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Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/23**

Paper 2 Structured Questions **May/June 2015**

2 hours 15 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer Question 1.
Section B
Answer any **three** questions.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **5** printed pages, **3** blank pages and **1** Insert.

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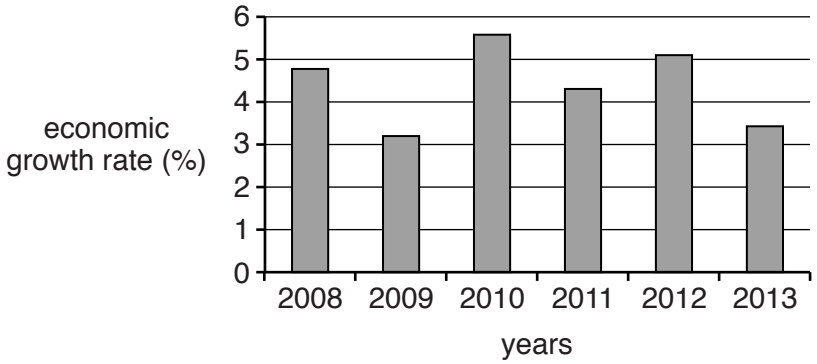
Section A

Answer this question.

1 Lesotho tries to reduce its dependence on South Africa

Lesotho is a small African economy which in 2013 had a Gross Domestic Product (GDP) per head of US$2000. The country is completely surrounded by South Africa. The performance of Lesotho's economy is strongly influenced by the performance of the South African economy. About 80% of Lesotho's exports go to South Africa and 90% of its imports come from South Africa. Many people from Lesotho work in South Africa, particularly in South Africa's mines. Fluctuations in South Africa's economic growth rate have had a significant impact on Lesotho's economic growth rate. Fig. 1 shows Lesotho's recent economic growth rate.

Fig. 1: Lesotho's economic growth rate, 2008–2013



Unemployment increased in both South Africa and Lesotho between 2008 and 2013. The Lesotho Government is trying to develop four main industries and is seeking more markets for their products in order both to reduce its reliance on one country and to lower poverty. Higher output could increase employment in the country. This should reduce the number of people living on less than US$2 a day and the number of children suffering from malnutrition.

The four main industries the Government is seeking to develop are agriculture, diamond mining, textiles and tourism. Most of the farming currently undertaken is subsistence farming. In 2012, agricultural output fell due to a widespread drought. The agricultural industry lacks investment and the Government is considering subsidising farmers. Currently, Lesotho mines approximately 0.5% of the world's supply of diamonds. Whether its output of diamonds can be increased will depend on whether more deposits of diamonds can be found. It also takes some time to open new mines.

Nearly 40 000 people are employed in Lesotho's textile industry, which has benefited in recent years from a fall in tariffs imposed by the United States of America on textile imports.

The tourism industry contributed 2% to Lesotho's GDP in 2013. The Government thinks that it has considerable potential for growth. The country is seeking to attract tourists not just from South Africa but from a wide range of countries, including China. The Lesotho Government is developing trade links with China, hoping that the continuing rise in China's GDP will reduce the deficit Lesotho has on the current account of its balance of payments.

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(a) Using information from the extract, identify **three** reasons why Lesotho is considered to be a developing country. [3]

(b) Using information from Fig. 1:

(i) describe what happened to output in Lesotho between 2008 and 2009 [2]

(ii) explain in which year output was highest in Lesotho. [2]

(c) Using information from the extract, explain why the supply of diamonds is price inelastic. [3]

(d) Analyse how a subsidy to farmers may affect the market for food. [5]

(e) Discuss whether Lesotho would benefit from more of its people working abroad. [5]

(f) Explain **two** reasons why governments impose tariffs. [4]

(g) Discuss whether a rise in China's Gross Domestic Product is likely to reduce Lesotho's current account deficit. [6]

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Section B

Answer any **three** questions from this section.

2 In 2009, the unemployment rate in Spain was 8% and the annual inflation rate was 3%. By April 2013, the unemployment rate had reached a record 27% but the annual inflation rate had fallen to 2%. The resulting rise in government spending on unemployment benefits involved an opportunity cost.

(a) Define 'inflation'. [2]

(b) Explain why government spending on unemployment benefits involves an opportunity cost. [4]

(c) Using a production possibility curve diagram, analyse the effect of an increase in unemployment on a country's output. [6]

(d) Discuss whether a rise in unemployment will cause a fall in inflation. [8]

3 There has been significant deforestation by logging companies in Sarawak. This is seen as a market failure by some economists, who want the industry to be regulated by the government. Other economists, however, suggest that a market system approach has benefits.

(a) Define 'regulation'. [2]

(b) Explain how resources are allocated in a market system. [4]

(c) Analyse the causes of market failure. [6]

(d) Discuss whether an economy will benefit from its forests being cut down. [8]

4 The governments of some African countries are introducing identity cards that also act as electronic payment cards. This should reduce the number of payments made by cash (notes and coins) and encourage more people to use mobile (cell) telephone banking systems. More customers will allow banks to grow in size and may help people and firms to save and borrow.

(a) Identify **two** influences on the amount people save. [2]

(b) Explain why cash (notes and coins) is money. [4]

(c) Analyse the possible effects of an increase in bank lending on economic growth. [6]

(d) Discuss whether the poor are more likely to borrow than the rich. [8]

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5 Company X, a private limited company, is one of the world's largest toy producers. It is planning to open a new factory in China in 2017. Asia is expected to become the largest market for the sale of toys. Manufacturing products within Asia will reduce the need to transport the toys from Company X's factories in Europe to Asia.

(a) Define 'private limited company'. [2]

(b) Explain **two** influences on what factors of production a firm uses. [4]

(c) Analyse how an increase in the size of a firm can increase its profit. [6]

(d) Discuss whether an economy would benefit from a foreign producer setting up in the country. [8]

6 The Indian airline industry contains a number of firms, including one state-owned firm and a large private sector firm. In recent years, the industry has moved further from perfect competition, partly because of a rise in horizontal integration. The performance of the industry is influenced by government policy, including supply-side policy measures.

(a) Define 'horizontal integration'. [2]

(b) Explain **two** characteristics of perfect competition. [4]

(c) Analyse how **two** supply-side policy measures could improve the performance of an airline industry. [6]

(d) Discuss whether price is likely to be higher in a monopoly than in a perfectly competitive market. [8]

7 Australia operates a floating exchange rate system. In April 2013, the Australian dollar reached its highest value in almost 28 years. The increase in the foreign exchange rate decreased exports of cars from Australia, resulting in reduced employment and wages. However, some Australian industries, including coal mining, did experience an increase in their output and export revenue.

(a) Define 'exchange rate'. [2]

(b) Explain **two** benefits of a floating exchange rate system. [4]

(c) Analyse the effects of a rise in unemployment on living standards in a country. [6]

(d) Discuss whether coal miners are likely to be paid more than car assembly workers. [8]

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