Cambridge Assessment
International Education

Cambridge IGCSE™ (9–1)

ECONOMICS **0987/02**

Paper 2 Structured Questions **For examination from 2020**

SPECIMEN PAPER **2 hours 15 minutes**

You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS
- Answer **four** questions in total:
    - Section A: answer **Question 1**.
    - Section B: answer **three** questions.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.
- You may use a calculator.

INFORMATION
- The total mark for this paper is 90.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **6** pages. Blank pages are indicated.

Section A

Read the source material carefully before answering Question 1.

Source material: Kenya's flower industry

| Kenya fact file	2015
population	47 million
labour force	18 million
unemployment rate	10%
GDP per head	$3200

Kenya has a growing global reputation for high quality flowers and is the world's third largest producer of flowers. Production of flowers contributes to employment and to Kenya's gross domestic product (GDP) which increased in 2015. Most of the flowers are grown in an area that has the right conditions for growing flowers. It has a ready supply of water, fertile soil, warm days and cool nights, and is close to the capital's airport in Nairobi. Kenya's exports of flowers increased significantly between 1990 and 2015, and flowers are now the country's second biggest export earner after tea. Many of Kenya's flowers are sold to the UK, US and Russia for special occasions including Mother's Day, Thanksgiving and Women's Day. On these days, demand not only increases but also becomes more price-inelastic.

Kenya's flower industry faces a number of challenges. A change in temperature can slow down production so that producers can fail to deliver their flowers on time, for example to Russia in time for Women's Day. This can result in demand exceeding supply and shortages occurring. At other times there is a surplus of supply with some flowers remaining unsold. Kenyan producers are also affected by changes in the foreign exchange rate and the country's interest rate.

In 2015, the value of the Kenyan shilling (KES) depreciated from KES88 to KES98 = US$1. The country's interest rate rose to 16.5% in the same year. The country faces fierce competition in the flower industry from several countries.

As well as challenges, the industry also has a number of strengths. Many people would like to work in the industry as the wages are higher than in most other Kenyan agricultural jobs. Productivity has increased each year since 2000, in part, because of improved educational standards. Fig. 1 shows the relationship between real GDP per head and the adult literacy rate in a number of African countries.

Fig. 1 The relationship between real GDP per head and the adult literacy rate in selected African countries

© UCLES 2018   0987/02/SP/20
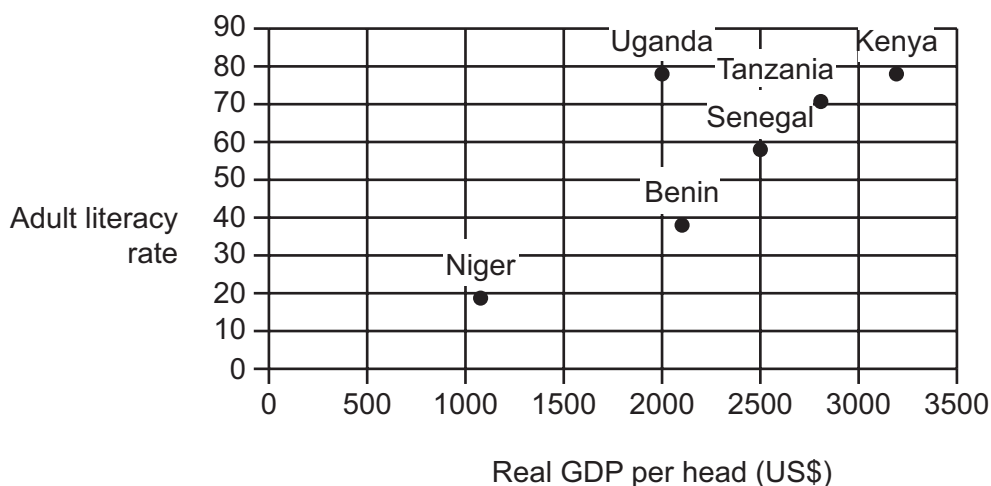
Answer all parts of Question 1. Refer to the source material in your answers.

1 (a) Calculate the number of people unemployed in Kenya in 2015. [1]

(b) Identify **two** reasons why the total amount saved in Kenya is likely to have increased in 2015. [2]

(c) Explain the effect that a rise in the price of flowers on Women's Day in Russia would be likely to have on flower producers' revenue. [2]

(d) Analyse the evidence that shows the market for flowers is sometimes in disequilibrium. [4]

(e) Explain **two** reasons why the price of Kenyan flowers may have fallen in the US in 2015. [4]

(f) Analyse the relationship between real GDP per head and the adult literacy rate. [5]

(g) Discuss whether or not an increase in wages will always attract more people to work in Kenya's flower industry. [6]

(h) Discuss whether or not Kenya should continue to specialise in producing flowers. [6]

Section B

Answer any **three** questions.

Each question is introduced by stimulus material. In your answer you may refer to this material and/or to other examples that you have studied.

2 Since 1990, the population of Lithuania has fallen by one fifth because of net emigration. People usually leave in search of better living standards. In 2015, there were signs of improved macroeconomic performance as real GDP per head rose and unemployment fell. People expected that the decline in unemployment would affect the country's inflation rate and might also turn the government's budget deficit into a budget surplus.

    (a) Define *budget deficit*. [2]

    (b) Explain **two** reasons why a country may experience a decline in living standards at the same time as an increase in real GDP per head. [4]

    (c) Analyse how a fall in unemployment may increase a country's inflation rate. [6]

    (d) Discuss whether or not a country will gain from the emigration of some of its people. [8]

3 India and Ecuador are two major producers of bananas. India is the world's largest producer of bananas while Ecuador is the world's largest exporter. Multinational companies (MNCs) produce some of the bananas in both countries. The World Health Organization (WHO) recommends that each person should eat 400 grams of fruit and vegetables a day. To encourage people to eat more fruit and vegetables governments may use policy measures such as maximum prices and subsidies.

    (a) Define *maximum price*. [2]

    (b) Explain **two** reasons why the supply of bananas may decrease. [4]

    (c) Analyse the factors which lead an MNC to produce in particular countries. [6]

    (d) Discuss whether or not a government subsidy given to fruit producers will benefit consumers. [8]

4 Tanzania is a low-income country with relatively high import tariffs. Between 2012 and 2015, Tanzania experienced a high economic growth rate. This allowed the government to provide more public goods. The government also increased its investment in the merit goods of education and healthcare. Tanzania's central bank influenced household borrowing and spending with the aim of achieving price stability. As a result the country's inflation rate fell, with money losing less of its value.

(a) Identify **two** characteristics of money. [2]

(b) Explain why governments provide public goods. [4]

(c) Analyse how a central bank might reduce household borrowing. [6]

(d) Discuss whether or not a government should impose tariffs on its country's imports. [8]

5 There is a range of factors that influence the supply of economic goods, including natural disasters. Recently a series of earthquakes in one country destroyed buildings, including factories and offices. One factory that survived has since increased its scale of production. This firm has employed more factors of production and has experienced a fall in its average cost of production.

(a) Define *economic good*. [2]

(b) Explain **two** influences on what factors of production a firm uses. [4]

(c) Analyse, using a production possibility curve diagram (PPC), the effect of the destruction of some of its resources on an economy. [6]

(d) Discuss whether or not the average cost of production always falls when a firm increases its scale of production. [8]

6

BLANK PAGE