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Cambridge Assessment International Education

Cambridge IGCSE™

ECONOMICS **0455/23**

Paper 2 Structured Questions **May/June 2020**

2 hours 15 minutes

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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: some problems affecting the Greek economy

Greece fact file	2015
Population	10.8 million
% Population over 60 years old	27%
Unemployment rate	24%
Net migration	–44 905

Greece is the country that was worst affected by the European financial crisis that began in 2008. From the start of the crisis, no other European economy had such a large percentage fall in GDP. Greece's GDP fell by 9% in 2011. One reason for this was a very strong foreign exchange rate.

Since 2014, other European economies have recorded positive economic growth rates. Among the reasons for this were successful supply-side policy measures and an improving global economy. The Greek government introduced market-friendly measures, including privatisation and labour market reforms. These measures brought back some investors and moved the Greek economy closer to a market economic system. However, Greece's output still fell. This may be due to the fact that none of the government policies have managed to change population trends.

The Greek population has been falling since 2010. Greece has the third most rapidly ageing population in the world, behind Japan and Italy. The economy has not made good use of its older population because a significant percentage of workers retire earlier than the national retirement age of 67. For example, 74% of employees in the public sector retire before 61 years old. In addition, the crisis also led to high levels of emigration.

However, those living on some Greek islands have escaped the effects of the crisis. Income from tourism has continued to flow into the islands. An island called Ikaria has also managed to gain international attention as one of the healthiest places in the world. Approximately 30% of the people who live on this island, live until they are over 90. Health problems are also much less frequent than those living elsewhere. Overall, however, Greece has managed to improve its Human Development Index (HDI) value as shown in Fig. 1.

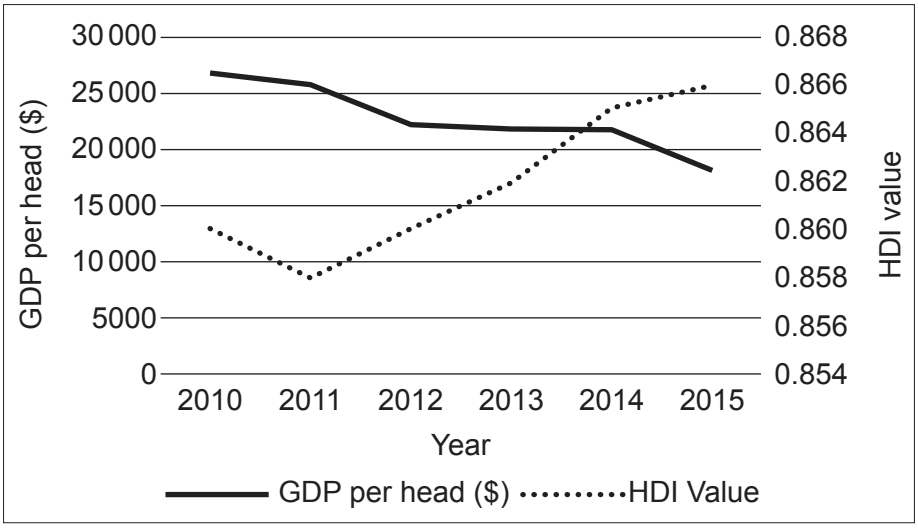


Fig. 1 Greece's GDP per head ($) and HDI value from 2010–2015

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

1 **(a)** Calculate the total number of people over 60 years old in Greece in 2015. [1]

(b) Explain what is meant by an unemployment rate of 24%. [2]

(c) Identify **two** reasons for the recovery of the European economies, other than Greece. [2]

(d) Explain the **two** supply-side policy measures being used by the Greek government. [4]

(e) Analyse how **two** of Greece's population trends may have affected its economy. [4]

(f) Analyse the relationship between Greece's GDP per head and its HDI value. [5]

(g) Discuss whether or not having a strong foreign exchange rate is a problem for Greece's economy. [6]

(h) Discuss whether or not a market economic system improves living standards. [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 In Nagicho, a small town in Japan, a woman on average has 2.8 children in her lifetime. In Japan as a whole, a woman on average only has 1.4 children in her lifetime. Nagicho's higher birth rate is partly the result of a lower cost of living for families, as the prices of basic items are lower in Nagicho than in the rest of Japan. The local government not only offers housing at subsidised rates, to get more labour into the area, but also tries to get more investment into the town.

(a) State **two** functions of local government. [2]

(b) Explain how a lower cost of living can encourage population growth. [4]

(c) Analyse the influences on the mobility of **two** factors of production. [6]

(d) Discuss whether or not increased investment is beneficial to an economy. [8]

3 Ireland has one of the lowest rates of corporation tax in Europe. This has encouraged many multinational companies (MNCs) to produce in Ireland. Other reasons why firms want to produce in Ireland include access to freer trade with other European countries, higher labour productivity and government grants.

(a) State **two** benefits of free trade. [2]

(b) Explain **two** reasons why governments levy taxes. [4]

(c) Analyse, using a production possibility curve (PPC) diagram, the impact of higher labour productivity on an economy. [6]

(d) Discuss whether or not MNCs always benefit their host countries. [8]

4 Business-friendly fiscal policy in the United States (US) has encouraged firms to produce more. The US government has also encouraged mergers, including firms in the gas and electricity industries. Even though there are significant regulations, entrepreneurs have found that mergers enable them to maximise their profits. However, this may make markets less competitive and some states have imposed a maximum price for gas and electricity.

(a) Define *profit maximisation*. [2]

(b) Explain **two** types of mergers. [4]

(c) Analyse how fiscal policy can encourage firms to produce more. [6]

(d) Discuss whether or not maximum prices are beneficial. [8]

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5 There is a high level of division of labour in the United Kingdom (UK) energy industry. Cold weather in early 2018 caused very high demand for energy and a change in its price. This led to a temporary shortage of energy for firms and households in the UK. Part of the change in price may have been the result of UK energy firms abusing their monopoly power. This would be an example of market failure.

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

(b) Explain **two** influences, other than weather, that could affect the demand for a product. [4]

(c) Analyse the possible effects of a shortage of a product such as energy on an economy. [6]

(d) Discuss whether or not workers benefit from division of labour. [8]

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