

Section A

Answer this question.

1 Brazil and the problem of inflation

In 2010, the President of Brazil stated that her aims were to increase employment, eliminate extreme poverty, improve the quality of health care and education and reduce the rate of inflation.

In 2011, however, the rate of inflation increased to 6.2%. Interest rates were raised to try to control inflation and were expected to go up further in 2012.

Higher interest rates put upward pressure on the external value (foreign exchange rate) of the Brazilian currency, which has already doubled in value against the US\$ in the last ten years.

The President realised that she would not be able to achieve all these aims and that she would need to reduce the amount of government spending. In 2011, government spending was significantly greater than tax revenue.

- (a) Define inflation. [3]
- (b) Explain how a rise in interest rates can help to control a country's rate of inflation. [5]
- (c) Explain why the President of Brazil wishes to reduce government spending. [5]
- (d) Discuss to what extent a rise in the external value of the Brazilian currency is likely to be a serious economic problem for Brazil. [7]

Section B

Answer any **three** questions from this section.

- 2** Producers aim to achieve a high rate of productivity. Production in some industries tends to be labour-intensive while in others it is largely capital-intensive.
- (a) Using examples, define the factors of production, land and capital. [4]
- (b) Distinguish between an increase in productivity and an increase in production. [6]
- (c) Discuss to what extent production should be encouraged to move from being labour-intensive to being capital-intensive. [10]
- 3** Market systems are sometimes said to fail and this can lead to different forms of government intervention.
- (a) Explain what is meant by a mixed economy. [4]
- (b) Using a demand and supply diagram, analyse the effect of introducing an indirect tax on a product on its equilibrium price and its equilibrium quantity. [6]
- (c) Discuss whether government intervention to reduce market failure is always likely to be successful. [10]
- 4** Specialisation, whether at the individual or national level, can have enormous advantages. There can, however, also be some disadvantages.
- (a) Define the term specialisation. [4]
- (b) Analyse the advantages and disadvantages of a worker specialising. [4]
- (c) Explain the benefits of countries specialising. [4]
- (d) Discuss whether trade protection, despite the advantages of international specialisation, can ever be justified. [8]
- 5** Many people like to save some of their income and commercial banks usually have various ways of encouraging people to save.
- (a) Analyse **two** motives that people may have for saving money. [4]
- (b) Describe why different groups of people are likely to save different proportions of their income. [4]
- (c) Explain the different ways that commercial banks can encourage people to save. [5]
- (d) Discuss whether a government should be worried if more people in a country decide to save a large proportion of their income. [7]

- 6 Many countries in recent years have suffered from recession. Governments, therefore, have adopted various policies to try to decrease the level of unemployment in their countries.
- (a) Define the term recession. [2]
 - (b) Explain **two** different types of unemployment. [4]
 - (c) Explain why unemployment is regarded as a serious economic problem. [6]
 - (d) Discuss whether policies to decrease unemployment will always conflict with a government's other aims. [8]
- 7 Economies, as they become more developed, tend to experience a change in the structure of their labour force with an increasing proportion of employment in the tertiary sector.
- (a) Using examples, explain the differences between the primary, secondary and tertiary sectors of production. [6]
 - (b) Describe **three** characteristics of developing economies. [6]
 - (c) Discuss to what extent everybody in a developed country has a higher standard of living than everybody in a developing country. [8]

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