UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS **0455/31**

Paper 3 Analysis and Critical Evaluation **May/June 2011**

1 hour 30 minutes

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READ THESE INSTRUCTIONS FIRST

This Insert contains extracts for Questions 1 and 2.

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UNIVERSITY of CAMBRIDGE
International Examinations

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Extract for Question 1

The global water crisis

For a long time, people did not treat water as a finite resource. Indeed, even today the price of water does not equate demand and supply as the price is usually set too low. One third of the world's population suffers from a shortage of drinkable water. This problem is set to get worse as the demand for usable water increases.

Demand for water is increasing for a number of reasons. One obvious reason is the growth in world population. It is anticipated that the world population may rise by 3 billion by 2050. Some economists also argue that global warming is contributing to longer droughts and more intensive periods of rain which are difficult to manage. The main cause, however, is thought to be a change in diet resulting from higher incomes. As people get richer they eat more meat and producing meat uses a greater quantity of water than producing a vegetarian diet. For instance, whilst it takes 1000 litres of water to grow one kilogram of wheat, it takes 16 000 litres of water to produce one kilogram of beef.

Agriculture accounts for over 70% of the world's use of water, whereas manufacturing uses less than 20% and households use just 10%. Manufacturing has increased its efficiency in water use. Agriculture may also be able to do so, but the rise in the quantity of meat that people are eating and the increase in the growth of biofuels (crops grown to produce fuel) are likely to see its demand for water increasing for some time.

To date, the main focus for some governments has been on reducing household waste of water and a number of governments have run campaigns encouraging people to save water. In Israel, for example, the government has imposed a tax on household use of water.

Extract for Question 2

Economic challenges facing Brazil

In recent years there has been an increasing demand for a range of commodities produced by Brazil including coffee, cotton, iron ore, maize and soya. As a result, Brazil's exchange rate has risen and this has led to some concern that Brazil's producers of machinery and electrical equipment will find it difficult to export their products. Brazil, however, is similar to the United States in being relatively self-sufficient. Brazil exports approximately only 13% of what it produces and imports only 12% of what it consumes.

Brazil does, nevertheless, attract a considerable amount of investment from abroad. In 2009, foreign firms were encouraged to invest US$31 billion in setting up new firms and buying existing firms in Brazil. The Brazilian economy is seen as possessing considerable growth potential. Its primary sector, which accounts for 18% of the country's GDP, is strong, and its secondary sector, which contributes 20% of the country's GDP, is expanding rapidly. Consumer expenditure is rising and is expected to increase further if the government's attempt to reduce poverty by raising spending on education is successful.

With higher consumption, some Brazilian producers have increased their prices which has affected the general price level (see Table 1). Combined with higher exchange rates, this has had an unfavourable effect on the international competitiveness of some of Brazil's products. The higher price level has also led to some uncertainty and has encouraged workers to demand wage rises.

Table 1: Brazil's inflation rate

Year	Annual percentage (%) change in consumer prices
2005	6.9
2006	3.8
2007	4.2
2008	5.8
2009	4.3

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