Candidate Name	Centre Number					Candidate Number				
						2				

A2 ECONOMICS

UNIT 3

Exploring Economic Behaviour

SPECIMEN PAPER

2 hours

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.
Do not use pencil or gel pen.
Do not use correction fluid.
Write your name, centre number and candidate number in the spaces at the top of this page.

Answer all the questions in the spaces provided.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

SECTION A

*Answer **all** questions in the space provided.*

1. The table below gives some cost and revenue information for a firm operating in the short run:

£ Price/AR	Output	£ Total Cost
11	0	10
10	1	14
9	2	17
8	3	21
7	4	26
6	5	32
5	6	39
4	7	47

(a) Explain what is meant by the principle of diminishing returns to a factor. [2]

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(b) At which output does diminishing returns begin? [1]

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(c) Calculate the firm's marginal revenue if it produces and sells a 7th unit and comment on your answer. [3]

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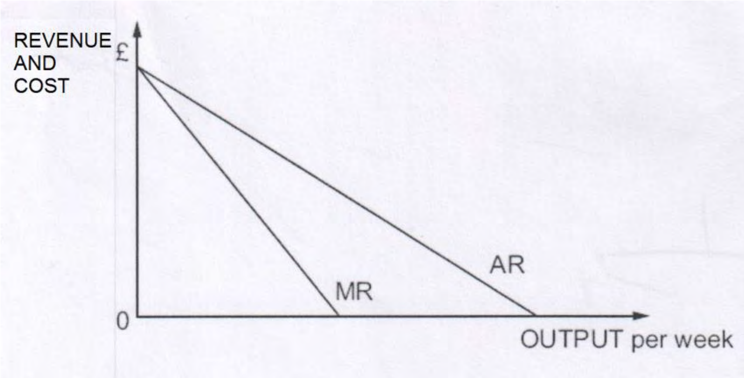
2. The diagram below shows the average and marginal revenue curves of a firm within a monopolistic competitive market structure.



Add the firm's marginal cost and average total cost curves to the diagram above to illustrate the long-run equilibrium for a firm in monopolistic competition. Justify your answer. [6]

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3.

	Chad	Swaziland
Life expectancy at birth	51.18	49
Infant mortality rate (per 1000 live births)	89	56
HIV prevalence (% ages 15-49)	2.7	26.5
Health expenditure (% of GDP)	4.28	8.01
Mean years of schooling	1.51	7.12
Expected years of schooling	7.4	11.3
Adult literacy rate (% ages 15 and older)	35.4	87.8
GNI per capita ($PPP)	1622	5536
HDI	0.372	0.53

Chad and Swaziland are both LEDCs located in sub-Saharan Africa.

Based on the data above, discuss the extent to which it is fair to conclude that living standards in Swaziland are higher than those in Chad? [8]

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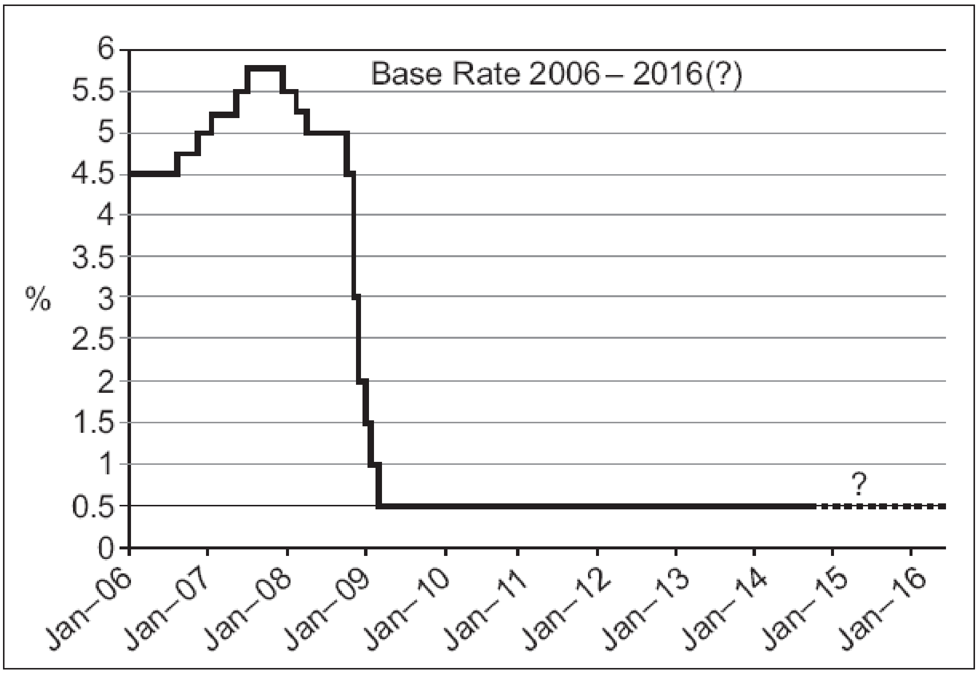
4. Since March 2009 the Bank of England has held the base rate of interest at an historic low of 0.5%; new research from the Bank now indicates that this lengthy period of record low rates has improved the UK's inequality problem.



Explain two reasons why a period of low interest rates may have improved the UK's inequality problem. [4]

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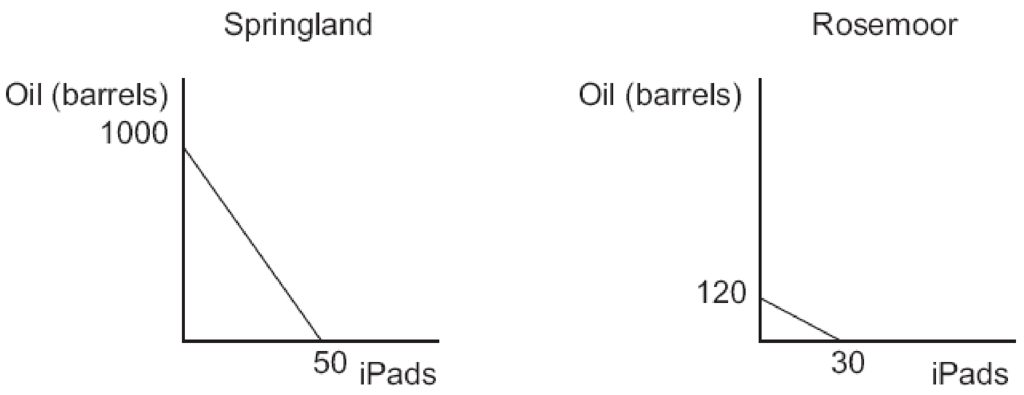
5. The diagrams below show the production possibility frontiers for two economies, Springland and Rosemoor.



(a) Calculate the opportunity cost of producing one iPad in Springland. [1]

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(b) Discuss whether trade will be beneficial for both Springland and Rosemoor. [6]

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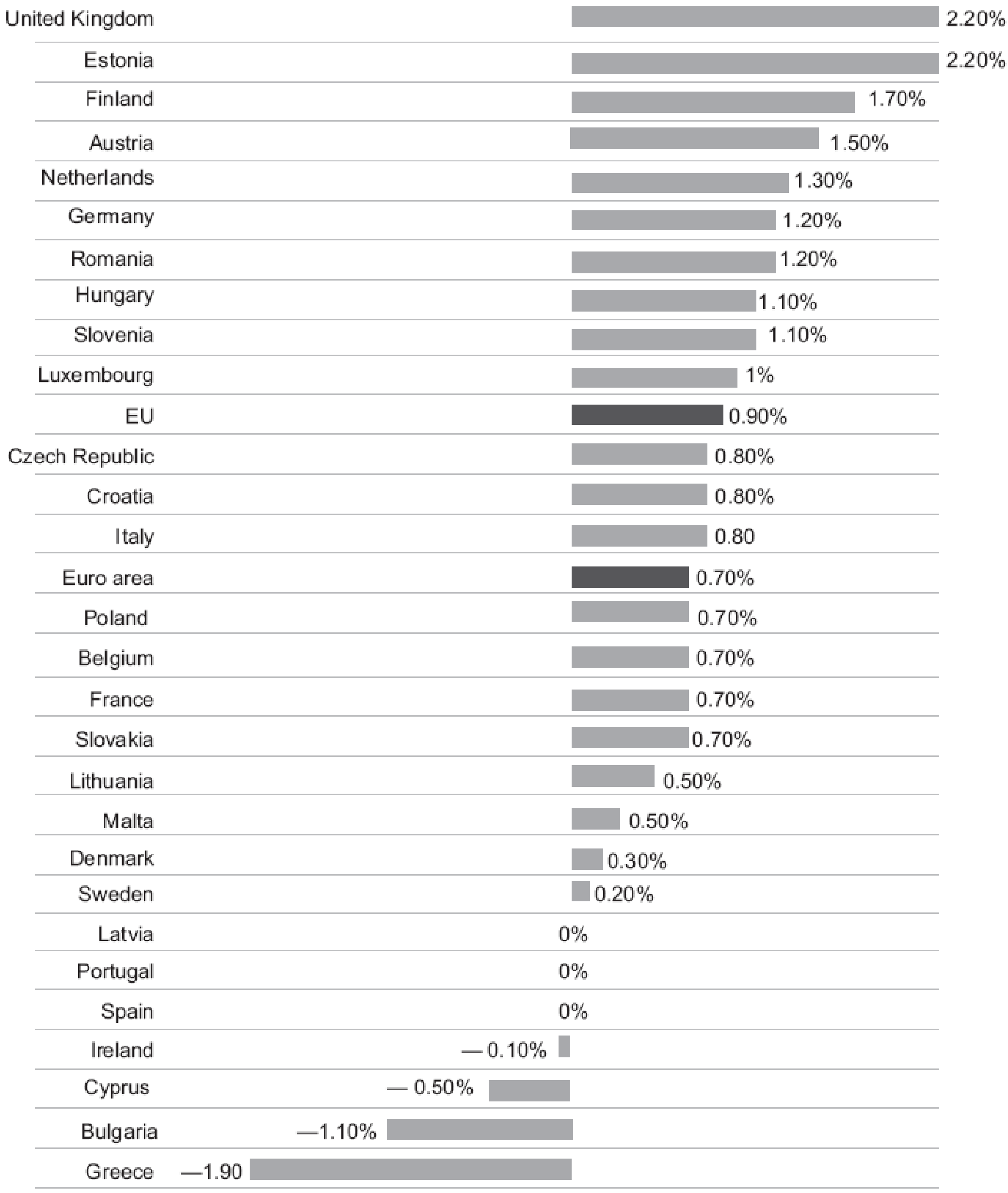
6.

Inflation rate in EU countries in October 2013
(compared to the same month of the previous year)



(a) Explain how economists measure inflation using indices such as CPI. [3]

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(b) How important is it for the UK to cut its inflation rate if it is to remain in the EU? [6]

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SECTION B

Answer **all** *the questions in the spaces provided.*

In the 1960s significant quantities of oil were discovered in Nigeria, generating huge revenues. Nigeria looked set to become an economic giant. The experience of the next 50 years, however, was extremely disappointing. In the mid-1960s oil revenue per capita was $33 and GDP per capita was $245. By the mid-2000s, whilst oil revenue had risen to $325 per capita, GDP per capita remained at its 1960s level of $245.

Years	**Gini Coefficient**
1991	0.48
1992	0.50
1993	0.51
1994	0.51
1995	0.51
1996	0.52
1997	0.53
1998	0.53
1999	0.55
2000	0.60

Many resource rich countries seem to have had similar problems and academics have come to call the problem the 'Resource Curse'.

There are several reasons why this might be the case; the discovery of abundant resources can attract a huge inflow of foreign money which can increase the exchange rate. As a result, firms in other sectors are unable to compete. This phenomenon was termed the 'Dutch Disease' since it was first observed in the Netherlands in the 1950s when abundant natural gas production brought rapid increases in foreign revenue but damaged other sectors of the economy.

	Life expectancy	Income per person (GDP per capita, PPP$)
1969	26	1100
2012	52	2484

Not every country with abundant resources experiences such a long-term drag on economic growth, however, and there are several exceptions such as Norway, Australia, Chile, Canada and Botswana. This has led critics to suggest that the problem lies with Nigeria's poor institutions of government with some arguing that the only sector that is growing and booming in the Nigerian system today is corruption. The excess inflow of foreign earnings has the tendency to create administrative recklessness and those resources that should have been used to boost other sectors of the economy only become a tool for politicians to amass wealth for themselves.

Norway successfully avoided the 'Resource Curse' by building strong governmental institutions that eliminated corruption and made sure the oil revenues were ploughed back into the economy to create a strong productive base and to build a large wealth fund that generates revenue for the Norwegian Government from the shares and bonds that the fund has bought. In Nigeria, however, whilst there are hundreds of oil/gas vessels, rigs, barges and other offshore facilities deployed in the petroleum industry, there is not one Nigerian owned repair yard for these facilities. Furthermore, the government has so far been unable to force the major international companies to process the oil they produce in Nigeria, nor have they negotiated a deal to sell oil cheaply to local independent power projects.

In many oil rich countries government owned national oil companies are the engine of national development. The Malaysian Petronas and Brazilian Petrobras are two examples where resource rich countries are using the national oil companies to develop immunity against the 'Resource Curse'. Brazil's Petrobas is at the forefront of developing home-grown technology to tackle Brazil's deep offshore exploitation challenges. The Nigerian National Petroleum Company (NNPC), by contrast, has remained badly managed and continues to struggle. The NNPC seems more willing to invite foreign companies, particularly the Chinese, to strike for oil rather than doing it themselves.

7. "In the 1960s significant quantities of oil were discovered in Nigeria, generating huge revenues. Nigeria looked set to become an economic giant". Explain this statement. [4]

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8. Using the data, discuss the extent to which economic growth in Nigeria since the 1960s has led to higher living standards. [8]

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9. *(a)* With reference to the data and using a diagram, explain what is meant by 'Dutch Disease'. [4]

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(b) Explain why 'Dutch Disease' might damage other sectors of the Nigerian economy. [4]

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10. With reference to the data, discuss whether having an abundance of resources is a blessing or a curse for a developing country. [10]

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11. To what extent should Chinese investment in Nigeria be encouraged by the Nigerian Government? [10]

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