UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS **0455/31**

Paper 3 Analysis and Critical Evaluation **October/November 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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Extract for Question 1

The Brain Drain

The emigration of workers can have a noticeable impact on both the countries they leave and the countries they go to. The loss of skilled workers to other countries is sometimes referred to as a 'brain drain'. In contrast, the countries that workers go to, such as the UK and the United States (US), experience a 'brain gain'. For instance, doctors from a range of countries go to work in the UK. Some of these come from Ghana, and more than three-quarters of doctors trained in Ghana leave within ten years of qualifying to work abroad.

The departure of skilled workers can discourage foreign multi-national companies from setting up in the country. It may also widen the gap in the pay between skilled and unskilled workers. Skilled workers who stay in their country may experience wage rises because of skill shortages. The pay of unskilled workers may fall if emigration reduces overall economic activity. In addition, it can lower tax revenue and can increase the dependency ratio if workers leave their children and elderly parents to be cared for by relatives.

The money sent back home by workers (known as remittances) does, however, make a significant contribution to some countries' Gross Domestic Product (GDP) (see Table 1). In addition, some of those who go to work abroad may return with higher skills which will benefit their home countries. The prospect of well paid jobs abroad can also encourage more students to continue into higher education. If some of these students stay in their home country when they graduate, the country's output and tax revenue will increase. With higher qualifications, students will be more productive and are more likely to gain highly paid jobs. For instance, the prospect of working in the US information technology (IT) industry encouraged Indians to develop IT skills and helped build up the Indian IT industry.

Table 1: Workers' remittances in 2007

Country	Inflows of remittances (US$ billion)	GDP (US$ billion)
India	35	1177
China	33	3206
Mexico	27	1023
Philippines	16	144
France	14	2590
Spain	11	1437
Poland	10	422
Nigeria	9	165

Extract for Question 2

Microfinance

Muhammad Yunus was working as an Economics lecturer at the University of Chittagong in Bangladesh when he lent US$27 to a group of poor villagers. This inspired him to start the Grameen Bank in 1983, which lends to poor people who previously could not get loans.

Microfinance is designed to reduce poverty by providing financial services to those whom conventional commercial banks are unwilling to accept as customers. Microfinance covers small loans, many of which are below US$100, to poor people who are seeking to start their own business. For instance, a loan may be made to a group of villagers to buy sewing machines to make clothes. Interest is charged on the loan but the intention is to charge less than that of the traditional money lenders from whom the poor usually borrow. Banks offering microfinance also provide facilities for the poor to save.

Microfinance has spread throughout Asia and Africa. It has enabled a number of people who have entrepreneurial skills to set up a business. This can enable not only them, but also those they employ and buy from, to raise their income and so their ability to purchase basic, inexpensive capital goods.

Some of the borrowers, however, have used their loans for other purposes including buying mobile (cell) phones and televisions and paying household bills. A number of the borrowers have found it difficult to repay the loans, often because they lack the necessary entrepreneurial skills. A number of poor people would prefer to work for someone else rather than run their own business.

Some economists suggest that microfinance is not sufficient to reduce poverty. They argue that it is also necessary to improve the educational and health care facilities available to the poor.

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Table 1 © *The Economist Pocket World in Figures 2010 Edition*; Profile Books Ltd; 2009.