Cambridge IGCSE

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ECONOMICS **0455/23**

Paper 2 Structured Questions **May/June 2014**

2 hours 15 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer Question 1.
Section B
Answer any **three** questions.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **5** printed pages, **3** blank pages and **1** insert.

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Section A

Answer this question.

1 Challenges facing the Bahamas

The Bahamas is a relatively rich country in the West Indies, consisting of more than 700 islands. The country has a population of 350 000 and is experiencing a fall in its birth rate. The country has a high average income but in recent years it has experienced fluctuations in its Gross Domestic Product (GDP). These fluctuations have affected its employment rate (see Table 1).

Table 1: The economic growth rate and employment rate of the Bahamas 2007–2011

Year	Economic growth rate (annual % change in GDP)	Employment rate (% of the labour force in employment)
2007	2.8	92.1
2008	–1.5	91.3
2009	–5.4	85.8
2010	0.5	85.8
2011	2.0	86.3

A major reason why the economy experienced a recession in 2008 and 2009 was the downturn in the world economy. The Bahamas is very dependent on tourism. It accounts for 50% of the country's output and employment. It is very reliant on one country: nearly 80% of the tourists coming into the country come from the United States (US).

The second most important industry in the Bahamas is financial services, particularly commercial banking and insurance. This industry accounts for 36% of the country's output. In contrast to the tertiary sector, the primary and secondary sectors are less significant, contributing only 10% to the country's output.

The government is keen to make the economy less specialised. It is seeking to increase the output of a number of other industries, including shipping and fishing. There is the potential for the shipping industry to grow. The country is already a popular destination for cruise ships and currently provides training for sailors. Fishing may be more challenging as fish stocks throughout the world were declining in 2012. The government is also exploring for oil but some economists have argued against exploiting any oil reserves it may find.

To ensure inflation remains low, and to reduce unemployment, the government has introduced a number of supply-side policy measures in recent years. These include privatisation. In 2011, in order to increase competition, the government started to sell Bahamas Telecommunications, a state-owned monopoly.

The government is also seeking to reduce the budget deficit, that is the gap between government spending and tax revenue. It is considering introducing new taxes, whilst possibly cutting unemployment benefit.

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(a) Name **two** types of tax. [2]

(b) Using information from the extract, explain why the Bahamas would benefit from an increase in household incomes in the US. [2]

(c) Using information from the extract, draw a demand and supply diagram to show what is likely to have happened to the price of fish in 2012. [4]

(d) Explain why an increase in a country's GDP is likely to reduce unemployment. [3]

(e) Analyse whether the information in Table 1 supports the view that an increase in GDP reduces unemployment and a decrease in GDP raises unemployment. [4]

(f) Discuss whether a fall in the birth rate will benefit an economy. [5]

(g) Explain how the two supply-side policy measures mentioned in the extract may reduce unemployment. [4]

(h) Discuss whether the Bahamas should exploit any oil reserves it may find. [6]

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Section B

Answer any **three** questions from this section.

2 In 2012, a few countries experienced a decrease in their factors of production, including labour and enterprise. New Zealand, however, experienced an increase in both the quantity and quality of its factors of production. In the same year, the country exported more agricultural and manufactured goods.

(a) What is the difference between labour and enterprise? [4]

(b) Explain why farmers should consider opportunity cost when deciding how to use their factors of production. [4]

(c) Using a production possibility curve diagram, analyse the effect of a decrease in the supply of labour and enterprise on an economy. [5]

(d) Discuss whether an increase in the quality of a country's factors of production will always increase its exports. [7]

3 The equilibrium price of food has changed considerably in recent years. Whilst food in general has an inelastic demand, some types of food have elastic demand. To try to reduce food prices, some governments have introduced measures designed to shift the supply curve to the right.

(a) Describe what determines 'equilibrium price'. [2]

(b) Explain **two** reasons why the supply curve of a product may shift to the right. [4]

(c) Analyse what effect a fall in price may have on a farmer's profit. [6]

(d) Discuss whether the price of food is likely to increase in the future. [8]

4 Nollywood, the Nigerian film (movie) industry, is growing in size. More actors are being employed but their wages are currently still low. Wages and other costs of production may alter as the firms in the industry increase further in size. Consumers may also be affected by the growth in the size of the firms.

(a) Describe how fixed costs and variable costs are influenced by a rise in output. [2]

(b) Explain **two** reasons why someone may be prepared to work for a low wage. [4]

(c) Analyse **two** ways a bank can help a firm increase in size. [4]

(d) Discuss, using the Nigerian film (movie) industry as an example, whether consumers will benefit from larger firms. [10]

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5 In 2012, India's price level was still rising, largely because of increases in the costs of production. However, there was a fall in the country's rate of inflation. This reduction in the inflation rate led some economists to suggest that the rate of interest should be reduced. Other economists opposed this, arguing that inflation causes considerable problems for people.

(a) Explain what is meant by a fall in the rate of inflation. [2]

(b) Explain what can cause an increase in the costs of production. [3]

(c) Analyse why a reduction in the rate of interest may cause inflation. [6]

(d) Discuss whether inflation harms everyone in an economy. [9]

6 Living standards vary between countries. This is due, in part, to differences in productivity and the amount of foreign investment the countries can attract.

(a) Identify **four** characteristics of a developed country. [4]

(b) Explain **two** measures of living standards. [4]

(c) Analyse how a rise in productivity may increase living standards. [4]

(d) Discuss whether developed countries are likely to attract more foreign investment than developing countries. [8]

7 Between 2011 and 2012 Russia's exchange rate was relatively constant. The country continued to have a surplus on the current account of its balance of payments. The main change in its international trade position arose from it joining the World Trade Organisation. In order to do this, the government agreed to move towards free trade.

(a) Describe what is meant by a current account surplus. [4]

(b) Analyse why a country's exchange rate may rise in value. [6]

(c) Discuss whether engaging in free trade will always benefit an economy. [10]

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