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**Cambridge International Examinations**
Cambridge International General Certificate of Secondary Education

**ECONOMICS** **0455/22**

Paper 2 Structured Questions **February/March 2017**

**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 Low-cost airlines**

For several decades, low-cost airlines have been competing on short-distance flights not just with established airlines, but also with train travel and car travel. Now they are starting to compete with established airlines on long-distance flights. In response to this increased competition there have been some horizontal mergers occurring between the established airlines.

It is predicted that by 2030 China will become the world's largest domestic air travel market, with 20% of all global air travel. The USA is currently the dominant market and it is predicted that between 2015 and 2030 the country will order 6160 of the 28 000 passenger aircraft that will be produced.

India, which has both state-owned and private-sector airlines, is experiencing a great increase in both internal flights and flights to other countries. More airports are being built in India, with more facilities being provided inside and around the airports. For example, more taxi firms are being set up to take passengers to and from the airports. The rapid expansion of air travel in India and other countries is having an impact on the market for pilots, as shown in Fig. 1.

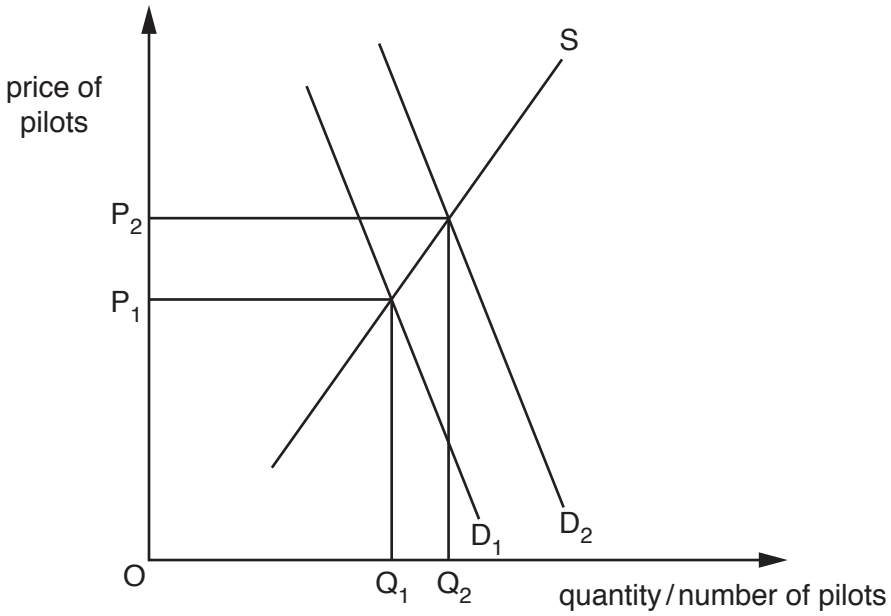



**Fig. 1 The market for pilots**

How rapidly the Indian air travel market will grow will be influenced by a number of factors. These include the extent to which business travel will grow and how rapidly demand for foreign holidays will increase. Demand for these forms of air travel is, in turn, influenced by changes in price. The price elasticity of demand for air travel has been estimated at –1.2. One factor that influences prices, and so the inflation rate, is changes in taxation.

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**(a)** Identify, using information from the extract:

**(i)** a substitute for air travel [1]

**(ii)** a complement to air travel. [1]

**(b)** Explain **two** advantages that firms may gain from a horizontal merger. [4]

**(c)** Calculate, using information from the extract:

**(i)** the percentage of the new passenger aircraft that the USA is predicted to purchase between 2015 and 2030 [2]

**(ii)** the percentage change in demand for air travel if the price of air travel falls by 15%. [2]

**(d)** Analyse why demand for a luxury holiday may be price elastic. [5]

**(e)** Discuss whether airlines should be state-owned or operated by the private sector. [5]

**(f)** Explain, using information from the extract and Fig. 1, what happened to the market for pilots in India in 2015. [4]

**(g)** Discuss whether a cut in taxation will reduce inflation. [6]

## Section B

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

**2** The actions of the Government of Georgia to reduce inflation and unemployment had an impact on the business organisations operating in the country in 2015. The country has an expanding tertiary sector including its banking sector. The country now has some features of a market economy.

**(a)** Identify **two** goals that business organisations may have. [2]

**(b)** Explain **two** functions of a commercial bank. [4]

**(c)** Analyse how the price mechanism influences the allocation of resources in a market economy. [6]

**(d)** Discuss whether an increase in output will increase the profits that firms receive. [8]

**3** Firms use different quantities of land, labour, capital and enterprise in producing their products. The ways in which a country's resources can be used, and the extent to which they are employed, can be shown on a production possibility diagram.

**(a)** What is the difference between capital and land? [2]

**(b)** Explain **two** reasons why a firm may decide to use more labour and less capital in producing its products. [4]

**(c)** Analyse, using a production possibility diagram, the effect on an economy's output when there is a change from full employment to unemployment. [6]

**(d)** Discuss whether it is always possible for a country to have low unemployment and low inflation at the same time. [8]

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**4** The amount that workers earn influences their living standards. Some workers receive relatively low pay. There are a number of ways a government can help the low-paid.

**(a)** Identify **two** wage factors that workers take into account when deciding on their occupation. [2]

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

**(c)** Analyse how fiscal policy can produce a more even distribution of income. [6]

**(d)** Discuss whether a rise in the wages paid to low-paid workers would benefit an economy. [8]

**5** Abu Dhabi is a rapidly developing economy. It is building three new museums in its new cultural district, which may attract more tourists and help its balance of payments. The museums will include some very highly priced works of art.

**(a)** Define 'balance of payments'. [2]

**(b)** Explain two characteristics of a rapidly developing economy. [4]

**(c)** Analyse how an increase in tourism can increase a country's inflation rate. [6]

**(d)** Discuss whether the rich always save more than the poor. [8]

**6** At the start of 2015, dockworkers on the west coast of the USA took industrial action in the form of a go-slow, disrupting exports and imports. This was coordinated by their trade union. Unions in the USA are declining in strength, particularly in the private sector. Most workers in the USA work in the private sector.

**(a)** Identify **two** aims of a trade union. [2]

**(b)** Explain **two** reasons for a decline in trade union membership. [4]

**(c)** Analyse why someone may switch from working in the public sector to working in the private sector. [6]

**(d)** Discuss whether a decrease in imports would increase a country's economic growth rate. [8]

**7** One way in which governments seek to reduce market failure is to introduce regulation. Governments also produce some goods and services by employing workers in the public sector.

**(a)** Define 'regulation'. [2]

**(b)** Explain **two** causes of market failure. [4]

**(c)** Analyse the possible opportunity costs of an increase in government spending on higher education services. [6]

**(d)** Discuss whether government policy measures can reduce unemployment. [8]

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