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Cambridge Assessment International Education

Cambridge IGCSE™

ECONOMICS **0455/22**

Paper 2 Structured Questions **February/March 2020**

2 hours 15 minutes

You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **four** questions in total:
  - Section A: answer Question 1.
  - Section B: answer **three** questions.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 90.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **8** pages. Blank pages are indicated.

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Section A

Read the source material carefully before answering Question 1.

Source material: Air pollution in India

India fact file	2016	2017
Real GDP	$8750.0 billion	$9362.5 billion
Current account deficit as % of GDP	–0.7	–1.2
Car production	3.7 million	4.0 million

As India increases its output, it creates more pollution. Its government encourages economic growth by promoting investment and free trade. It is considering cutting taxes, spending more on education, lowering import tariffs and removing some import quotas.

The Indian government intervenes in its economy for a number of reasons, including to reduce pollution. The causes of pollution include vehicles and private and public sector factories which emit harmful gases. With reductions in the cost of producing cars and rising incomes, more cars are being produced and purchased in India.

Producers and car drivers base their decisions on just their private costs and benefits. Some farmers burn their fields after harvesting to increase the growth of their next crop, even though their action causes pollution. Also, some owners of mines do not take sufficient care to ensure that minerals and metals do not leak into local water supplies.

As well as affecting pollution, the relative size of the primary sector can influence average income as shown in Table 1.

Table 1 Primary sector output as a percentage of GDP and GDP per head in selected countries in 2017

Country	Primary sector output (% of GDP)	GDP per head ($)
US	1	59 600
Spain	3	38 200
Argentina	8	20 700
Egypt	11	13 000
India	18	7 200
Philippines	30	8 200

To reduce pollution, the Indian government subsidises bus travel. It also requires buses to run on natural gas rather than on more polluting diesel and petrol. Reduced pollution can attract more foreign tourists. Foreign tourism and changes in the foreign exchange rate affect the current account of a country's balance of payments. It has been predicted that India's foreign exchange rate is likely to rise in the future.

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Answer all parts to Question 1. Refer to the source material in your answers.

1 **(a)** Calculate India's economic growth rate in 2017. [1]

(b) Identify **two** methods of protection. [2]

(c) State why India is a mixed economy. [2]

(d) Explain why external costs cause market failure. [4]

(e) Draw a demand and supply diagram to show the effects of a decrease in the costs of production on the market for cars. [4]

(f) Analyse the relationship between the size of countries' primary sector output and GDP per head. [5]

(g) Discuss whether or not increasing subsidies given to bus travel would reduce pollution in India. [6]

(h) Discuss whether or not India is likely to experience a deficit on the current account of its balance of payments in the future. [6]

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Section B

Answer any **three** questions.

Each question is introduced by stimulus material. In your answer you may refer to this material and / or to other examples that you have studied.

2 The main industries in the Seychelles, an island country in the Indian ocean, are tourism and fishing. The price elasticity of supply of fish is affected by the relatively short time that fish can be stored. Economic goods and free goods play a role in both fishing and tourism. With rises in the skills of workers and an increase in enterprise, GDP per head has increased by more than seven times over the last fifty years.

(a) State the formula for calculating the price elasticity of supply (PES). [2]

(b) Explain how opportunity cost is different for economic goods and free goods. [4]

(c) Analyse, using a production possibility curve (PPC) diagram, the effect of an increase in enterprise on an economy. [6]

(d) Discuss whether or not skilled workers are always paid more than unskilled workers. [8]

3 In 2017, the Brazilian paper industry was booming. Its total revenue increased and it employed both more, and better quality, factors of production. Brazil's largest paper producer merged with an Indonesian paper-producing firm at the end of 2017. The performance of Brazil's coffee industry differed from its paper industry. Brazilian coffee experienced a fall in demand and a fall in total revenue.

(a) Define *total revenue*. [2]

(b) Explain **two** differences between capital and labour. [4]

(c) Analyse the possible effects on consumers of a merger between two paper-producing firms. [6]

(d) Discuss whether or not demand for coffee is likely to rise in the future. [8]

4 African countries are expected to experience growth in their output. It is also predicted that Africa's population will increase from 1.1 bn in 2017 to 4.2 bn by 2100, when Nigeria will account for one in twelve of the world's births. Nigeria and South Africa are expected to experience the greatest rise in investment (spending on capital goods) over this period, and a change in their gender distribution.

(a) Define *gender distribution*. [2]

(b) Explain **two** benefits of a higher economic growth rate. [4]

(c) Analyse the disadvantages of a rapidly growing population. [6]

(d) Discuss whether or not a cut in the rate of interest will increase investment. [8]

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5 The Chinese government reformed the Chinese tax system in 2016. It extended VAT (sales tax) from the sale of goods to the sale of services enabling it to cut the corporation tax rate. Taxes on goods and services are usually regressive. The Chinese government wanted to raise living standards and hoped that a cut in the tax rate firms pay would attract multinational companies (MNCs) to the country.

(a) State **two** reasons for levying taxes. [2]

(b) Explain the difference between a progressive tax and a regressive tax. [4]

(c) Analyse how a cut in the rates of corporation tax and income tax may influence the number of MNCs setting up in the country. [6]

(d) Discuss whether or not people in a high-income country always enjoy a higher living standard than those in a low-income country. [8]

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