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**ECONOMICS**

**0455/32**

Paper 3 Analysis and Critical Evaluation

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**1 hour 30 minutes**

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**READ THESE INSTRUCTIONS FIRST**

This Insert contains extracts for Questions 1 and 2.

Anything written on this Insert will not be marked.

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This document consists of **3** printed pages and **1** blank page.



**Extract for Question 1****Diamond mining in Sierra Leone**

Sierra Leone is a very poor African country which regularly comes bottom of the United Nations' Human Development Index (HDI). In 2008 its Gross Domestic Product (GDP) per head was only 1.5% of that of the United States (US). The average income in the US was US\$46 000. In the same year, Sierra Leone had an HDI value of one-third of the US's HDI value of 0.96.

Sierra Leone's government has often hoped that its diamond mining industry will reduce poverty in the country. The country's exports of diamonds rose in value by more than five times between 2000 and 2007. Tax revenue from the industry also rose significantly over this period. Multi-national companies (MNCs) have been encouraged to mine for diamonds in the country. If more MNCs come into the country, the government may raise more corporation tax and income tax revenue, and reduce its budget deficit (the excess of its spending over its tax revenue).

The diamond industry, however, is subject to significant changes in demand and supply and, as a result, this leads to significant change in the price. In 2008 diamond prices fell. World demand decreased as incomes in a number of countries declined. The demand for diamonds is very sensitive to changes in both income and price. With consumers cutting back on their purchases of diamonds, a number of mines were closed throughout the world. More than 100 000 workers lost their jobs in India, which has the world's largest diamond cutting and polishing industry.

Demand for diamonds continued to decrease in 2009. As a result, some of Sierra Leone's diamond miners switched to working in agriculture. A number of diamond mining firms started to search for other minerals, including gold. Some government ministers welcomed the search as, if successful, the economy would become more diversified.

## Extract for Question 2

### The changing fate of the Philippines

Three decades ago the Philippines was one of the richest Asian economies. Its slower growth rate, however, caused it to fall behind its neighbours. Its position may now be changing. In 2007 its annual economic growth rate rose to 7.3%, its highest rate for 31 years. Its annual economic growth rate fell to 4.6% in 2008 but, nevertheless, it experienced positive economic growth during a period of global recession (economic downturn).

One of the reasons why the economy of the Philippines performed better than many other economies was its government's increased spending on infrastructure and social services. Investment still needs to increase to improve the country's relatively low labour productivity, and more effective government policy measures are needed to reduce poverty. Indeed, the number of people in the Philippines living below the poverty line has risen to nearly 4 million in recent years. The government is aiming to raise its country's income relative to its Asian neighbours (see Table 1). It has considered subsidising house-building to reduce poverty.

The country benefits from remittances (money sent home by workers) from the 11 million people from the Philippines who work abroad. The Philippines is the fourth largest recipient of remittances in the world and these remittances have helped to protect it from the effects of the global recession.

In 2009 the government was still trying to reduce the country's budget deficit. In 2005 it expanded the coverage of its value added tax (VAT) and raised its rate from 10% to 12%. Tax revenues, however, remain relatively low, in part, because of tax evasion.

**Table 1: Gross Domestic Product (GDP) and population in selected Asian economies in 2007**

Country	GDP (US\$ billion)	Population (million)
China	3330	1332
Indonesia	456	228
Thailand	260	65
Malaysia	182	26
Philippines	170	85

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