

# IB Economics – Development Economics

## Exam Practice Questions: 4.5 Foreign Finance



IB Economics: [www.IBDeconomics.com](http://www.IBDeconomics.com)

### 4.5 FOREIGN FINANCE: EXAM PRACTICE QUESTIONS

Answer the questions that follow.

#### IB ECONOMICS PAPER 2 EXAMINATION QUESTIONS – DEVELOPMENT ECONOMICS

Paper 2. Duration: 1 hour 30 minutes. Weighting: Higher Level 40%, and Standard Level 30%.

IB Economics exam Paper 2 is divided into Section A and Section B. Section A – International Economics – assesses the IB Economics student's knowledge, analytic and evaluative skills.

Students are expected to demonstrate the following assessment objectives.

#### Section A

The principal focus is on section 3 of the syllabus – **development economics**.

While the principal focus of the questions is on section 3, it is likely that students will be required to draw on other sections of the syllabus.

The command terms used in each question, or part thereof, indicate the depth required.

**Part (a)** of each question requires knowledge and understanding. It is subdivided into (i) and (ii). The maximum for each of these is 2 marks, with a combined maximum of **4 marks**.

**Part (b)** of each question requires knowledge and understanding, application and analysis, and selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is **4 marks**.

**Part (c)** of each question requires knowledge and understanding, application and analysis, and selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is **4 marks**.

**Part (d)** of each question requires knowledge and understanding, application and analysis, and synthesis and evaluation. The maximum for this part is **8 marks**.

The section A question is worth a total of **20 marks**.

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Study the extract below and answer the questions that follow.

#### ITEM 1: BREAKING BUSINESS NEWS

News item appearing in all major English-language newspapers and global media.



Business Tues Nov 15, 2016 6:56am EST

## EU ends banana war with Latin America

NEW YORK



Columbian banana workers. November 16, 2017.  
REUTERS/Teresa Johnston

The European Union reached agreement on Monday to put an end to a decades-long trade dispute with Latin American and other smaller producers over tariffs and quotas on banana imports from those countries in the EU-Latin America preferential free trade agreement, diplomats said. In return, Latin American banana producing countries are expected to drop challenges to the EU, the world's largest trade zone, at the WTO. The move only applies to Latin American and not African banana exporting countries at this stage.

The move means that foreign direct investment in the banana industries of major banana producing countries such as Columbia is likely to pick up, with several multinational corporations expressing satisfaction with the ruling.

Investment in such industries by multinational corporations will expand the banana industry and reduce the need for development assistance in these countries. There will be a reduction in the underemployment of resources. However, there is concern amongst economists surveyed about the over-specialisation of developing countries in producing just a few products for export.

#### EDITOR'S CHOICE



A dramatic week ahead



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#### TRENDING ON REUTERS

IB Students show very elevated levels of stress compared to other students 1

Sarah Palin and Donald Trump announce birth of new daughter, Freedom Hilton 2

Queen Margaret College rocked by rampant student lethargy during mocks 3

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### QUESTIONS

- a. Define the following terms from the newspaper extract above, concerning economic growth and development:
- i. Multi-national corporation **[2 marks]**
  - ii. Development assistance **[2 marks]**
- b. Explain how the overspecialisation in the production of bananas can be a barrier to economic development. **[4 marks]**
- c. Use a diagram to explain the effects of lower EU tariffs on banana producers in Latin-American. **[4 marks]**
- c. **HL.** Use a diagram to explain why larger banana plantations can achieve average costs of production that are lower than that of smaller banana producers. **[4 marks]**
- d. Evaluate the roles of preferential trade agreements and the World Trade Organization in economic development. **[8 marks]**

### QUESTIONS

- a. Define the following terms from the newspaper extract above, concerning economic growth and development:
- i. Quota **[2 marks]**
  - ii. Underemployment **[2 marks]**
- b. Explain two characteristics of economically less developed countries that attract foreign direct investment. **[4 marks]**
- c. Use a diagram to explain the effects of lower EU tariffs on banana consumers in the EU. **[4 marks]**
- d. Evaluate the impact of foreign direct investment for economically less developed countries. **[8 marks]**

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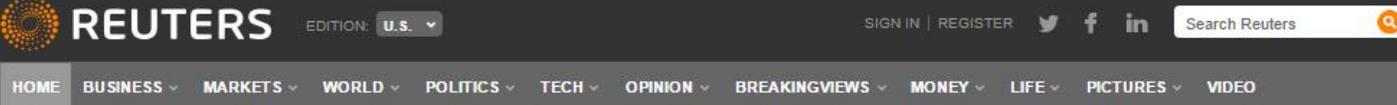
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#### ITEM 2: BREAKING BUSINESS NEWS

News item appearing in all major English-language newspapers and global media.



Business Tues Nov 15, 2016 6:56am EST

## Mideast Money: Surge in foreign fund inflows sets stage for Egyptian boom

NEW YORK



Teens shopping in a Cairo market. November 16, 2017.  
REUTERS/Teresa Johnston

Encouraged by Egypt's economic reforms, human capital development, a major gas find, streamlined business rules and a devalued currency, investors are increasingly optimistic about prospects for the North African country after years of political turmoil. Foreign direct investment has also surged. Analysts say that multinational corporations have expanded their operations in the country in recent year, highlighting the fact that both General Motors and VW have built new car manufacturing plants in Egypt in recent years.

The gas discoveries should eventually make Egypt a gas exporter and boost its plans to become a regional energy hub. Besides the gas, private equity firms say reforms launched since the end of 2016 that secured a \$12 billion loan program from the International Monetary Fund (IMF) have shifted sentiment enough to spur investment, despite the risks.

The Egyptian government has embarked on significant infrastructure development, expanding ports and rail networks in the hope of attracting additional foreign capital to help it develop and expand its gas industry.

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### QUESTIONS

- a. Define the following terms from the newspaper extract above, concerning economic growth and development:
- i. Infrastructure **[2 marks]**
  - ii. Human capital **[2 marks]**
- b. Distinguish between economic development and economic growth. **[4 marks]**
- c. Comment on the following statement: "Economic development cannot take place without economic growth". **[4 marks]**
- d. Using information in the text and your knowledge of economics, discuss the possible effects of foreign direct investment (FDI) in Egypt's gas fields on the country's economic growth and development. **[8 marks]**

### QUESTIONS

- a. Define the following terms from the newspaper extract above, concerning economic growth and development:
- i. Foreign direct investment **[2 marks]**
  - ii. Multinational corporation **[2 marks]**
- b. Outline two characteristics of economically less developed countries that attract foreign direct investment. **[4 marks]**
- c. Use a diagram to explain the effect of increased foreign direct investment on Egypt's currency (the Egyptian pound). **[4 marks]**
- d. Using information in the text and your knowledge of economics, discuss why MNCs may choose to expand into economically less developed countries. **[8 marks]**

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