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Cambridge Assessment International Education

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ECONOMICS **0455/21**

Paper 2 Structured Questions **May/June 2024**

2 hours 15 minutes

1452280081

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: What does the future hold for Nicaragua?

Nicaragua fact file	2020
Population	6.5m
Labour force	3.1m
Unemployment rate	4.8%
Economic growth rate	–4.3%
Agricultural exports as a percentage of total exports	60.0%

Nicaragua is the largest country in Central America. It has a large agricultural sector with one of its main exports being coffee. It has been estimated that a 10% change in the price of coffee will cause a 3% change in the quantity of coffee demanded. The country's agricultural output, including coffee, is often affected by natural disasters including droughts and earthquakes.

Nicaragua is the country with the lowest Gross Domestic Product (GDP) per head in Central America. Wages are particularly low in the rural areas of the country. There is a high degree of income inequality and firms tend to earn lower profits than in other Central American countries. The number of Nicaraguans who were willing and able to work but could not find a job increased as calculated by both the claimant count and the labour force survey in 2020.

The purchasing power of Nicaraguan consumers fell in 2020 as prices rose by more than incomes. However, the country's currency, the cordoba, was still generally acceptable. It continued to act as a medium of exchange and store of value.

Nicaragua's future economic performance will be influenced by a number of factors. These include the proportion of the labour force employed in agriculture, the size of the country's firms and what the country produces. Table 1.1 shows the percentage of the labour force employed in agriculture and GDP per head in selected countries in 2020.

Table 1.1 The percentage of the labour force employed in agriculture and GDP per head in selected countries in 2020

Country	Labour force employed in agriculture (%)	GDP per head ($)
Bahamas	3	25 194
Barbados	10	15 374
Costa Rica	14	12 141
Dominica	40	7 004
Nicaragua	31	1 905
Saint Lucia	22	8 805

Nicaraguan firms tend to be relatively small. These firms often get to know their individual customers' requirements but many are not large enough to benefit from economies of scale. In recent years, there has been a boom in coffee shops in Nicaragua. Between 2015 and 2020, the number of coffee shops more than doubled in the country. These shops differentiate themselves through their customer service and the quality of the coffee they serve.

Nicaragua is the world's twelfth largest producer of coffee. Global coffee consumption continues to increase. This trend may increase Nicaragua's coffee output and exports.

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

1 **(a)** Calculate the price elasticity of demand for coffee. [1]

(b) Identify **two** rewards to factors of production in Nicaragua. [2]

(c) Explain **one** way in which unemployment is measured. [2]

(d) Explain **two** functions of money in Nicaragua. [4]

(e) Analyse the relationship between the percentage of the labour force employed in agriculture and GDP per head. [4]

(f) Analyse, using a demand and supply diagram, how a drought could affect the market for coffee. [5]

(g) Discuss whether or not small firms benefit Nicaraguan consumers. [6]

(h) Discuss whether or not Nicaragua should devote more of its resources to coffee production. [6]

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Section B

Answer any **three** questions.

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

2 In recent years, the mobility of labour, the number of women in the labour force and GDP have increased in Bangladesh. In 2019, the central bank of Bangladesh approved three new commercial banks. In that year, women on average earned 77% of the pay of men in Bangladesh. The country's economy experienced the world's seventh highest economic growth rate, with an increase in GDP of 7.4%.

(a) Identify **two** influences on the mobility of labour. [2]

(b) Explain **two** benefits that consumers may gain from having more commercial banks. [4]

(c) Analyse why women may be paid less than men. [6]

(d) Discuss whether or not people living in countries with a high GDP enjoy higher living standards than people in countries with a low GDP. [8]

3 Indonesia operates a mixed economic system. Indonesia's central bank, Bank Indonesia, aims for stable prices. The country's price level can be influenced by changes in population size. Indonesia's population continues to grow but at a slower rate. Many of the country's industries are growing with particularly fast growth in Indonesian domestic and international air travel.

(a) Identify who allocates resources in a mixed economic system. [2]

(b) Explain **two** benefits a firm may gain from an increase in the size of the country's population. [4]

(c) Analyse the reasons why governments aim for stable prices. [6]

(d) Discuss whether or not the global economy would benefit from an increase in air travel. [8]

4 Healthcare is in the tertiary sector. Healthcare provides both private and external benefits. In 2019, there were five mergers between large US healthcare firms. As well as operating in the US, US healthcare firms operate in a number of host countries, including Singapore.

(a) Define *tertiary sector* using an example apart from healthcare. [2]

(b) Explain the difference between a private benefit and an external benefit of healthcare. [4]

(c) Analyse why a government may prevent a horizontal merger. [6]

(d) Discuss whether or not a foreign multinational company (MNC) will continue to produce in a host country for many years. [8]

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5 In 2020, the price of gold fell in Vietnam. That year, Vietnam was one of Asia's best performing economies. Unlike some Asian economies, Vietnam did not experience a recession. Its total output, exports and imports all increased. Unemployment did increase from 2.0% to 2.3% but remained very low. One of the aims of fiscal policy can be to achieve full employment.

(a) Identify how the effect of a fall in the price of gold would be shown on a demand curve for gold. [2]

(b) Explain **two** disadvantages of a recession. [4]

(c) Analyse why a country may demand more imports. [6]

(d) Discuss whether or not fiscal policy can achieve full employment. [8]

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