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Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/23**

Paper 2 Structured Questions **May/June 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.

This document consists of **4** printed pages and **1** Insert.

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Section A

Answer this question.

1 Changes in the shipbuilding industry

China is becoming even more dominant in the global shipbuilding industry. In 2013 it accounted for 45% of ships built in terms of tonnage. It is concentrating particularly on building container ships. In 2012 China built six of the largest container ships for a total cost of US$870 million. In 2013 it produced eight container ships of the same capacity with the total cost rising less proportionately to US$1040 million.

The second-largest producer of ships is South Korea. One of its firms has built the largest container ship in the world. The firm is facing increasing competition from another large firm in the country. In 2014 the two firms announced they were planning to merge, if they could get the approval of their shareholders. Both firms are listed on the country's stock exchange.

The relative share of the global market that a shipbuilding firm has is influenced by a number of factors. These include the quality and quantity of the labour force employed. In 2013 China's total labour force was 800 million, in comparison to South Korea's 26 million. China's unemployment rate of 3% was slightly lower than that of South Korea at 4%. A country's exchange rate also influences how many ships are built and sold. In 2012 the value of the South Korean currency, the won, was 1126 won per dollar. This changed to 1107 won per dollar in 2013. This trend in the value of the won was expected to continue into 2014, with changes in the relative price of South Korean ships and a possible change in South Korea's economic growth rate.

While shipbuilding is increasing in a number of countries, including China and South Korea, it is falling in other countries such as the UK. Some economists welcome the decline, stating that producing fewer ships has reduced noise pollution in a number of cities and has reduced traffic congestion in the areas where the shipyards used to operate. Other economists regret the decline in the shipbuilding industry, which they claim is the result not only of a failure of UK shipbuilders to respond to change but also to the subsidies that foreign governments pay to their shipbuilders.

(a) Using information from the extract, explain whether the average cost of building the largest container ships in China rose or fell between 2012 and 2013. [2]

(b) Explain what type of business organisation the extract suggests the two large South Korean shipbuilding firms are. [2]

(c) Using information from the extract, explain **two** external costs that shipbuilding can cause. [4]

(d) Calculate how many more people were unemployed in China than in South Korea in 2013. [3]

(e) Analyse **two** reasons, referred to in the extract, why shipbuilding is declining in the UK. [4]

(f) Discuss whether a merger between two shipbuilding firms will improve the quality of ships built. [5]

(g) Using information from the extract, explain whether the value of the South Korean won was expected to rise or fall in 2014. [4]

(h) Discuss whether a government should protect its country's shipbuilding industry. [6]

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Section B

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

2 The 2014 crop of Arabica beans, used to make coffee, was reduced by a drought which occurred in Brazil in early 2014. The reduction in production pushed up the price of coffee. The higher price influenced the quantity of coffee demanded and the demand for its substitutes and complements. The demand for coffee tends to be price-inelastic. A change in the quantity and quality of exports of coffee abroad influences Brazil's current account of the country's balance of payments.

(a) Giving an example, define 'complements'. [2]

(b) Explain **two** reasons why demand for a product may be price-inelastic. [4]

(c) Using a demand and supply diagram, analyse the effect of a rise in the price of coffee on the market for tea. [6]

(d) Discuss whether improving the quality of the coffee that a country produces will result in a surplus on the current account of its balance of payments. [8]

3 An increasing number of Pakistani firms are employing managers educated at the country's universities. Pakistan's universities are also increasing the number of entrepreneurs in the country. Every entrepreneur and every manager faces a number of challenges including raising finance, sometimes by borrowing. Some entrepreneurs and managers also negotiate with trade unions. These organisations can influence a country's economic growth rate.

(a) Identify **two** risks that entrepreneurs have to bear. [2]

(b) Explain **two** reasons why firms may prefer to employ local managers rather than foreign managers. [4]

(c) Analyse why households and firms may borrow more during times of rapid economic growth. [6]

(d) Discuss whether the activities of trade unions are likely to increase or decrease a country's economic growth rate. [8]

4 In China, a smaller proportion of women are now dying in childbirth and more infants are surviving. These improvements have been the result of better care at birth, countrywide immunisation and improved living standards. The Government has offered subsidies to mothers who give birth in hospitals. This has increased the quality of care received and made it easier to give vaccinations to babies to protect them against illnesses and diseases.

(a) Identify **two** influences on a country's birth rate. [2]

(b) Explain **two** measures of comparative living standards. [4]

(c) Analyse the social benefits of giving vaccinations. [6]

(d) Discuss whether health care should be provided by the public sector or the private sector. [8]

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5 In 2014 the Government of Bangladesh lent money to the four big state-owned commercial banks that had got into difficulties by lending to high-risk customers. State-owned commercial banks are becoming less important. Privately-owned commercial banks have been increasing in size and importance and now have 75% of total deposits. The economy is moving from a mixed economy towards a market economy.

(a) Identify **two** reasons why people may keep some of their money in a savings account at a commercial bank. [2]

(b) Explain the different goals that state-owned commercial banks and privately-owned commercial banks may have. [4]

(c) Analyse how the growth in the size of commercial banks may benefit their customers. [6]

(d) Discuss whether living standards are likely to be higher in a mixed economy or a market economy. [8]

6 In 2014 Brazil's inflation rate was increasing while its unemployment rate was falling. In that year spending by the Government increased by 16% while its tax revenue fell by 8%. As a result the country's budget deficit increased.

(a) What is meant by an inflation rate increasing? [2]

(b) Explain **two** reasons why tax revenue may fall. [4]

(c) Analyse how a fall in unemployment may increase inflation. [6]

(d) Discuss whether a government should spend more than it raises in taxation. [8]

7 Many economists are predicting that relative poverty will increase whilst absolute poverty will fall in both India and the United States of America. The level of poverty can be influenced by, for example, education, the technology used and the number of new businesses created, including sole proprietorships.

(a) Define 'absolute poverty'. [2]

(b) Explain **two** different opportunity costs that may be involved in a person becoming a sole proprietor. [4]

(c) Analyse, using a production possibility curve, the effect of advances in technology. [6]

(d) Discuss whether increased spending on education will always reduce absolute poverty. [8]

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