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Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/22**

Paper 2 Structured Questions **February/March 2018**

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 India's high-technology industry

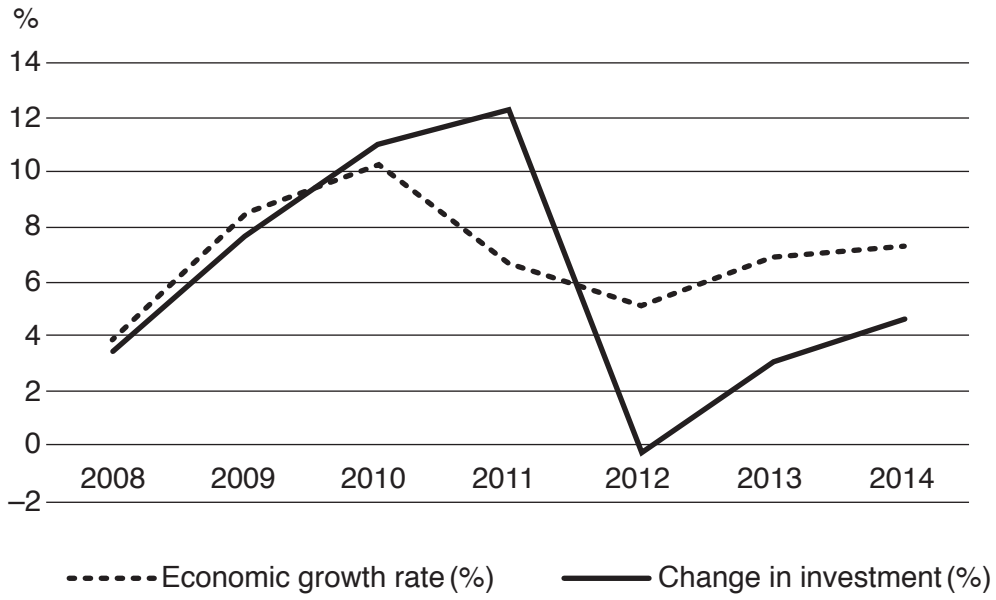
India has a number of expanding industries including construction, engineering, healthcare and retail. Its high-technology industry, which is often referred to as 'hi-tech', is its most rapidly growing industry, adding more than 200 000 jobs a year. It currently employs more than 10 million people and accounts for exports worth US$90 billion each year. Firms in the industry specialise in research and development, electronics and software production. Software production includes applications (apps) for smartphones and tablets.

One Indian hi-tech firm has developed an app that allows people to look at menus in a range of restaurants, to book a table and to order food. The firm now supplies the app in a number of countries including the Philippines, Turkey and the USA. This Indian hi-tech firm also produces electronic equipment in these countries. One of the reasons for its expansion abroad is the relatively low demand for restaurant meals in India. This situation could change soon as incomes rise and restaurants increase their advertising, including on the firm's app.

India's hi-tech industry is concentrated in Bengaluru (Bangalore). The city has strong links to universities and multinational companies (MNCs) and is home to some of India's most innovative entrepreneurs. Some of these entrepreneurs come from other countries. Immigrants play a large role in the creation and growth of hi-tech firms throughout the world. A number of factors can encourage entrepreneurs to move to another country including a low rate of tax on profits.

An expanding economy is a key influence on the number of new firms that are set up. In turn, economic growth is influenced by how much firms spend on capital goods (investment). Fig. 1 shows India's economic growth rate and the percentage change in investment in India between 2008 and 2014. India's economic growth rate peaked in 2010. It then fell in 2011 and 2012 caused, in part, by a rise in the interest rate and concerns about future economic prospects.

Fig. 1 Economic growth rate and percentage change in investment in India 2008–14



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(a) Identify, using information from the extract, **two** industries that operate in the secondary sector of the Indian economy. [2]

(b) Explain, using information from the extract, **two** reasons why the price of restaurant meals in India is likely to increase in the future. [4]

(c) Analyse how a government can encourage enterprise. [5]

(d) Analyse the extent to which the relationship shown in Fig. 1, between changes in India's investment and its economic growth rate, is the expected one. [4]

(e) Discuss whether or not a city such as Bengaluru should specialise in one industry. [5]

(f) Explain, using information from the extract, **two** reasons why some Indian people might have spent less in 2012. [4]

(g) Discuss whether or not an economy would benefit from its firms producing in other countries. [6]

Section B

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

2 It is forecast that by 2022 India will overtake China as the world's most highly populated country. China's birth rate is lower than India's and China has a higher proportion of its population aged over 65. By 2050, it is estimated that 500 million Chinese people and 330 million Indian people will be over 65. Changes in population size and age structure affect the quantity and quality of a country's resources.

(a) Define *resources*. [2]

(b) Explain **two** reasons why the quality of a country's resources may increase. [4]

(c) Analyse the reasons why a country's birth rate may fall. [6]

(d) Discuss whether or not a government should be worried about an increase in the proportion of its population that is aged over 65. [8]

3 Taxi drivers usually have to buy a licence to carry passengers. The relatively high fixed cost of the licence discourages some people from becoming taxi drivers. Encouraging more people to be taxi drivers would be likely to reduce taxi fares and unemployment. It may, however, increase traffic congestion.

(a) Define *fixed cost*. [2]

(b) Explain why traffic congestion is an external cost. [4]

(c) Analyse how a taxi firm can use information about price elasticity of demand for its service. [6]

(d) Discuss whether or not a reduction in unemployment always increases living standards. [8]

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4 In March 2016, the Canadian government announced increases in government spending including an increased subsidy to environmentally friendly technology. It also announced that high income earners would face an increase from 29% to 33% in the highest rate of income tax. Changes in government spending and taxation can influence a country's inflation rate.

(a) Define *subsidy*. [2]

(b) Explain **two** disadvantages of inflation. [4]

(c) Analyse how an increase in government spending may cause inflation. [6]

(d) Discuss whether or not an increase in the highest rate of income tax will benefit an economy. [8]

5 South Africa has more than 700 state-owned enterprises, a number of which have engaged in vertical integration and horizontal integration. Some of the state-owned enterprises are monopolies, including a railway monopoly. A leading South African economist has argued that more of the country's resources should be devoted to building and operating new railway lines and stations.

(a) Define *state-owned enterprise*. [2]

(b) Explain the difference between vertical integration and horizontal integration. Give an example of each. [4]

(c) Analyse how a monopoly could benefit consumers. [6]

(d) Discuss whether or not a country should devote more of its resources to building and operating new railway lines and stations. [8]

6 The effects of a depreciation of a currency are influenced by the price elasticity of demand of exports and imports. Worldwide there has been a reduction in trade barriers including tariffs. There has also been an increase in the movement of goods and services between countries and, to a lesser extent, the movement of people. Some countries experience net emigration with more people leaving the country than entering it.

(a) Define *depreciation of a currency*. [2]

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

(c) Analyse how a reduction of its import tariffs could increase a country's output. [6]

(d) Discuss whether or not net emigration will reduce poverty in a country. [8]

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7 France is a mixed economy. During recent years there have been a number of changes in its labour market. More workers are employed in the tertiary sector and fewer workers in the primary sector. Average working hours have increased and public sector workers have received wage rises.

(a) Define *mixed economy*. [2]

(b) Explain **two** advantages of working in the tertiary sector rather than the primary sector. [4]

(c) Analyse why a trade union may oppose a rise in working hours. [6]

(d) Discuss whether or not a government should increase the wages it pays to workers in the public sector. [8]

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