



GCE AS

B520U20-1



THURSDAY, 26 MAY 2022 – MORNING

ECONOMICS – AS component 2
Exploring Economic Issues

2 hours

B520U201
01

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator and a WJEC pink 16-page answer booklet.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.
Answer **all** questions.

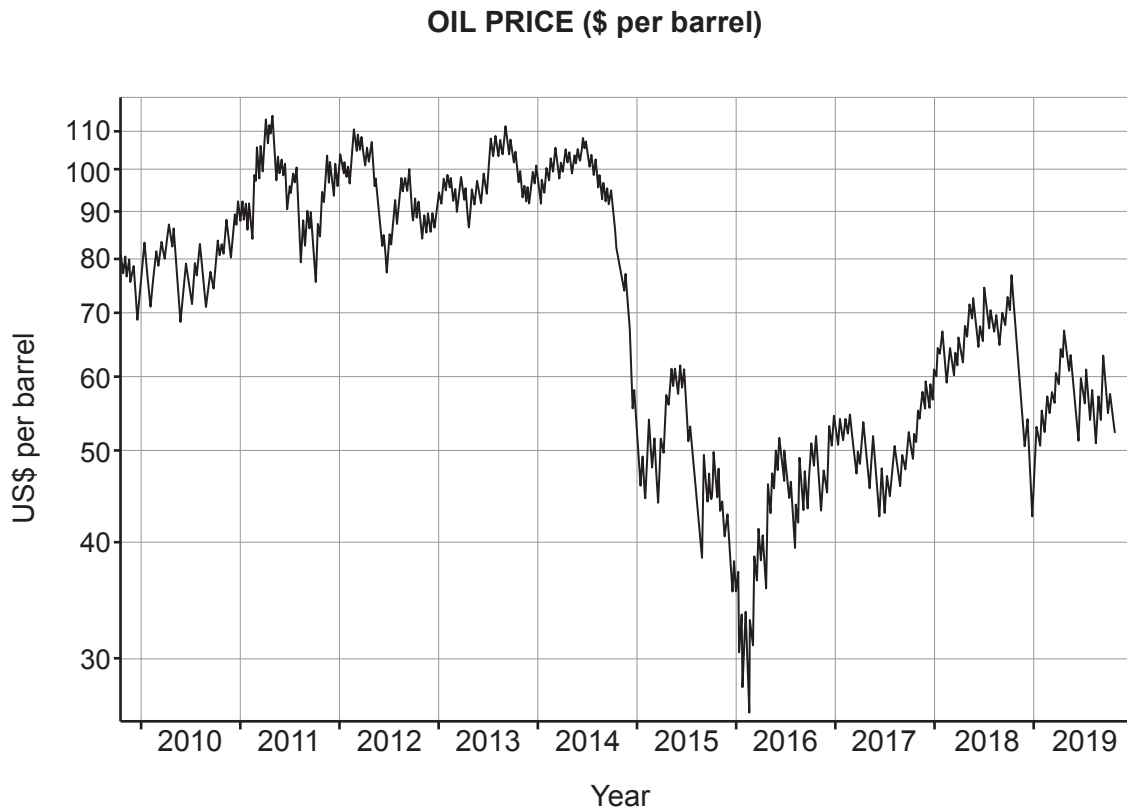
INFORMATION FOR CANDIDATES

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

Answer **all** questions.

1. GLOBAL OIL PRICES PLUNGE

Oil prices have been volatile since 2014.



For many African economies oil exports are an important element of GDP. Nigeria is Africa's largest oil producer, pumping over two million barrels a day with oil exports making up around 14% of GDP and 90% of total export revenue. Nigeria's oil resources have attracted investment by western oil multi-nationals including Shell, Chevron, Mobil and Total.

- 5 Western multi-nationals producing fast-moving consumer goods such as Cadbury, Coca-Cola and Guinness have also invested in the country as Nigeria's GDP increased. Multi-national construction and infrastructure firms have helped the Nigerian Government build infrastructure. Often, multi-nationals move management teams from their domestic operations to work in the new countries where they are investing.
- 10 In 2016 Nigeria suffered a fall in GDP growth, when both the price and output of oil fell significantly, with prices falling to less than \$30 a barrel. At the beginning of 2018 GDP grew at 1.95% but then slowed to 1.5% in the second quarter as oil prices had increased. However, they still remained historically low and production fell. A decline in oil price can have a negative effect on the Nigerian economy both directly and through the impact on the exchange rate for the naira (the Nigerian currency).
- 15 To avoid a harmful depreciation the Nigerian Central Bank intervened to keep the exchange rate above the new equilibrium level to help Nigerian households and businesses.

Selected Nigerian macro-economic data 2014–2019

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 forecasted |
|---|---------|---------|---------|---------|---------|--------------------|
| Real GDP annual growth rate | 6% | 4% | 1% | –1.5% | 1.5% | 2% |
| Nigerian inflation rate | 8% | 8% | 9.5% | 17.5% | 15% | 11.1% |
| Nigerian exchange rate Nigerian naira: US dollar (\$) | 158:1\$ | 192:1\$ | 253:1\$ | 310:1\$ | 305:1\$ | 305:1\$ |
| Budget deficit as % of GDP | –0.9% | –1.6% | –2.1% | –5.29% | –5.14% | –4.15% |
| Government debt as % of GDP | 12.5% | 13.2% | 17.6% | 21.3% | 24.77% | 26.85% |
| Ease of doing business survey* ranking: Country Ranking (1=easiest, 190=hardest) | 170 | 170 | 169 | 145 | 146 | Not available |

*ease of doing business is determined by how easy it is to start a business, gain construction permits, obtain electricity connection, ease of gaining credit, registering property and the regulatory environment. Rankings are: 1–97 Easy, 98–147 Medium, 148–190 Hard.

Since 2016, successive government budgets have focused on addressing areas of the economy that had previously not been prioritised. In 2018 the Nigerian President signed a budget of 9.1 trillion Nigerian naira, the nation's biggest yet, which focused on increasing investment in roads, rail, ports and power to address the continued decline of infrastructure. The central bank pledged to lend at lower interest rates aimed at financing projects in agriculture and manufacturing. However, the central bank has kept its base interest rate at a record high of 14% since 2016 to fight high inflation.

Nigeria has a large trade surplus in oil whereas many other countries have a trade deficit of oil.

- (a) Explain **one** advantage of an economy specialising at a national level. [4]
- (b) Using diagrams, analyse reasons why oil prices are volatile. [6]
- (c) Using AD/AS diagrams, discuss the effects of higher global oil prices on a country's inflation rate. [8]
- (d) Consider whether the Nigerian Government is right to keep its exchange rate artificially above its equilibrium level. [8]
- (e) Outline possible reasons for a country's GDP being greater than GNP. [4]
- (f) Using the data, discuss whether the fiscal and monetary policies being implemented by Nigeria in 2018 (lines 18–23) could improve its economic performance. [10]

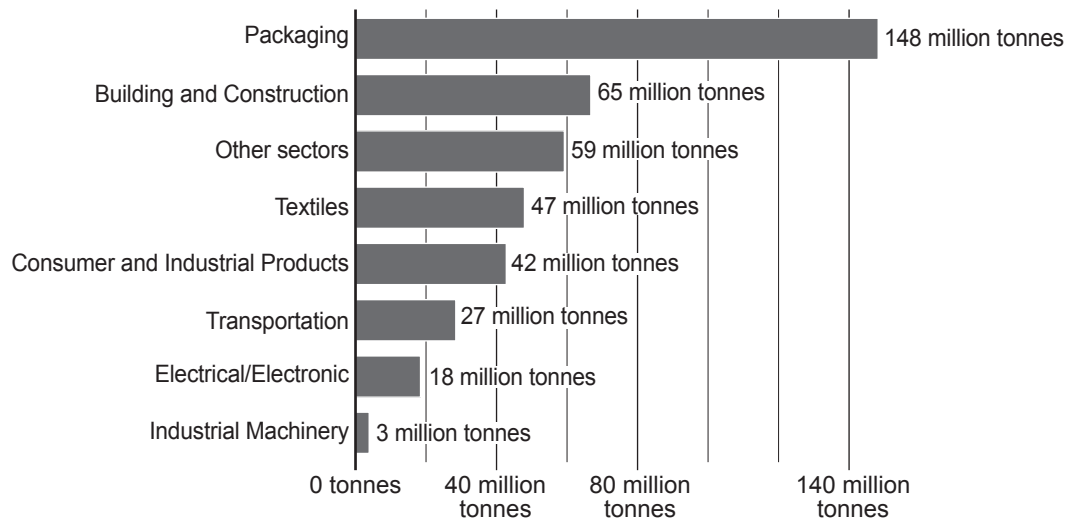
2. A PLASTIC WORLD

According to the United Nations, marine life is facing irreparable damage from the millions of tonnes of plastic waste which ends up in the oceans each year, possibly due to a lack of property rights.

- 5 Plastic is used across many industries including clothing, cooking and catering, product design, engineering and retailing. US scientists have calculated the total amount of plastic ever made and put the number at 8.3 billion tonnes with half of this material being made in the last 13 years. Sources of plastic waste include single use plastics such as bottles and packaging, plastic bags, consumer products such as wet wipes and personal care products.

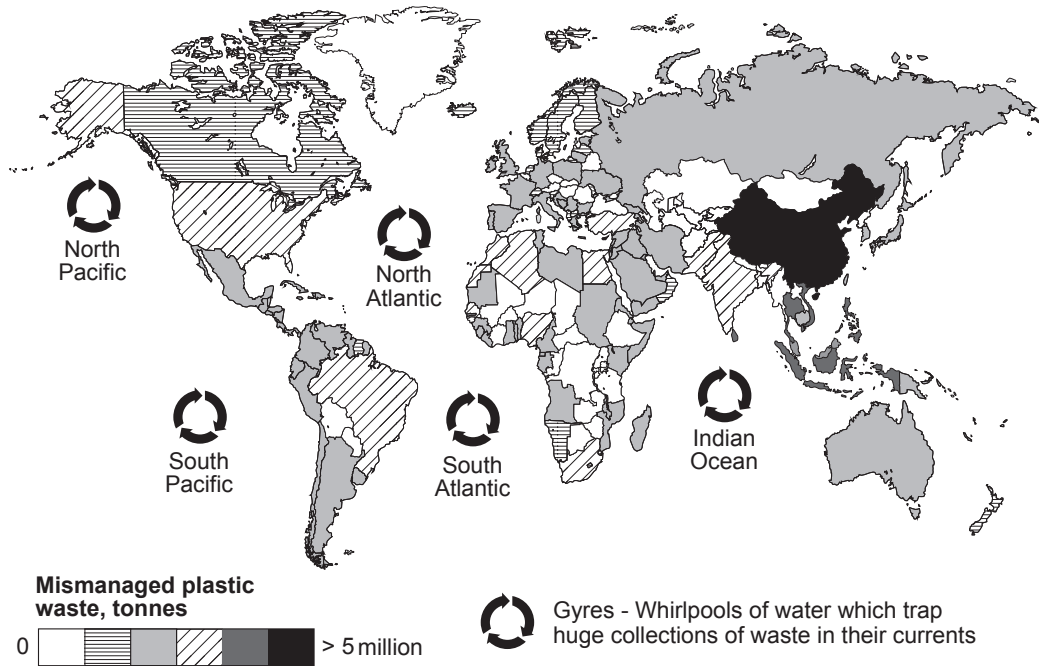
Plastic production by industrial sector

Global plastic production by industrial sector allocation, measured in tonnes per year



- 10 There is an environmental impact from plastic pollution as it pollutes the ocean. There is a danger of sea birds and larger marine creatures like turtles, dolphins and seals, becoming entangled in plastic bags and other debris, or mistaking plastic for food. Plastic bags, once consumed, cause internal blockages and usually result in death. Over time, plastic waste slowly degrades and breaks down into tiny micro-plastic fragments which are also causing scientists concern as it can enter the food chain.

Mismanagement of plastic waste by country



Source: www.bbc.co.uk/news/science-environment-42264788

- 15 Another cause of micro-plastic fragment pollution is microbeads (tiny plastic particles usually smaller than two millimetres) added to personal care products such as exfoliating face scrubs and whitening toothpastes. A single cleansing product could contain as many as 360 000 microbeads, but these can be replaced by natural ingredients. Microbeads are made from synthetic polymers such as polystyrene and are listed in the ingredients on the packaging, normally in small labelling
- 20 on the back of the product. The USA has banned microbeads which has raised awareness of the problem in the UK. Online websites started listing products with microbeads and the media raised further awareness. In January 2018 the UK Government banned plastic microbeads in the manufacture of cosmetics and personal care products in the UK.

- 25 Other UK Government initiatives to reduce the impact of plastic waste include use of government subsidies for greener processes.

- £4 million to support innovative ideas that reduce persistent plastic waste
 - £16 million package with the focus on developing new recyclable plastic materials and new more efficient recycling processes.
 - £16.4 million on improving waste management at a national and city level to stop plastics entering the water.
- 30

- In 2015 the plastic bag fee came into effect in England. The Government introduced a law requiring all supermarkets and large stores to charge a minimum of 5p for every single-use plastic carrier bag they handed out. In 2014, before the charge was introduced, the seven main supermarkets handed out the equivalent of 140 plastic bags per member of the population. That
- 35 fell to 10 bags by 2019 as consumers recycled existing bags and switched to re-usable 'bags for life'. A similar shift in behaviour could be seen in local convenience stores, although people tend to buy on impulse and smaller quantities from these shops.

- In 2019 the Government consulted with businesses about increasing the 5p charge to 10p and to extending the scheme to all shops from 2020. Other initiatives proposed by the Government
- 40 included a tax on the manufacture or import of plastic packaging which contains less than 30% recycled plastic.

- (a) Outline how an absence of property rights is a type of market failure. [4]
- (b) Using a diagram, discuss whether Government subsidies for new environmentally friendly businesses and technology will be beneficial for the UK economy. [8]
- (c) Using the data, consider the extent to which information asymmetry existed between producers and consumers of personal care products containing microbeads before the 2018 ban. [6]
- (d) (i) Using the data, calculate the percentage change in plastic bag usage between 2014 and 2019. [2]
- (ii) Using the data and your answer to (d)(i), discuss the nature and strength of the relationship between shopping and the demand for plastic bags. [6]
- (e) (i) Using the data, outline how the use of plastic can create external costs. [4]
- (ii) To what extent are the steps taken by the UK Government to reduce plastic pollution likely to solve the market failure? [10]

END OF PAPER

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