GradeMax

Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/22**

Paper 2 Structured Questions **February/March 2016**

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.

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Section A

Answer this question.

1 India, the United States of America (US) and wheat production

Agriculture accounted for 17% of India's Gross Domestic Product (GDP) of US$1 890 billion in 2013. GDP had increased from US$1 769 billion the year before. The country's population increased from 1.22 billion in 2012 to 1.26 billion in 2013.

In 2013, both India and the US were in the top ten producers of wheat. India achieved third place with an output of 95 million tonnes while the US was placed fourth with an output of 62 million tonnes.

Only 1.6% of the US labour force was employed in agriculture, in contrast to India's 45% in 2013. While agricultural subsidies have decreased in the US, they remain high in India. The Indian Government considers that help for its farmers is important for its national security and that food subsidies help reduce poverty. Between 2010 and 2013, the Indian Government had spent US$15 billion on subsidising fertilisers to raise the fertility of the soil. Subsidising fertilisers has increased the output of wheat but has also resulted in polluted rivers.

The Indian Government thinks that in the long run its agricultural sector will become more efficient and the need for subsidies will be reduced. It expects that its workers will become more educated and that the amount of capital equipment that will be used in agriculture will increase. Some US economists have questioned this optimism. They point out that the state-owned Food Corporation of India had to buy 30% of the country's annual wheat harvest and that the country had a large stockpile of unsold wheat in 2014.

Trade between India and the US is increasing. US citizens are buying a greater quantity of goods and services from India. For example, with rising life expectancy in the US, which had already reached 79 years in 2014, there is an increase in the imports of Indian medicines into the US.

The trend in trade between the two countries will be influenced by a number of factors. These include the exchange rate between the US dollar and the Indian rupee. The price of the US dollar is determined by market forces, so there may be fluctuations in the long-term trend.

(a) Using information from the extract, identify **two** examples of the factor of production 'land'. [2]

(b) Explain the type of exchange rate system referred to in the extract. [2]

(c) Using information from the extract, calculate the rise in GDP per head in India from 2012 to 2013. [3]

(d) Explain **two** characteristics of the US mentioned in the extract that suggest that it is a developed country. [4]

(e) Using information from the extract, analyse **two** reasons why the productivity of Indian agricultural workers is likely to increase in the future. [4]

(f) Discuss whether an increase in output always reduces average cost. [5]

(g) Explain the cause of the example of market failure referred to in the extract. [4]

(h) Discuss whether food subsidies reduce poverty. [6]

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Section B

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

2 The price of shares in a large UK supermarket firm fell on the London Stock Exchange in 2014 when it was announced that it was expecting a reduction in its profits. The increased competition from German supermarket firms had forced the UK supermarket to consider a number of ways of cutting its costs by, for example, reducing some of its workers' wage rates and increasing some workers' working hours.

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

(b) Explain why some firms may have survival as a short-term goal. [4]

(c) Analyse how consumers may suffer as a result of a fall in the profits firms earn. [6]

(d) Discuss whether a decrease in wage rates and an increase in working hours will always reduce the supply of workers to a firm. [8]

3 A falling death rate is affecting the size of China's population, which in turn is influencing demand for a range of products including table salt. The Chinese Government has recently considered ending the state salt monopoly. An online survey, however, revealed that most Chinese people oppose introducing more competition into the market, thinking it will cause the price of salt to rise.

(a) Define a 'monopoly'. [2]

(b) Explain how a falling death rate may affect demand in a country. [4]

(c) Analyse why price can be lower in a monopoly market than in perfect competition. [6]

(d) Discuss whether an increase in a country's population size will cause an increase in living standards. [8]

4 Between 2008 and 2014, Greece's Gross Domestic Product fell by 25%. Thousands of sole proprietors and other business organisations went out of business. As a result, the unemployment rate increased to 28%. The Government reduced its spending and was being encouraged by the International Monetary Fund to cut its corporation tax (the tax on firms' profits).

(a) Identify **two** costs of unemployment. [2]

(b) Explain **two** advantages of a sole proprietor. [4]

(c) Analyse how a reduction in government spending may affect unemployment. [6]

(d) Discuss whether a cut in corporation tax will increase economic growth. [8]

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5 In 2014 the inflation rate in the United States of America (US) was 2.0%. The unemployment rate in the US was 6.1%, the lowest rate in six years. The economy was not yet at full employment but not all job vacancies were filled. A higher proportion of US students were going to university. Investment, which is spending on capital goods, was increasing.

(a) What is the opportunity cost to a person of going to university? [2]

(b) Explain why there may be some people unemployed whilst there are job vacancies. [4]

(c) Analyse how an increase in investment may affect unemployment. [6]

(d) Discuss whether supply-side policy measures will reduce inflation. [8]

6 In 2014 the World Trade Organisation ordered China to end its export quotas on its rare earth metals, which are used in smartphones, laptops, tablets and other electronic equipment. China supplies 90% of the world's rare earth metals and is also the world's largest consumer. The supply of these metals is inelastic, and changes in their price affect the costs of producing a range of products.

(a) Define an 'export quota'. [2]

(b) Explain the difference between inelastic supply and perfectly inelastic supply. [4]

(c) Using a demand and supply diagram, analyse how an increase in the cost of producing smartphones will affect the market for smartphones. [6]

(d) Discuss whether a country exporting its raw materials always benefits its economy. [8]

7 There has been a growth in foreign tourism. More people from both developed and developing countries are taking holidays abroad. Foreign tourism brings both advantages and disadvantages. Employment is created but some of the jobs are low-paid and low-skilled. The quality of employment can vary between developed and developing countries, as can the problems they face, including population problems.

(a) How are earnings received by a country from foreign tourism recorded in the current account of its balance of payments? [2]

(b) Explain **two** factors that could cause an increase in foreign tourists to a country. [4]

(c) Analyse why workers with the same skills may be paid different wage rates. [6]

(d) Discuss how population problems in developing countries may differ from those in developed countries. [8]

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