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Cambridge Assessment International Education

Cambridge IGCSE™

ECONOMICS **0455/22**

Paper 2 Structured Questions **February/March 2022**

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. Any blank pages are indicated.

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Section A

Read the source material carefully before answering Question 1.

Source material: The advantages of visiting, producing and living in Bermuda

Bermuda fact file	2018
Population	72 000
Labour force	33 500
Unemployment rate	7%
Inflation rate	2%

Bermuda is a well-known holiday destination. It offers luxury holidays which are expensive.

Bermuda bans foreign fast-food outlets. It does have one foreign outlet selling fried chicken in the island's capital, Hamilton. This was opened before the ban was introduced in 1997. Some foreign multinational companies (MNCs), which produce other goods and services, operate in Bermuda. Bermuda is considered a tax haven. It does not have any corporation tax, but it does charge high import tariffs particularly on demerit goods which are harmful to health.

Bermuda has a higher literacy rate and a lower population growth rate than most other countries. Its GDP per head is high. Fig. 1.1 shows the relationship between GDP per head ($) and life expectancy (years) in selected countries in 2018.

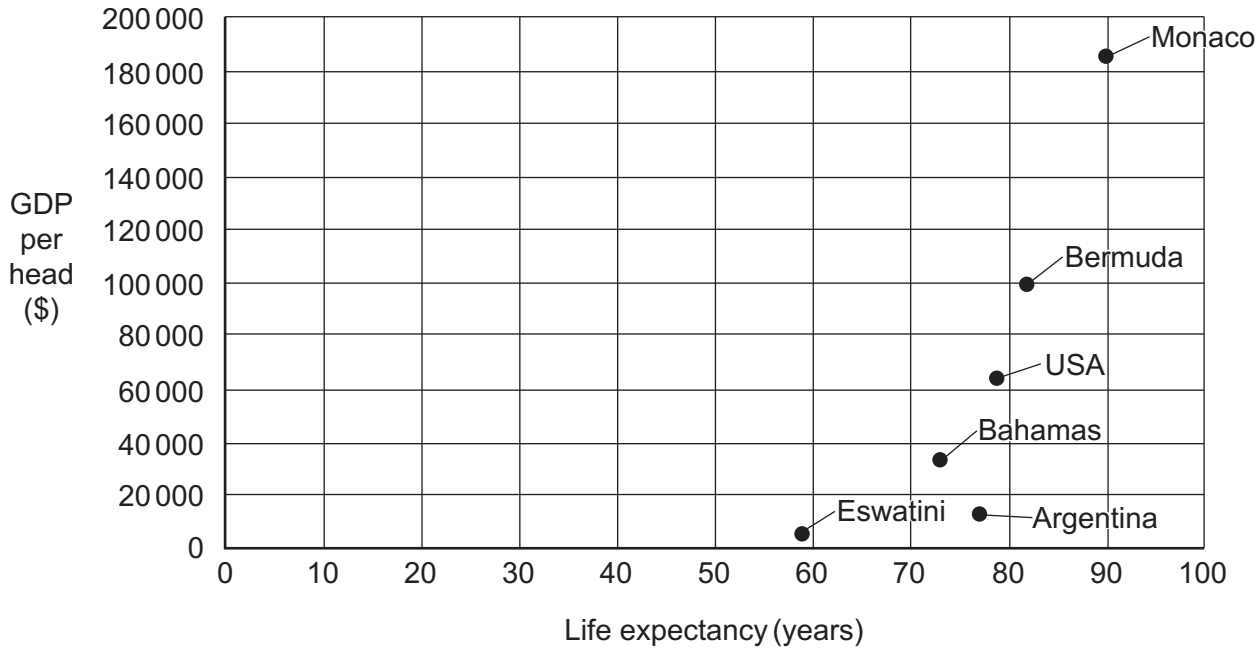


Fig. 1.1 The relationship between GDP per head ($) and life expectancy (years) in selected countries 2018

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Bermuda also has a relatively larger tertiary sector than most other countries. Insurance and other financial services contributed 85% of its GDP in 2018. The Bermudian Monetary Authority (BMA) carries out most of the functions of a central bank. For example, it acts as banker to the government, holds the country's reserves of foreign currency and implements the government's monetary policy. The BMA has been relatively successful in keeping inflation low. However, government policy measures designed to reduce unemployment may affect the inflation rate. This is because policy measures can influence total demand, productivity and firms' costs of production.

Bermudian government policy may change, not only to cut unemployment, but also to reduce market failure. For example, higher indirect taxes on demerit goods may be used but it can be difficult to change people's spending patterns.

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

1 **(a)** Calculate the number of Bermudian workers who were unemployed in 2018. [1]

(b) Identify **two** reasons why demand for holidays in Bermuda may be price-elastic. [2]

(c) State **two** reasons why a foreign MNC may want to operate in Bermuda. [2]

(d) Explain **two** reasons why Bermuda has a higher level of economic development than many other countries. [4]

(e) Analyse the role of the Bermudian Monetary Authority (BMA). [4]

(f) Analyse the relationship between GDP per head and life expectancy. [5]

(g) Discuss whether or not Bermudian government policy measures designed to reduce unemployment would increase the inflation rate. [6]

(h) Discuss whether or not higher indirect taxes can reduce the market failure caused by demerit goods. [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 South Africa (SA) experienced a recession in the second half of 2019 and an unemployment rate of 29%. Only a small proportion of this unemployment was frictional. South Africa's foreign exchange rate fell from 1 SA rand = US$0.08 in 2018 to 1 SA rand = US$0.06 in 2019. South Africa had reduced import tariffs, but in 2019 some South African economists suggested tariffs should be used to protect its infant industries.

(a) Define *frictional unemployment*. [2]

(b) Explain why an infant industry may need protection. [4]

(c) Analyse how a fall in a country's foreign exchange rate could reduce a deficit on the current account of its balance of payments. [6]

(d) Discuss whether or not a reduction in income tax will end a recession. [8]

3 New Zealand is a small country with a population of 5 million. Most New Zealand firms are relatively small and most do not experience diseconomies of scale. In 1894, New Zealand was the first country to introduce a national minimum wage. New Zealand experienced a rise in income per head every year between 2010 and 2019. During this period, 6% of New Zealand's households experienced absolute poverty.

(a) Define *diseconomies of scale*. [2]

(b) Explain **two** reasons why a high-income household may borrow more than a low-income household. [4]

(c) Analyse, using a diagram, the effect of an increase in output on average fixed cost (AFC) and total fixed cost (TFC). [6]

(d) Discuss whether or not the introduction of a national minimum wage will reduce poverty. [8]

4 Botswana's net migration varies. In 2019, Botswana had net immigration. Since 2010, its unemployment rate has averaged 18%. Between 2010 and 2019, the number of women in the labour force increased from 380 000 to 490 000. Although Botswana is one of Africa's richer countries, its households do not save much of their income.

(a) Identify **two** reasons why immigration may increase. [2]

(b) Explain **two** consequences of unemployment. [4]

(c) Analyse why more women may join a country's labour force. [6]

(d) Discuss whether or not a government should encourage an increase in saving. [8]

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5 The economic problem means that countries have to decide what to produce. Ghana uses much of its agricultural land to grow cocoa. Cocoa is sold to chocolate producers. The world's main chocolate producer in 2019 was a US firm with a 14% share of the global market. That firm was the largest seller of chocolate in the US and, if it merges, may become a monopoly.

(a) Define the *economic problem*. [2]

(b) Explain whether land is mobile. [4]

(c) Analyse the causes of a shift to the right in the supply curve of chocolate. [6]

(d) Discuss whether or not consumers would benefit from a firm becoming a monopoly. [8]

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