10 Which method of government intervention may correct market failure caused by the under-consumption of a merit good?

A minimum price

B privatisation

C indirect taxation

D subsidy

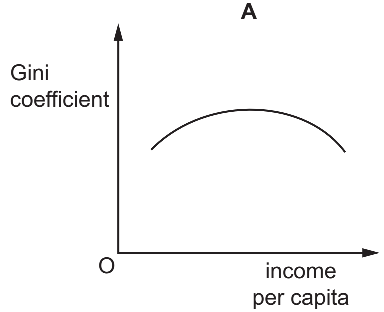
12 To reduce the damage done by cigarette smoking, the government of a country increases the indirect tax on cigarettes and makes it illegal to smoke in public.

Which combination of circumstances is most likely to result in government failure in its attempt to reduce the damage done by cigarette smoking?

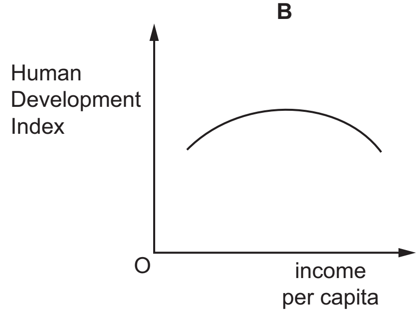
	price elasticity of demand for cigarettes	government spending on law enforcement
A	> 1	high
B	> 1	low
C	< 1	high
D	< 1	low

29 Which diagram is **not** an example of a Kuznets curve?

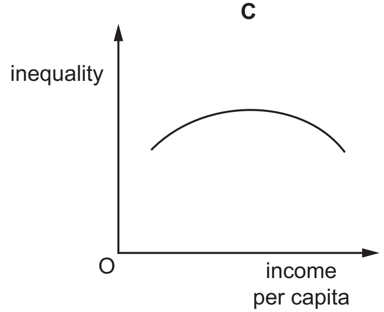
A



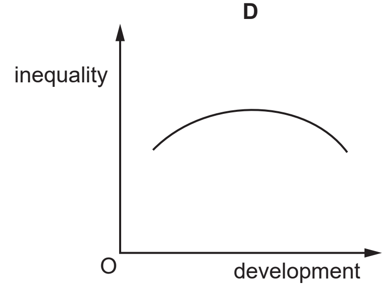
B



C



D



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9 Which of these actions illustrates equality rather than equity?

A A firm that installs ramps to its workplace to improve the access for people with disabilities.

B A government subsidy on rice of $0.10 per kilo for all members of the public.

C A university admissions policy that offers places to students from disadvantaged socio-economic backgrounds.

D An income tax system where high-income earners pay a higher percentage of income as tax.

12 An increase in which variable would shift the supply curve for farm workers to the right?

A job security

B the hourly wage rate

C the productivity of farm workers

D the qualifications required

1 Working overseas

Many low-income countries have large proportions of the population below the World Bank's absolute poverty level of $2.15 per day (United States dollars, 2022). One way in which these countries try to reduce their poverty is by the migration of workers to richer countries. The migrants send a portion of their incomes, known as remittances, back home to support their families.

These overseas workers are a link between migration and development. The flow of remittance money is greater than the foreign direct investment and official development aid received by middle-income and low-income countries. Total remittances received by those countries in 2022 was $650 billion, of which 45% ($293 billion) was received by only five countries.

About 50% of migrants from low-income countries went to high-income countries.

Migrants can find their incomes increase significantly. A nurse may make seven times more in Australia than in the Philippines, adjusted for purchasing power parity (PPP).

Unlike official aid, remittances flow directly to their receivers and are a stable source of income. They can buy extra food and they may provide savings for the receiver. They may reduce child labour in disadvantaged families and allow for higher spending on education through higher enrolments and more years of completed schooling.

Migration can reduce unemployment and raise wages in home countries. Migration may lead to larger benefits for the home country by increasing the rates of return on human capital caused by the creation of better, more productive, and higher paying jobs.

When the flow of migrants goes to a host country whose population is ageing, it may reduce the average age of the population. This can lead to an increase in the size of the labour force, reduce the age dependency ratio and make a positive tax contribution. The migrants increase the demand for host country output and may utilise housing in less popular areas. Those with a high level of education make an even more significant contribution to economic output.

Sources: The Guardian*, 23 August 2023*
asia.nikkei.com, 3 March 2023
imf.org, March 2020

(a) Explain what is meant by absolute poverty. [2]

(b) Explain, with the aid of a diagram, how the migration of workers from a low-income country is likely to affect wages in the low-income country. [5]

(c) The article states: 'Total remittances received by those countries in 2022 was $650 billion.'

Analyse how this is likely to benefit the migrants' home economies. [6]

(d) Consider if the article contains sufficient information to support the view that migrants have only a beneficial economic impact on the host country. [7]

Section B

Answer **one** question.

EITHER

1 Inequality and globalisation

A government commission published a report saying that global poverty and inequality were worsening and there was a risk that the gap between the rich and the poor would increase.

But, according to a newspaper, a lot of what is said about inequality is wrong. It overlooks the fact that the past 50 years saw a period of dramatic reduction in global inequality. The normal measurement of relative inequality is the Gini coefficient. The figure for global inequality in 1975 was 0.75, in 2020 it was 0.72 and in 2022 it was 0.67.

It is important to understand this trend rather than make the mistake of the commission.

The fall in global inequality should not come as a surprise. For about two hundred years the benefits of industrialisation went mainly to countries in Europe and North America. Income inequality between these countries and poorer countries worsened. The spread of globalisation in recent decades has meant this difference has lessened. Countries such as China and India have benefited from large increases in per capita (average) income, as shown in Table 1.1.

Table 1.1 Per capita (average) income and Gini coefficient for China and India 1990 and 2016

	Per capita (average) income (US$)		Gini coefficient	
	1990	2016	1990	2016
China	<1 000	>13 000	0.32	0.38
India	<1 200	>7 000	0.32	0.36

With such an increase in per capita incomes maybe some level of inequality does not matter. Indeed, it might be a necessary condition for economic growth. Instead of concentrating on eliminating inequality perhaps the focus should be on the absolute position of the poorest.

If the attention is on the relief of poverty rather than the wealth of the richest, improvements can be seen. Life expectancy has increased, most noticeably by ten years in the past two decades in the poorest region of sub-Saharan Africa. Literacy rates have also increased. Those in absolute poverty across the world have fallen from more than a third to under a tenth of the world's population. And all this while the world's population has increased.

Critics of globalisation and foreign direct investment (FDI) by multinational companies point to the possible negative environmental effects, the weakening of individual cultures and the reliance on international financial institutions that can fail. They also claim there can be exploitation of workers leading to greater wage inequality and possible increases in domestic unemployment as cheaper goods are imported.

Source: The Times*, 23 August 2021*

(a) The article refers to the Gini coefficient. With the help of a diagram explain the link between a Gini coefficient and a Lorenz curve. [5]

(b) **(i)** Distinguish between equity and equality. [2]

(ii) ‘But, according to a newspaper, a lot of what is said about inequality is wrong.’

Analyse whether there is a conflict between what the newspaper wrote about changes in equality and Table 1.1. [5]

(c) With reference to the article, explain the idea of globalisation and assess whether there is enough evidence to conclude that globalisation has a net benefit for everyone. [8]

Section B

Answer **one** question.

EITHER