there is some smuggling (illegal importing) and much of agricultural output is subsistence farming.

It is noticeable that the death rate in Bulgaria is considerably higher than the birth rate (see Table 2 for details). A survey of Bulgarians found that about 70% of them expected the economic situation in the country to worsen in the next 12 months, not something that would be likely to bring about an increase in the birth rate. This has meant that Bulgaria now has the second most rapidly declining population in the world, as shown in Table 1.

# Table 1: The world’s most rapidly declining populations, 2005–2010

|  |  |
| --- | --- |
| **Country** | **Average annual % change in population** |
| Moldova | –1.06 |
| Bulgaria | –0.64 |
| Ukraine | –0.64 |
| Georgia | –0.57 |
| Lithuania | –0.55 |

It is also noticeable that in many indicators Bulgaria is worse off than the European Union average, as shown in Table 2.

# Table 2: A comparison of Bulgaria and the EU average in 2012

|  |  |  |
| --- | --- | --- |
| **Indicators of comparative living standards** | **Bulgaria** | **EU average** |
| Human Development Index | 0.743 | 0.867 |
| Birth rate | 9.9 | 10.1 |
| Death rate | 14.6 | 9.9 |
| Health spending (% of GDP) | 7.4 | 10.7 |
| Education spending (% of GDP) | 3.5 | 4.9 |
| GDP per capita (US$) | 6420 | 38 080 |

* 1. Explain what is the difference between the rate of unemployment and the level of unemployment. [2]
  2. Analyse **three** ways a government could reduce the rate of unemployment in a country. [6]
  3. Using information from the extract, calculate the percentage increase in migrant remittances sent home by Bulgarians between 2008 and 2012. [2]
  4. Using information from the extract, calculate what would have been the estimated size of the informal economy in Bulgaria in 2012 in US$. [1]
  5. Using information from the extract, explain why such a large percentage of the Bulgarian Gross Domestic Product goes unrecorded. [3]
  6. Discuss whether the Human Development Index is a perfect measure to compare living standards in different countries. [6]
  7. Define the terms ‘birth rate’ and ‘death rate’. [4]
  8. Discuss whether the Bulgarian Government should try to reverse the decline in the country’s population size. [6]

**Question 5 – May/June 2014**

# A bright future for Mongolia?

Economists predict that the Asian economy of Mongolia will be the fastest growing economy between 2015 and 2020. In 2011, the country’s economic growth rate was 21%. The forecast annual growth rate for 2015 to 2020 is 24%.

The country is rich in a range of minerals including coal, copper, gold, silver and uranium. China purchases large quantities of these minerals. In 2011, there was a significant rise in the world demand for a range of minerals including copper. Some economists have pointed out that there are a number of risks attached to an economic boom caused by a rise in demand for minerals. One is the so-called ‘resources curse’. This refers to the disadvantage that can arise as natural resources are used. High international demand for minerals can push up the exchange rate and reduce the competitiveness of other industries. The extraction of minerals can also cause pollution. This is certainly the case in Mongolia. The capital city, Ulaanbaatar, is one of the most polluted cities in the world.

The Mongolian economy faces a number of other problems. Its inflation rate is relatively high, reaching 10.6% in 2011, driven up by increases in food prices and rises in government spending. Its unemployment rate, at 10% in the same year, was above that of some of its Asian neighbours. This led it to being placed relatively high in the region’s ‘misery index’. This index, developed by the American economist Arthur Okun, adds together the unemployment rate and the inflation rate. Table 1 shows the unemployment rate, misery index and the interest rate for a number of Asian economies.

# Table 1: The unemployment rate, misery index and interest rate for selected Asian economies in 2011

|  |  |  |  |
| --- | --- | --- | --- |
| Country | Unemployment rate (%) | Misery index (%) (unemployment rate  + inflation rate) | Interest rate (%) |
| China | 6.1 | 11.7 | 3.4 |
| India | 10.8 | 19.8 | 8.4 |
| Japan | 4.5 | 4.2 | 1.0 |
| Malaysia | 3.1 | 6.4 | 3.0 |
| Mongolia | 10.0 | 20.6 | 12.3 |

Nearly 40% of Mongolia’s population lives below the poverty line. However, with rising economic growth, income levels are increasing. Indeed, some economists are predicting that Mongolians will become very rich. Tax revenue will also rise, which will enable the government to increase its spending on, for instance, education. Higher spending on education will make it possible for children to spend more years in school.

* 1. Define ‘economic growth’. [3]
  2. Using information from the extract, explain why Mongolia’s Human Development Index value is likely to increase in the future. [2]
  3. Using information from the extract, draw a demand and supply diagram to show what is likely to have happened to the price of copper in 2011 [4]
  4. Explain why countries with high inflation rates tend to have higher interest rates than those with lower inflation rates. [3]
  5. Analyse whether the information in Table 1 supports the view that countries with high inflation rates have higher interest rates than those with lower inflation rates. [5]
  6. Discuss whether a rise in a country’s exchange rate will reduce its international competitiveness. [6]
  7. Using information from the extract, explain why the social costs of mining are higher than the private costs of mining in Mongolia. [2]
  8. Discuss whether a rise in incomes in a country will always increase tax revenue. [5]

**Question 6 – May/June 2014**

# The challenges facing Angola

Angola is one of the fastest growing economies in the world and also one of the most specialised. It had an average annual growth rate of 11% between 2002 and 2012. In 2010, the country’s capital city, Luanda, was the most expensive capital city in the world. The average fare charged by the only taxi (cab) firm in the city was high at US$50, and a standard house cost more than US$1m to buy.

Oil production plays a key role in the economy. The country produces 1.9m barrels of oil a day and this is expected to double by 2020. There is the possibility that Angola could overtake Nigeria to become Africa’s largest oil producer. The oil industry accounts for most of the country’s output, provides 97% of its export revenue and 75% of government tax revenue.

Economists have expressed concern that the country is too dependent on oil. Sonangol, the state- owned oil enterprise, is seeking to diversify. It is already involved in banking and it also owns an airline and a football team. The government is trying to develop other industries. One of these is the diamond industry. World demand for diamonds increased in 2012.

The Angolan Government faces a number of challenges in promoting other industries. One of these is a lack of capital equipment in its manufacturing industries, and another is that much of its agriculture is in the form of subsistence farming.

The economy faces other problems and three of these are connected. They are a widening gap between the rich and the poor, a lack of education, and a rapidly growing population. Some people in the country are very rich but 35% of the population live in poverty. Half of the population have no access to health care, the infant mortality rate is one of the highest in the world, and life expectancy is one of the lowest. Most of the population only experience five years of education and a third of adults are illiterate. Between 2005 and 2010, the country had the eighteenth fastest growing population which might have influenced its level of average income – see Table 1.

# Table 1: Population growth, Gross Domestic Product (GDP) and GDP per head in selected African countries in 2011

|  |  |  |  |
| --- | --- | --- | --- |
| Country | Population growth (annual % change) | GDP (US$bn) | GDP per head (US$) |
| Angola | 2.92 | 120 | 6000 |
| Kenya | 2.58 | 72 | 1800 |
| Nigeria | 2.50 | 420 | 2600 |
| South Africa | 0.96 | 562 | 11 100 |
| Uganda | 3.24 | 47 | 1300 |

In 2012, Angola was experiencing an overall unemployment rate of 26% and an unemployment rate of 50% among the young. The Angolan Government was considering cutting taxes to reduce unemployment.

* 1. Why is the Angolan economy considered to be ‘specialised’? [2]
  2. Using information from the extract, explain why taxi (cab) fares were high in Luanda in 2010.

[2]

* 1. Using information from the extract, draw a demand and supply diagram to show what is likely to have happened to the price of diamonds in 2012. [4]
  2. Explain why countries with a high population growth rate may have a lower average income than countries with a lower population growth rate. [3]
  3. Analyse whether the information in Table 1 supports the view that countries with a high population growth rate have a lower average income than countries with a lower population growth rate. [4]
  4. Discuss whether an increase in a country’s GDP will reduce poverty in that country. [5]
  5. Using information from the extract, explain **two** reasons why labour productivity is low in Angola. [4]
  6. Discuss whether a cut in taxes will reduce unemployment. [6]

**Question 7 – Specimen Paper 2014**

# Workers in Sri Lanka

More people are being employed in Sri Lanka’s service sector. A number of skilled workers are, for instance, employed in the country’s banking industry. The manufacturing sector is also growing in importance. For example, the country’s clothing industry employs more than a quarter of a million workers out of a labour force of eight million people. Most of the workers in the clothing industry are young women, some of whom are relatively unskilled. In recent years, the industry has employed more capital goods, which has raised fixed costs as a proportion of total costs. The rise in investment has unsettled the industry and caused workers to become more concerned about their job security. Wage rates in the industry are low although bonuses increase the amount clothing workers can earn.

The largest clothing company in Sri Lanka is Brandix Lanka Limited. It uses its resources to produce both clothes and clothing accessories such as hangers. It sells its products to clothes shops in the European Union and in the United States of America. Brandix Lanka provides its workers with good medical facilities, as do many other clothing firms.

Sri Lankan workers and trade unions are pressing for wage rises for clothing workers. However, Brandix Lanka and the other clothing firms are concerned that higher wages may reduce their competitiveness against clothing firms in other countries, including Bangladesh, where wages are lower. The firms claim that increasing the wage they pay may cause unemployment and inflation. In 2010 there were half a million unemployed workers in Sri Lanka and its inflation rate was 5.9%.

Receiving higher wages might influence clothing workers in a number of ways. It might cause them to reduce the large amount of overtime they work. It may reduce the gap between their pay and the pay of bankers who, on average, are older than clothing workers. In addition, it might change their spending and saving patterns. Table 1 shows the income per head and the average amount saved per head in Sri Lanka from 2005 to 2010.

# Table 1: Gross Domestic Product (GDP) per head and the average amount saved per head in Sri Lanka 2005 – 2010

|  |  |  |
| --- | --- | --- |
| Year | GDP per head (US$) | Amount saved per head (US$) |
| 2005 | 4300 | 777 |
| 2006 | 4700 | 799 |
| 2007 | 4000 | 704 |
| 2008 | 4300 | 598 |
| 2009 | 4500 | 810 |
| 2010 | 5000 | 855 |

* 1. What is meant by ‘fixed cost’? [2]
  2. Using a production possibility curve, explain how Brandix Lanka may allocate its resources between clothes and clothing accessories. [5]
  3. Using Table 1, comment on whether economists would expect to see the relationship shown between the changes in GDP per head and amount saved per head. [3]
  4. Using information from the extract, identify three reasons why someone may choose to work for a clothing firm despite the low wage. [3]
  5. Using information from the extract, calculate Sri Lanka’s unemployment rate in 2010. [2]
  6. Discuss whether trade unions increase unemployment. [5]
  7. Using information from the extract, explain two reasons why clothing workers are paid less than bankers. [4]
  8. Discuss whether an increase in wages paid to clothing workers will cause inflation. [6]