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Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/23**

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 Iceland's Economic Structure

The people of Iceland once depended on farming and fishing as their main source of income. By 2008, the Icelandic economy was also very heavily dependent on its financial sector. However, the country is now well-known internationally for tourism.

Even though the primary sector now only employs a small proportion of the country's labour force, the influence of this sector in policy-making is very strong. For example, in the fishing industry, there are many government regulations. Regulations that restrict foreign investment in the fishing industry both protect domestic fisherman and the stock of fish in Icelandic waters. Regulation also affects the price elasticity of supply (PES) of fish. The quantity of fish supplied tends to change by a smaller percentage than the change in its price.

From 2002 to 2007, Iceland's annual economic growth rate averaged 5%. In 2006, Iceland's Gross Domestic Product (GDP) was US$17 billion and in 2007 it grew by 9%. This high growth rate was due to the increased availability of bank loans and also the increasing income of its major trading partners, including the European Union (EU) and Norway.

It was during this period of rapid economic growth that the financial sector became an important part of the Icelandic economy. The major commercial banks supported increased consumer spending and major construction projects which improved the standard of living of Icelanders. In addition, commercial banks also expanded into international markets. The international markets were growing rapidly between 2002 and 2007 which brought more money back into the Icelandic financial sector.

However, Iceland faced a major financial crisis in 2008 where all three of its major privately-owned commercial banks failed. This led to falling overall levels of output and increased unemployment. Fig. 1.1 shows the economic growth rate and unemployment rate in Iceland from 2002 to 2014.

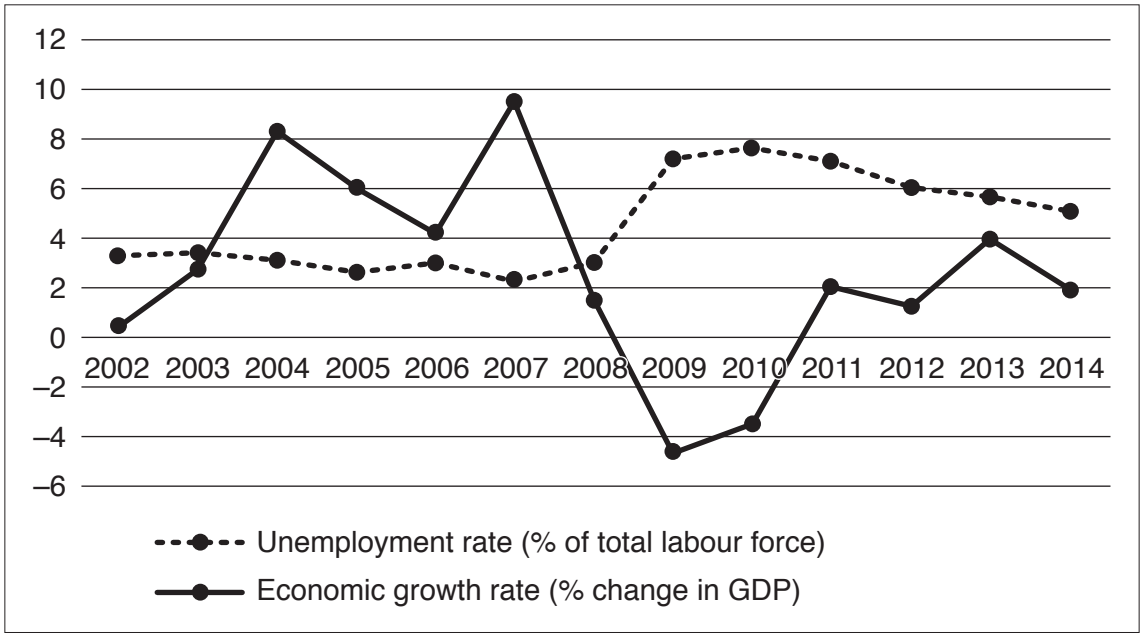


Fig. 1.1 Economic growth rate and unemployment rate in Iceland from 2002 to 2014

The recovery from 2010 to 2017 was initially possible due to loans obtained from international organisations. More recently, it was also due to successful tourism campaigns that have made Iceland a 'must-see' destination for tourists.

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(a) Identify, using information from the extract, **two** industries that are in the primary sector of the Icelandic economy. [2]

(b) Explain, using information from the extract, **two** reasons for government regulation of the fishing industry in Iceland. [4]

(c) Explain, using information from the extract, **two** reasons, apart from changes in employment, for Iceland's high economic growth rate from 2002 to 2007. [4]

(d) Calculate, using information from the extract, Iceland's GDP in 2007. [2]

(e) Analyse, using Fig. 1.1, the relationship between changes in the economic growth rate and the unemployment rate over the period shown. [5]

(f) Explain, using information from the extract, whether the supply of Iceland's fish is price-elastic or price-inelastic. [2]

(g) Discuss the advantages and disadvantages of the activities of commercial banks to an economy. [5]

(h) Discuss whether or not a growth in tourism is an advantage to a country such as Iceland. [6]

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Section B

Answer **three** questions from this section.

2 Germany's economy is one of the best performing economies in the European Union (EU). Germany has low unemployment rates and a surplus on the current account of the balance of payments. Single parents, long-term unemployed, immigrants, elderly, and low-skilled workers have not always benefitted from Germany's economic performance. This has created increasing levels of relative poverty.

(a) Define *a surplus on the current account of the balance of payments*. [2]

(b) Explain **two** possible causes of low unemployment. [4]

(c) Analyse how long-term unemployment can cause relative poverty. [6]

(d) Discuss whether or not an increase in a surplus on the current account of the balance of payments decreases unemployment. [8]

3 Confidence in the government's reform agenda led to very strong growth of India's stock exchange index in 2017. Firms liked the supply-side policy measures that had been introduced, such as government spending on infrastructure projects including building new motorways. However, opponents of the government claimed that the government was prioritising one government aim over others.

(a) Define *supply-side policy*. [2]

(b) Explain **two** functions of a stock exchange. [4]

(c) Analyse **two** possible conflicts between government aims. [6]

(d) Discuss whether or not infrastructure projects will benefit an economy. [8]

4 After the UK's decision to leave the European Union (EU) in June 2016, the value of the British currency, the pound (£), depreciated. However, in August 2016, despite the fall in the value of the £, the Bank of England reduced interest rates from 0.5% to 0.25%. This was to encourage further spending and borrowing to avoid a lower economic growth rate.

(a) Identify **two** motives for consumer spending. [2]

(b) Explain **two** benefits a firm can gain by borrowing. [4]

(c) Analyse **two** consequences of a depreciating foreign exchange rate. [6]

(d) Discuss whether or not a fall in interest rates will benefit an economy. [8]

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5 The South Korean economy was dominated by many family-owned firms which have now become large public limited companies. The government provided subsidies and imposed trade protection to help their domestic firms to grow. Since 2010, average earnings have risen in South Korea.

(a) Define *public limited company*. [2]

(b) Explain **two** reasons for growth in average earnings. [4]

(c) Analyse, using a demand and supply diagram, how government subsidies help firms grow. [6]

(d) Discuss whether or not trade protection supports the growth of domestic firms. [8]

6 Non-renewable energy (e.g. coal) is thought to cause a higher social cost than renewable energy (e.g. solar or wind power). Excessive demand for non-renewable energy causes a failure of the market economic system. However, producers of renewable energy, some of which specialise in one form of energy, are beginning to produce on a larger scale.

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

(b) Explain **two** reasons why a firm would want to specialise in producing only one product. [4]

(c) Analyse how the ability of firms to produce on a larger scale is beneficial to consumers. [6]

(d) Discuss whether or not the operation of a market economic system is harmful to an economy. [8]

7 Some economists have claimed that the 21st century will be the 'African century' because of the growth in their working-age population. Forecasts show that by 2030, Africa's contribution to the increase in the global labour force will exceed that from the rest of the world. This will affect incomes, saving, and economic policies in African countries.

(a) Define *labour*. [2]

(b) Explain **two** motives for saving. [4]

(c) Analyse the reasons for countries having different population growth rates. [6]

(d) Discuss whether or not a rise in the working-age population, as a percentage of the total population, will be beneficial to a country. [8]

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