



22135104



**ECONOMICS
HIGHER LEVEL
PAPER 2**

Friday 3 May 2013 (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]*.

SECTION A

Answer **one** question from this section.

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

Rising peso hits Filipinos abroad

- ❶ The Philippine peso has risen sharply against the United States (US) dollar recently, which is bad news for Filipinos working overseas who regularly send home a portion of their earnings (known as remittances) to support their families. For those working in the US and in countries which peg their currencies to the US dollar, the effect on their remittances is becoming more severe. One example is Hong Kong, where around 140 000 Filipinos work.
- ❷ Apart from a weaker US dollar, the Philippine peso has also been boosted by increased remittances – which hit a record US\$17 billion last year – and an increase in foreign investment in the Philippine stock market. Its main index has risen 40% this year, supported by global capital flows into Asia’s emerging markets and optimism over the new government in the country. The Philippine president has voiced concern over the impact of the Philippine peso’s sharp **appreciation** on overseas workers and the country’s export sector.
- ❸ Recently, the US dollar fell below 43 Philippine pesos, while 41 Philippine pesos is predicted by the end of 2010. A business leader said: “There is now a lot of worry over the rising peso among overseas Filipino workers. The Philippine peso may soon rise to a point at which it is no longer worthwhile for Filipinos in low-wage jobs to continue working abroad”.
- ❹ In previous times of currency instability, Filipinos tended not to reduce their remittances to their families, who depend on them, but absorbed the losses themselves. For that reason, the strong **exchange rate** is not expected to cause a fall in remittances, which are vital for the Philippine economy as they finance, among other things, spending on consumer goods and construction. In all, remittances account for over a tenth of the country’s gross national income. Officials expect remittance growth of 8% this year, a reflection partly of more Filipinos working in higher-paid skilled and professional jobs abroad.
- ❺ The Philippine central bank, meanwhile, is trying to slow the currency’s advance by purchasing US dollars on the currency market, but this is a costly exercise for a less-developed country. Despite this, the Philippine peso is set to rise further.

[Source: adapted from *The Straits Times*, 5 November 2010]

(This question continues on the following page)

(Question 1 continued)

- (a) (i) Define the term *appreciation* indicated in bold in the text (*paragraph 2*). [2 marks]
- (ii) Define the term *exchange rate* indicated in bold in the text (*paragraph 4*). [2 marks]
- (b) Using a diagram, explain how the “increase in foreign investment in the Philippine stock market” has affected the value of the Philippine peso (*paragraph 2*). [4 marks]
- (c) Using an AD/AS diagram, explain how the Philippine peso remittances affect the national output of the Philippine economy. [4 marks]
- (d) Using information from the text/data and your knowledge of economics, discuss the likely impact of an appreciating currency on the performance of the Philippine economy. [8 marks]

2. Study the extract below and answer the questions that follow.

India-Malaysia trade agreement to double trade by 2015

- ❶ An India-Malaysia trade agreement is expected to almost double trade between the two countries by 2015, allowing the two nations to reduce dependence on traditional trade partners such as China and the United States. The **preferential trade agreement** will be signed by 31 January 2011 and come into force six months later. The agreement is predicted to increase the level of trade to US\$15 billion by 2015.
- ❷ The deal will further strengthen trade ties between India and Malaysia. Malaysia is India's 19th largest trading partner, with bilateral trade totaling US\$6.5 billion between January and August 2010 after growing at an average of 14.9% between 2004 and 2009. The deal will support a trade pact that came into effect in January 2010 between India and the 10-member Association of Southeast Asian Nations (ASEAN)*, which became a free trade area in 2003. However, this agreement between India and Malaysia will be more extensive, covering services, investments, trade protection and other areas.
- ❸ Malaysia exports electrical and electronic products, crude petroleum, palm oil and chemical goods to India, its main export destination in South Asia. However, some tariffs have been imposed by India on these products. India, meanwhile, has invested US\$1.11 billion in nearly 100 manufacturing projects in Malaysia. Malaysia and India will also bolster defence cooperation through frequent talks between their defence ministers, senior officials and chiefs of the armed services, according to a joint statement.

[Source: All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. Thomson Reuters and its logo are registered trademarks or trademarks of the Thomson Reuters group of companies around the world. © 2010 Thomson Reuters. Thomson Reuters journalists are subject to an Editorial Handbook, which requires fair presentation and disclosure of relevant interests.]

* ASEAN: is a free trade area comprising Brunei Darussalan, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

(This question continues on the following page)

(Question 2 continued)

- (a) (i) Define the term *preferential trade agreement* indicated in bold in the text (*paragraph ①*). [2 marks]
- (ii) State **two** examples of trade protection (*paragraph ②*). [2 marks]
- (b) Using an appropriate diagram, explain the effect on Malaysian palm oil producers of the tariffs imposed by India (*paragraph ③*). [4 marks]
- (c) Distinguish between a free trade area (such as ASEAN), a customs union and a common market. [4 marks]
- (d) Using information from the text/data and your knowledge of economics, evaluate the possible effects of this agreement on trade between India and Malaysia. [8 marks]

SECTION B

Answer **one** question from this section.

3. Study the extract below and answer the questions that follow.

China: Money to invest for a better future

- ❶ In 2005, Madam Xiao Jinqiu was barely making enough to feed her two sons. Now she earns a living by weaving traditional fabrics, bags and scarves for sale and rearing livestock – all with the help of an annual micro-loan given out by a local non-profit group.
- ❷ By borrowing between 1000 yuan and 3000 yuan (US\$152 and US\$456 respectively) a year, she has been able to earn enough to invest in a better life for her family. She is among a growing number of poor villagers in China who have found a lifeline in **micro-credit**, which allows families the opportunity to escape from the **poverty trap**. Such schemes have existed in China for some years, but the number of borrowers remains low.
- ❸ China’s state banks are now trying to offer its 720 million rural residents more access to micro-credit, but two key barriers still stand in the way. Many remote areas remain inaccessible to banks and farmers often do not have belongings or assets that can be used as security for the loans. Almost 3000 rural townships in China – around 9% of the country’s total – do not have a bank. This is where private banks and non-profit groups can make a difference.
- ❹ Almost half of the 170 000 population of Yunnan Province lives under China’s poverty line of 1196 yuan per capita annually. Almost 36 million of China’s rural residents, or 3.6% of the population in the countryside, were living below the poverty line at the end of 2009, according to official data.
- ❺ Micro-credit is still rare in China, but it is a very effective way to reduce poverty. The key is to find a way to establish trust between lender and farmer. China’s farmers do not own the land they cultivate. They have only land-use rights, which means that they cannot use the land they farm as security for a loan.
- ❻ One solution to this problem is to group several farming families together and make them co-guarantors of one another’s loans, spreading the risk. An official from one lending organization, which lends only to married women, said: “Women are less likely to default. They take charge of household finances. They have self-respect”.

[Source: *The Straits Times*, 15 November 2010]

(This question continues on the following page)

(Question 3 continued)

- (a) (i) Define the term *micro-credit* indicated in bold in the text (*paragraph 2*). [2 marks]
- (ii) Define the term *poverty trap* indicated in bold in the text (*paragraph 2*). [2 marks]
- (b) Using a diagram, explain how the use of micro-credit might affect the distribution of income in rural areas of China. [4 marks]
- (c) Using a production possibility curve (PPC) diagram, explain how micro-credit schemes can affect the actual output and the production possibilities of an economy. [4 marks]
- (d) Using information from the text/data and your knowledge of economics, evaluate the use of micro-credit in promoting economic development in economically less-developed countries. [8 marks]

4. Study the extract and data below and answer the questions that follow.

Cambodia encouraged to review international partnerships

- ❶ The United States (US) Secretary of State has urged Cambodians to pursue a variety of economic partnerships throughout Asia-Pacific and not become over-reliant on China. She said that Cambodia should look for partnerships that cut across regional geographic lines.
- ❷ Both China and the US are working to extend their influence in Cambodia. Nearly 400 Chinese companies have invested billions of dollars in Cambodia, including key **infrastructure** projects such as hydropower dams and coal-power plants. While acknowledging the attraction of Chinese investment, the Secretary of State said: “One of the challenges for Cambodia is the construction of dams on the Upper Mekong river”. China has been criticised by environmental groups over the building of a series of hydropower projects on the Mekong river. Concerns over the project include a possible loss of water quality and a loss of biodiversity.
- ❸ The Secretary of State also indicated that the US was willing to cooperate with Cambodia to resolve an outstanding debt of about US\$445 million that the country owes to the US.
- ❹ The Cambodian Foreign Minister had asked the Secretary of State at a meeting to help his country convert the debt into development aid. She said she was ready to explore creative ways Cambodia could be relieved of the debt, possibly by agreeing to preserve key environmental areas or investing in education. In this way, the debt repayment would be treated as development aid.

[Source: AFP 2010]

Human Development Report 2010 Statistics for Cambodia

	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (Constant 2005 PPP US\$)	HDI value
1980	38.7	6.1	5.0	—	—
1985	52.6	6.1	5.2	—	—
1990	55.6	6.1	5.3	—	—
1995	56.2	6.5	5.5	793	0.407
2000	57.6	7.5	5.7	975	0.438
2005	60.1	9.7	5.7	1390	0.491
2010	62.7	9.8	5.8	1753	0.518

[Source: <http://hdrstats.undp.org/images/explanations/KHM/.pdf>
2011 Human Development Report, United Nations Development Programme.]

(This question continues on the following page)

(Question 4 continued)

- (a) (i) Define the term *infrastructure* indicated in bold in the text (*paragraph 2*). [2 marks]
- (ii) State **two** forms of development aid (*paragraph 4*). [2 marks]
- (b) Using an appropriate diagram, explain why hydropower dam projects on the Mekong River might lead to market failure. [4 marks]
- (c) Explain why the Human Development Index (HDI) is considered a better measure of economic development than GNI. [4 marks]
- (d) Using information from the text/data and your knowledge of economics, discuss the possible effects on the economic development of Cambodia of investment from China and the United States (US). [8 marks]
-