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Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/22**

Paper 2 Structured Questions **February/March 2019**

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: a growing success

In 2016, the Indian economy grew by 7.5%. This made it the world's fastest growing large economy. In contrast, the Chinese economy grew by 6.8%. India had some other macroeconomic successes. Its price level rose by less in 2016 than it had in any year since 2004. The price of oil fell in 2016 and India is a large importer of oil. The government's use of monetary policy helped to keep down rises in the general price level.

India's manufacturing sector grew rapidly in 2016. One industry that performed particularly well was the vehicle industry. India was the world's sixth largest producer of vehicles, employing 26 million workers. India was the world's largest producer of tractors. In 2015, the price of tractors was increased. This led to a short-term fall in demand but a rise in revenue.

The growth of the vehicle industry has enabled firms in the industry to employ more specialised workers and made it easier for these larger firms to borrow from banks. It is expected that the industry will be able to recruit extra workers in the future because India's labour force is growing. In 2014, India's labour force was 500m and this grew by 4% between 2014 and 2016.

The economic growth rate and the population growth rate in recent years are shown in Fig. 1.1. The rate of economic growth and its stability affect households' decisions on how much they spend and save.

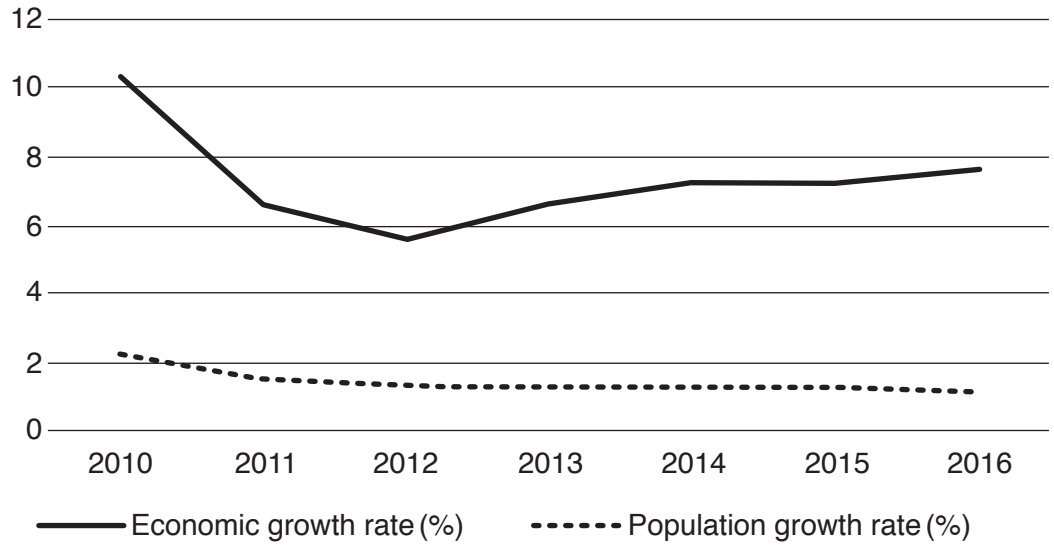


Fig. 1.1 India's economic growth rate and population growth rate 2010–2016

The rising optimism about the performance of India's economy has increased total demand in the economy. However, the Reserve Bank of India, the country's central bank, has been relatively successful at keeping the inflation rate close to the government's target which in 2016 was 4%. One influence on the country's future macroeconomic performance will be changes in its population. India is set to have one of the world's youngest populations by 2020, with an average age of only 29.

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(a) Identify, using information from the extract, **two** reasons why India's inflation rate fell in 2016. [2]

(b) Explain, using information from the extract, whether demand for Indian tractors was price-elastic or price-inelastic in 2015. [2]

(c) Explain **two** internal economies of scale referred to in the extract. [4]

(d) Calculate, using information from the extract, the percentage of India's labour force that was employed in the vehicle industry in 2016. [2]

(e) Analyse, using Fig. 1.1, what happened to India's output and population over the period shown. [5]

(f) Discuss whether or not a government should aim for a low rate of inflation. [5]

(g) Explain, using information from the extract, **two** reasons why consumer expenditure may increase in India in the future. [4]

(h) Discuss whether or not having a young population is a benefit to an economy. [6]

Section B

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

2 Ireland has attracted a significant number of foreign multinational companies (MNCs) to set up production in the country. These firms employ approximately 10% of the country's labour force and make a high proportion of Ireland's exports. The surplus on the current account of Ireland's balance of payments fell in 2016 while government spending rose.

(a) Identify **two** reasons why an MNC may decide to start producing in a foreign country. [2]

(b) Explain **two** reasons why someone may want to work for an MNC. [4]

(c) Analyse how an increase in exports could improve a country's economic performance. [6]

(d) Discuss whether or not an increase in government spending will reduce a surplus on the current account of that country's balance of payments. [8]

3 The economic problem results in people having to make choices. In Bulgaria, in recent years, people have changed how much they spend. The Bulgarian government is encouraging people to spend more. It is trying to ensure that deflation does not return and that the country will continue to experience an increase in output.

(a) Identify **two** ways a government could encourage people to spend more. [2]

(b) Explain how the economic problem results in people having to make choices. [4]

(c) Analyse why deflation may cause a fall in output. [6]

(d) Discuss whether or not a country will suffer if its output falls. [8]

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4 Average life expectancy is as short for the poorest Americans as it is for the people of Sudan, a low-income African country. Low-income individuals tend to live longest in countries with more educated populations. Economic growth can increase education and reduce poverty. In 2017, the US President announced a cut in the tax on firms' profits. He said the measure would increase employment.

(a) Identify **two** reasons why someone may want to migrate to the USA. [2]

(b) Explain **two** reasons why less-educated people tend to have a shorter life expectancy than people who have received more education. [4]

(c) Analyse how economic growth can reduce absolute poverty. [6]

(d) Discuss whether or not a cut in the tax on firms' profits will increase employment. [8]

5 The mobile (cell) phone industry is growing in Asia with more workers being employed. In March 2017, there was a merger between two mobile phone producers, both of which had relatively high fixed costs. This merger created one of the largest mobile phone firms and moved the Asian market further from perfect competition and closer to monopoly. It was expected that profits in the industry would increase as a result of the merger.

(a) Identify **two** fixed costs. [2]

(b) Explain **two** ways monopoly differs from perfect competition. [4]

(c) Analyse what determines a firm's demand for labour. [6]

(d) Discuss whether or not a merger will increase profits. [8]

6 Botswana has a number of conservation projects. These are thought to provide a social benefit to local communities. Botswana has a mixed economic system with tax revenue as a percentage of GDP at 27% in 2017. Some Botswanan economists suggest that the country should move towards a market economic system, taking care to avoid market failure.

(a) Define *social benefit*. [2]

(b) Explain **two** advantages of conserving natural resources. [4]

(c) Analyse how taxation could reduce market failure. [6]

(d) Discuss the advantages and disadvantages of a market economic system. [8]

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7 Indian Railways is a state-owned enterprise, owned and operated by the Ministry of Railways. There is currently only one privately-owned railway line in India. The market for rail travel is influenced by changes in the markets for other forms of transport. For instance, changes in the supply of oil and petrol influence the market for car travel.

(a) Define *a market*. [2]

(b) Explain **two** reasons why the supply of a raw material such as oil may rise in the future. [4]

(c) Analyse, using a demand and supply diagram, how the market for oil would be affected when the demand for oil increases by more than the supply of oil. [6]

(d) Discuss whether or not car travel will increase in the future. [8]

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