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Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/23**

Paper 2 Structured Questions **May/June 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 The global water crisis

In 2015, the World Economic Forum identified the water crisis as the world's biggest risk. Across many Asian and African nations the water supply was at critically low levels, insufficient to meet the rising demand. Demand has risen because of the expansion of cities and population growth requiring much more agricultural production.

Water scarcity is a problem shared by many developing countries which have a low life expectancy. A third of all their healthcare facilities are estimated to lack access to safe water and basic sanitation. Water shortages harm public health – 80% of all illnesses in developing countries are caused by poor water and sanitation conditions. Water shortages also restrict the amount of food production. Table 1 shows the risk of water shortage (highest risk is 5) and Gross Domestic Product (GDP) per head measured in US$.

Table 1 Risk of water shortage and GDP per head for countries/regions in 2015

Country/region	Risk of Water Shortage (highest risk = 5)	GDP per head (US$)
Algeria	3.4	4318
Canada	1.2	43332
Germany	1.9	40997
Pakistan	4.3	1450
Saudi Arabia	5.0	20813
Western Sahara	5.0	2500

The shortage of water has led various countries and regions to experiment with privatising their supply. However, because water is a necessity, private supply has in some cases resulted in consumers suffering from significant price increases. A 10% increase in the price of water is estimated to result in only a 0.7% decrease in quantity demanded. This means that governments have to regulate water markets to protect consumers.

Some economists argue that consistent undervaluing of water has led to it being used inefficiently. This is because prices fail to take into account the long-run consequences of not conserving this valuable resource. With much of the world facing a hotter and drier future as a result of climate change, water will become increasingly scarce.

More than 663 million people are estimated to live without access to clean water. The World Bank funds a range of projects designed to tackle this and in doing so reduce levels of absolute poverty. Improving access to natural resources is seen as essential in promoting economic development in some of the world's poorest nations.

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(a) Identify, using information from the extract, **two** causes of low life expectancy in developing countries. [2]

(b) **(i)** Explain, using information from the extract, how the water shortage is an example of the economic problem. [4]

(ii) Explain, using information from the extract, why the problem of water shortages is likely to become even worse in the future. [4]

(c) Analyse, using Table 1, the extent to which a high risk of water shortage in a country/region causes low GDP per head. [5]

(d) Calculate, using the information in the extract, the price elasticity of demand for water. [2]

(e) Discuss whether or not private firms supplying water should increase their prices. [5]

(f) Explain what is meant by absolute poverty. [2]

(g) Discuss whether or not a country's economic growth rate depends mostly on the availability of its natural resources. [6]

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Section B

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

2 In 2016, the trade union representing doctors in the UK was involved in collective bargaining with the government over proposed changes to doctors' contracts. The trade union considered that the aim of the changes was to reduce the cost to the government of providing healthcare. It may also result in fewer individuals training to become doctors in the future.

(a) Identify **two** influences on the strength of a trade union's collective bargaining power. [2]

(b) Explain the likely impact of trade unions on the welfare of their members. [4]

(c) Analyse the impact of a reduction in government expenditure on healthcare on a country's unemployment rate. [6]

(d) Discuss whether or not a decrease in the number of doctors will reduce living standards. [8]

3 In the 1990s Cambodia became a mixed economy. One of the results of this was specialisation in the clothing industry. In 2005, import quotas for clothing in the key markets of the USA and the EU were removed. Clothing now accounts for 80% of Cambodia's exports. The increased role of the private sector has resulted in a rise in malnutrition in Cambodia.

(a) Define *import quota*. [2]

(b) Explain **two** advantages to a country of specialisation. [4]

(c) Analyse the impact on an economy of the removal of import quotas imposed by other countries. [6]

(d) Discuss whether or not an increase in the role of the private sector will benefit an economy. [8]

4 In early 2016, the central bank of the Republic of Turkey cut interest rates five times. This was despite an inflation rate of 7.6%. The economy had a combination of a low saving rate and weak investment. To stimulate economic growth the Turkish government announced a package of reforms including subsidies for research and investment.

(a) Identify **two** functions of a central bank. [2]

(b) Explain how the Consumer Prices Index (CPI) is calculated. [4]

(c) Analyse the impact of a cut in interest rates on saving and investment. [6]

(d) Discuss the impact of supply-side policy measures on government expenditure and on government revenue. [8]

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5 The state of California has the most progressive tax system in the USA. The tax system helps reduce high poverty rates. Policy makers are considering reforming sales tax in the state to include services, while reducing the use of direct taxes.

(a) Define *progressive tax*. [2]

(b) Explain **two** reasons why a government may want to reduce poverty. [4]

(c) Analyse, using a supply and demand diagram, the effect of increasing a sales tax. [6]

(d) Discuss whether a government should increase indirect taxes and whether it should reduce direct taxes. [8]

6 The production process in the oil industry is capital-intensive. The pollution it generates means it is one cause of environmental market failure. A Nigerian oil monopoly is starting to produce more environmentally friendly liquefied petroleum gas (LPG), rather than kerosene, in an attempt to reduce pollution. The Nigerian government intends to split the monopoly firm into separate companies to improve efficiency.

(a) Identify **two** features of a capital-intensive production process. [2]

(b) Explain how market failure might occur in the oil industry. [4]

(c) Analyse, using a production possibility curve (PPC) diagram, the effect of reallocating resources from kerosene to LPG. [6]

(d) Discuss whether or not removing a firm's monopoly power will benefit consumers. [8]

7 In 2016, there were fears that the Singaporean economy could enter a recession because of falling demand from China, its biggest export market. One of the results of a recession is likely to be a fall in consumer spending. A previous recession in 2008 had led to unemployment increasing from 1.6% to 3.4%. Singapore's central bank therefore decided to intervene in the foreign exchange market to influence the value of the currency.

(a) Define *recession*. [2]

(b) Explain why a recession is likely to reduce consumer spending. [4]

(c) Analyse the consequences of rising unemployment on a government's spending and tax revenue. [6]

(d) Discuss whether or not an exchange rate depreciation will prevent an economy from experiencing a recession. [8]

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