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Cambridge Assessment International Education

# Cambridge IGCSE™

**ECONOMICS** **0455/21**

Paper 2 Structured Questions **October/November 2025**

**2 hours 15 minutes**

*5958752035*

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 Swiss economy**

| Switzerland fact file | 2022 |
|---|---|
| Population | 8.7m |
| Inflation rate | 3.5% |
| GDP | $808bn |
| Financial sector contribution (as % of GDP) | 9% |
| Current account surplus on the balance of payments | $78bn |

Although inflation in Switzerland in 2022 was above its target of 2%, it was below the inflation rate of other high-income economies, such as the US (9.1%), the UK (11.1%) and Germany (7.9%). Price levels are more stable because of a combination of microeconomic and macroeconomic policy measures. These include maximum prices, subsidies and a contractionary monetary policy.

To encourage the production of solar energy, the Swiss Government has provided more than $500 million in subsidies to producers. This is part of the government's plan to move away from non-renewable sources of energy which are mainly imported. Overdependence on foreign markets could lead to the economy becoming more exposed to external shocks.

Switzerland's current account of the balance of payments has been in surplus from 2015 to 2022. Low inflation, along with the production of very high-quality products, may have contributed to this surplus. A strong currency has also kept the cost of imported raw materials low in Switzerland.

The Swiss franc is one of the more stable currencies in the world. During times of economic uncertainty, the Swiss franc usually strengthens. Fig. 1.1 shows global growth rate (% change in GDP) and the percentage change in the value of the Swiss franc, against the USD($), from 2018–2022.

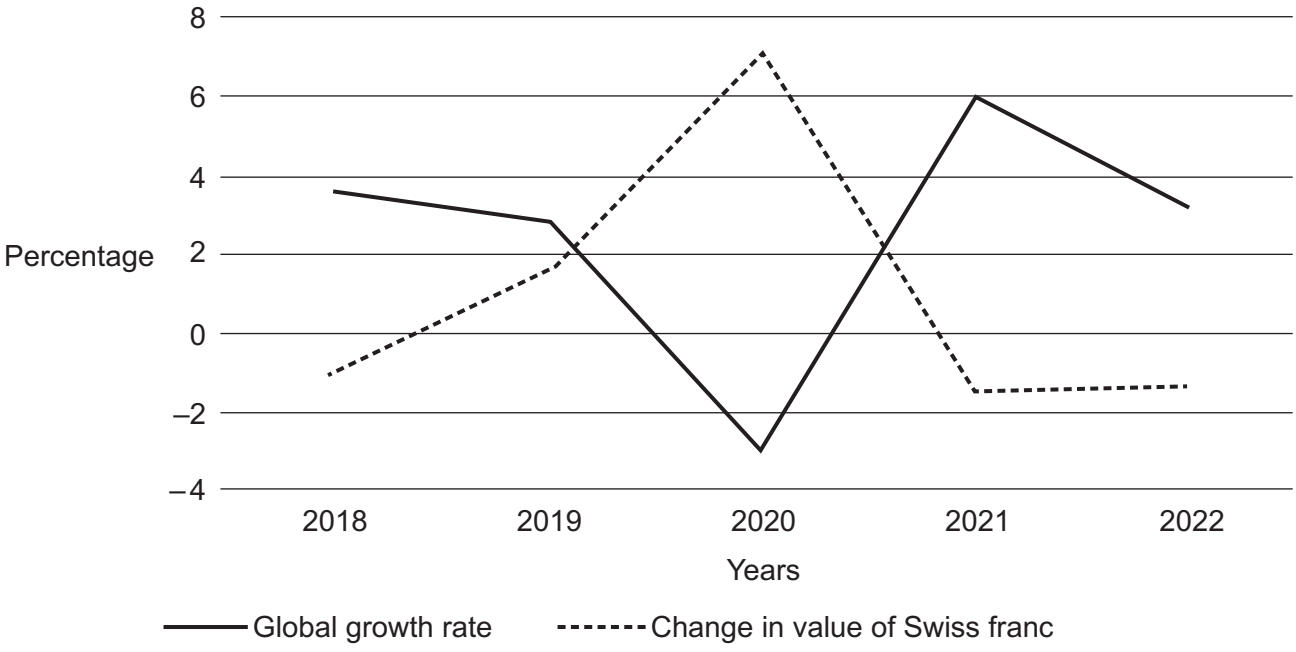



**Fig. 1.1 Global growth rate (% change in GDP) and the percentage change in the value of the Swiss franc against the USD($) from 2018–2022**

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Although inflation was not high compared to other countries, the Swiss central bank increased interest rates in 2022. This was done to reduce inflationary pressures. However, there was a risk that higher interest rates might increase unemployment.

The rise in interest rates affected some firms negatively. The Swiss Government had to organise a merger between the two largest banks in Switzerland. This was to avoid one of them collapsing which would have reduced confidence in the whole banking system. A merger might also have helped the merged bank to gain greater economies of scale. However, the merger resulted in some workers losing their jobs and gave the merged bank greater monopoly power.

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

**1** **(a)** Calculate the total financial sector contribution (in $) to Switzerland's GDP. [1]

**(b)** Identify **two** microeconomic policy measures. [2]

**(c)** Explain **one** reason why overdependence on foreign markets is a disadvantage to the Swiss economy. [2]

**(d)** Draw a demand and supply diagram to show how a subsidy to solar energy producers would affect the market for solar energy. [4]

**(e)** Explain **two** reasons why Switzerland had a current account surplus. [4]

**(f)** Analyse the relationship between the global GDP growth rate and the change in the value of the Swiss franc. [5]

**(g)** Discuss whether or not an increase in interest rates will harm the Swiss economy. [6]

**(h)** Discuss whether or not a bank merger will benefit Swiss consumers and workers. [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 the first half of 2022, Guyana's GDP grew by 36.4%. Most of this growth was due to higher output in the primary sector. The government used some of the tax revenue generated from this growth to fund long-run development projects such as infrastructure and education. However, in the short run, there was a rise in house prices.

**(a)** Identify **two** examples of primary sector industries. [2]

**(b)** Explain **two** causes of rising GDP. [4]

**(c)** Analyse why house prices may increase. [6]

**(d)** Discuss whether or not increased government spending on education will lead to economic development. [8]

**3** Japan has faced significant periods of deflation in recent decades. Despite efforts to stimulate the economy through fiscal policy measures and monetary policy measures, economic growth remains low. Some economists have also argued that the monetary policy used by the central bank is one of the causes of low productivity in Japan.

**(a)** Identify **two** fiscal policy measures. [2]

**(b)** Explain **two** influences on productivity. [4]

**(c)** Analyse reasons why central banks are important for an economy. [6]

**(d)** Discuss whether or not deflation is a problem for an economy. [8]

**4** Lanzarote, a Spanish island, was once an area with very high rates of poverty. However, the rise of tourism has greatly reduced unemployment. The government is trying to attract more workers to the island by using non-wage factors. Lanzarote's low taxes also attract workers to the island. Mobility of labour in the island's economy has also increased.

**(a)** Identify **two** non-wage factors that may influence a worker's job choice. [2]

**(b)** Explain how unemployment can lead to poverty. [4]

**(c)** Analyse the influences on the mobility of labour. [6]

**(d)** Discuss whether or not low taxes are beneficial for an economy. [8]

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**5** Street vendors mostly operate outside of the formal economy to avoid government regulation. However, many are now entering the formal economy. This has led to more government revenue, increased productivity and higher economic growth. Some governments plan to take measures to increase the number of firms in the economy.

**(a)** Identify **two** reasons why workers may choose to work in the formal economy. [2]

**(b)** Explain **two** effects of economic growth on a country's population. [4]

**(c)** Analyse how government regulation can reduce market failure. [6]

**(d)** Discuss whether or not an increase in the number of firms will benefit an economy. [8]

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