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INSERT

1 hour 30 minutes

READ THESE INSTRUCTIONS FIRST

This Insert contains extracts for Questions 1 and 2.

Anything written on this Insert will not be marked.

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



Extract for Question 1

Russia's tax on imported cars

In August 2010, Russia's Prime Minister announced plans to raise the government's tax on imported cars. Russia's car industry has been significantly reduced as a result of foreign competition. This has increased unemployment in the country and reduced the growth of the country's output. In the late 1990s, Russia's Gross Domestic Product (GDP) fell. It has risen at a relatively high rate in recent years but the country's unemployment rate remains higher than in many other European countries.

Avtovaz, also known as Lada, is the only significant Russian car manufacturer left in the market. Not only has the production of cars fallen in Russia but so has the productivity of Russian car workers. Russian car firms have faced a number of other problems including a rise in the value of Russia's exchange rate and a rise in the price of steel.

The reason for the rise in the tax on imported cars is to encourage foreign car manufacturers to produce in Russia so as to avoid the tax. There is a range of influences on where multi-national companies set up. These include the rate of corporation tax (a tax on companies' profits), the size of the market, government subsidies and the quality of the labour force.

Russia is trying to gain a number of advantages by attracting multi-national companies to set up in the country. One is to increase the value of exports and so have a beneficial effect on the current account of its balance of payments. Table 1 shows its international trade position in recent years.

Table 1: The value of exports and the current account of the balance of payments in Russia 2007–2010

Year	Value of exports (US\$ billion)	Current account of the balance of payments (US\$ billion)
2007	183.5	59.9
2008	243.6	83.3
2009	303.9	94.3
2010	354.4	76.2

Increasing tariffs is a policy measure that can have uncertain effects. It can result in a number of disadvantages for consumers and the economy.

Extract for Question 2**Changes in the Kenyan tea market**

Kenya is a major tea producer. The product accounts for 18% of Kenya's exports and provides employment for many farmers and tea pickers. The supply and the price of tea can be very changeable. In 2009, drought destroyed much of the country's tea crop. In contrast, in 2010, the good weather led to an oversupply of tea with Kenyan farmers finding it difficult to sell all of their crops. Fluctuations in the price of tea cause changes in output which, in turn, can lead to periods of unemployment for some tea pickers.

Kenya is facing increased competition from tea producers in a number of Asian and African countries. Pakistan is the most important buyer of Kenyan tea. In 2003, for example, 85% of the tea that Kenya exported was consumed in Pakistan. In 2010, however, the percentage had fallen to 65%. Pakistan is buying an increasing proportion of its imports of tea from rival countries, including Sri Lanka, India and Mali.

Kenya produces low quality tea but there is a change in taste towards demanding high quality tea. Despite paying low wages to tea pickers, Kenyan farmers face relatively high average costs. They produce on a small scale, using a small amount of capital equipment. The Kenya Tea Development Authority is trying to encourage Kenyan farmers to switch to high quality tea, using more efficient methods of production.

Some Kenyan economists have suggested the government should subsidise Kenyan farmers to sell more tea to Pakistan and other countries.

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