ZIMBABWE SCHOOL EXAMINATIONS COUNCIL

General Certificate of Education Advanced Level

ECONOMICS 6073/2

PAPER 2 Data Response

SPECIMEN PAPER 1 hour 15 minutes

Additional materials:
Answer paper

TIME 1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, centre number and candidate number in the spaces provided on the answer paper/answer booklet.

Answer **both** questions.

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

Brief answers only are required.

INFORMATION FOR CANDIDATES

The questions in this paper carry equal marks. The number of marks is given in brackets [ ] at the end of each part question.

You should spend at least five minutes reading through the data for each question before you begin writing your answers.

This specimen paper consists of 4 printed pages.

Copyright: Zimbabwe School Examinations Council, Specimen Paper.
©ZIMSEC SPECIMEN PAPER

[Turn over

1 Study the extract below and answer the questions that follow.

A rise in demand for raw materials could herald better times for African producers.

The biggest news in the African and global mining sectors is the ongoing recovery in the price of mining commodities. This generates more income and employment for mining firms and commodity exporting countries, and also has profound implications for planned and postponed projects. What began as a rise in demand for coking coal and a modest improvement in the outlook for the commodity hungry Chinese economy has broadened out into a more optimistic view of the entire African mining Industry's prospects.

The recovery has now extended to copper. Prices have risen from $4 300 a tonne in January 2016 to $5 934 on 15 January this year. Recovering Chinese demand is in large part responsible for the rise in copper prices. China,which accounts for 45% global copper consumption, imported a record 16.96m tonnes of copper concentrate in 2016, up 28% from previous year plus 4.95m tonnes of refined copper, a 2.9% rise on the 2015 figure.

Apart from China, the electoral victory of Donald Trump as president of the United States has also contributed to the recovery in commodity prices. He has drawn up plans for a $500bn infrastructural programme to create jobs and boost growth in the world's biggest economy. This will increase demand for copper as well as many metals.

Source: African Business: February 2017

(a) **(i)** What is the difference between a rise in demand and an increase in quantity demanded. [2]

(ii) With reference to the article, explain how America contributed to a rise in commodity prices. [2]

(b) **(i)** Calculate the percentage increase in the price of copper between January 2016 and January 2017. [2]

(ii) Using a diagram, explain how a rise in demand for mining commodities result in improvement in their prices. [4]

(c) Analyse the effects of an increase in commodity prices to African economies. [4]

(d) Evaluate the importance of value addition to the mining industry. [6]

2 Read the passage below and answer the questions that follow:

Foreign Investors to get tax incentives

Government has agreed to offer tax incentives to foreign investors willing to invest in companies that currently require huge capital injection.

In an interview with the Herald Business yesterday, Finance and Economic Development Deputy Minister Dr Samuel Undege said a team from different ministries was in Nyanga discussing the possible incentives that can be rolled out to investors.

"It's for the country's benefit if Government comes up with incentives that can promote foreign direct investment. We need to lure investors into the country and the only way it can be done is through the creation of an investor-friendly environment.

"A special package of incentives is set to lure investors and help revive the country's ailing firms, which are at the heart of the new economic blue-print, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (Zim-Asset)," said Dr Undege.

He said efforts to provide tax incentives for investors are at an advanced stage with a strategic paper set to be presented before Cabinet soon.

Analysts have said the country needs to create a conducive business environment with lower tax levels and tax breaks than those prevailing within the SADC region, giving the country an obvious advantage.

"Ireland is one such country that has attracted international corporations because of a low tax rate of about 12,5 percent. With a favourable tax regime the country is bound to attract a few corporate head offices or administrative offices for global corporations targeting Africa. For instance, Facebook is seriously looking into opening an African office. This in part is job creation (the promised two million jobs under Zim-Asset) and tax revenue," said economist MrNyashaHwata.

Dr Undege said giving incentives to investors was in line with plans to establish special economic zones.

"As you can see companies like the National Railways of Zimbabwe require huge capital injection, therefore all interested investors are certainly going to get incentives," Dr Undege said.

Government plans to set up special economic zones in the country with Bulawayo and Manicaland set to be conferred with the status.

Setting up a SEZ would entail implementation of enabling or attractive policy in the form of tax exemptions or tax holidays for companies operating in certain industries, e.g. manufacturing sector or real estate, tax exemptions on export profits for companies operating within the zone and tariff reduction or subsidies. Such provisions would then attract investors to set up shop in an area and consequently revive the industry landscape there.

In pursuit of this goal a Cabinet update paper has been prepared by the Ministry of Finance and Economic Development to be presented before the Cabinet on the progress done so far.

Source: The Business Herald; 15 May 2014, Page B1

(a) **(i)** What is meant by "foreign direct investment"? [2]

(ii) Explain the relationship between taxation and investment. [2]

(b) **(i)** Explain the immediate impact of tax exemptions on government budget. [2]

(ii) With reference to the extract, explain two ways the society can benefit from a favourable tax regime. [4]

(c) Analyse any **two** non-fiscal policy measures government can pursue to attract foreign investors. [4]

(d) Discuss the possible consequences of foreign direct investment on the Zimbabwean economy. [6]