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Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/21**

Paper 2 Structured Questions **May/June 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 Universal basic income (UBI)

UBI is a scheme where a government provides everyone with a payment, regardless of their circumstances. Such a scheme can help a number of groups including the sick and the old. In 2016, the Indian government was looking at a UBI as an alternative to its existing system of state benefits. A politician in Costa Rica proposed a UBI of $337.5. Finland started a two-year experiment with a version of UBI in 2017.

A guaranteed minimum income might help some of the poor who currently do not receive state benefits and may reduce inequality. In a number of countries, income and wealth inequality is increasing. For instance, in Russia 16% of the population live below the official poverty line and 10% of the population own 87% of the country's wealth. State benefits are relatively low in Russia and the country has one income tax rate of 13%. One cause of the rise in the gap between the rich and the poor in Russia has been the effect on prices and profits arising from the privatisation of a number of state monopolies.

Differences in annual average incomes (annual GDP per head) between countries can affect life expectancy as shown in Table 1.1.

Table 1.1 Annual GDP per head and life expectancy in selected countries in 2016

Country	Annual GDP per head (US$)	Life expectancy (years)
Costa Rica	16 200	78.8
Finland	42 000	80.8
India	7 400	68.6
Mali	2 300	55.7
Monaco	76 000	89.5
Russia	26 200	70.4

In Finland, a country with an average monthly income per head of $3500, the trial UBI is $600 per month. This does not cover everyone's needs in a country with high prices, high tax rates and periods of very cold weather. In India, the average monthly income per head is almost the same as Finland's UBI.

A UBI could help the unemployed including the temporary unemployed. Governments welcome a reduction in unemployment. This is because it increases output and enables governments to reduce spending on state benefits for the unemployed. Governments could then increase spending on other areas including education and healthcare.

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(a) Identify, using information from the extract, **two** reasons why a person may have a low income. [2]

(b) Explain, using information from the extract, whether Russia has a progressive, proportional, or regressive income tax system. [2]

(c) Calculate, using Table 1.1, what percentage of annual average income in Costa Rica a person would have if he receives UBI of $337.5 a month. [2]

(d) Analyse, using Table 1.1, the relationship between annual GDP per head and life expectancy. [5]

(e) Explain an example of opportunity cost in the extract. [4]

(f) Discuss whether or not a monopoly will charge high prices. [5]

(g) Explain, using information from the extract, **two** reasons why someone from India with the same income as someone from Finland may enjoy a higher living standard. [4]

(h) Discuss whether or not a government paying higher state benefits to the unemployed will reduce unemployment. [6]

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Section B

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

2 The Saudi Arabian government is encouraging the growth of the private sector. It is a low-cost oil producer, but its exports to South Africa have fallen recently. South Africa has a floating foreign exchange rate, but its central bank has recently tried to prevent a large fall in its foreign exchange rate.

(a) Define *a floating foreign exchange rate*. [2]

(b) Explain **two** benefits a government may gain from the growth of the private sector. [4]

(c) Analyse why a country with low costs of production may experience a decrease in its exports. [6]

(d) Discuss whether or not a government should prevent a fall in its country's foreign exchange rate. [8]

3 In February 2017, Europe experienced a shortage of fresh vegetables due to bad weather. For a period of time, the markets for a number of vegetables, including broccoli and lettuces, were not in equilibrium. The price of food tends to fluctuate more than the price of manufactured goods and services. These fluctuations influence the rate of inflation.

(a) When is a market in equilibrium? [2]

(b) Explain how a rise in the price of food would affect a country's consumer prices index (CPI). [4]

(c) Analyse, using a demand and supply diagram, how bad weather is likely to affect the market for broccoli. [6]

(d) Discuss whether or not a higher inflation rate will benefit producers. [8]

4 Changes in the supply of enterprise result in the development of new firms. In 2016, a theme park in Hong Kong made a loss with visitor numbers falling by 9%. In 2017, the same public limited company opened another larger theme park in Shanghai. The new theme park is expected to benefit from both internal and external economies of scale.

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

(b) Explain, giving examples, the difference between an internal economy of scale and an external economy of scale. [4]

(c) Analyse how a government could increase the supply of enterprise. [6]

(d) Discuss whether or not consumers would benefit from a firm changing from being a public limited company to a public corporation (state-owned enterprise). [8]

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5 In February 2017, China's central bank raised the rate of interest. It wanted to reduce borrowing and the growth of the money supply, but it was worried that the rise in the interest rate might reduce the country's economic growth rate. The change in interest rate is likely to have increased the workload of skilled commercial bank workers.

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

(b) Explain **two** reasons why a central bank may want to reduce borrowing. [4]

(c) Analyse why skilled workers are usually paid more than unskilled workers. [6]

(d) Discuss whether or not a rise in the rate of interest will reduce economic growth. [8]

6 A number of book publishers operate in Pakistan. These include multinational companies (MNCs). They employ a range of specialist workers. A number of these specialists estimate the price elasticity of demand (PED) for their firms' books. There is a debate about whether some books should be subsidised by the government.

(a) Define *a multinational company*. [2]

(b) Explain **two** disadvantages a worker could experience from specialising. [4]

(c) Analyse how a change in the PED for its products may benefit a firm. [6]

(d) Discuss whether or not the government should subsidise the production of books. [8]

7 It was predicted that global unemployment would rise by over two million in 2017. Unemployment rates, however, vary between countries. Some governments use fiscal policy measures and others use supply-side policy measures to reduce unemployment. The unemployment rate can also be influenced by trade protection.

(a) Identify **two** fiscal policy measures. [2]

(b) Explain **two** reasons why the unemployment rate may be higher in one country than another. [4]

(c) Analyse how supply-side policy measures may reduce unemployment. [6]

(d) Discuss whether or not a government should protect its country's industries from foreign competition. [8]

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