Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/23**

Paper 2 Structured Questions **May/June 2017**

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.

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Section A

Answer this question.

1 Coal mining

Coal is used directly to heat homes throughout the world and produces more than 40% of the world's electricity. There are, however, a number of challenges facing the coal industry. These include increasing concerns about the environmental effects of using coal and the increased competition from other fuels.

Mining and using coal to produce electricity causes air pollution. Coal-fired power stations emit carbon dioxide, which has a harmful effect on people's health. Wildlife habitats are damaged when new mines are opened and when coal waste is dumped on landfill sites.

However, demand for coal has declined recently. This resulted in the price of a tonne of coal falling from US$300 in 2010 to US$150 in 2015. Even China, the world's largest consumer of coal, purchased less in 2015. Some high-cost deep mines were closed in the USA. In the same year, Europe's largest producer, Poland, sold coal at a loss of US$37 a tonne.

The fall in demand for coal arises partly from competition from renewable energy. For instance, advances in technology are reducing the costs of producing energy from wind power. Fig. 1 shows how the market for wind power changed in 2015.

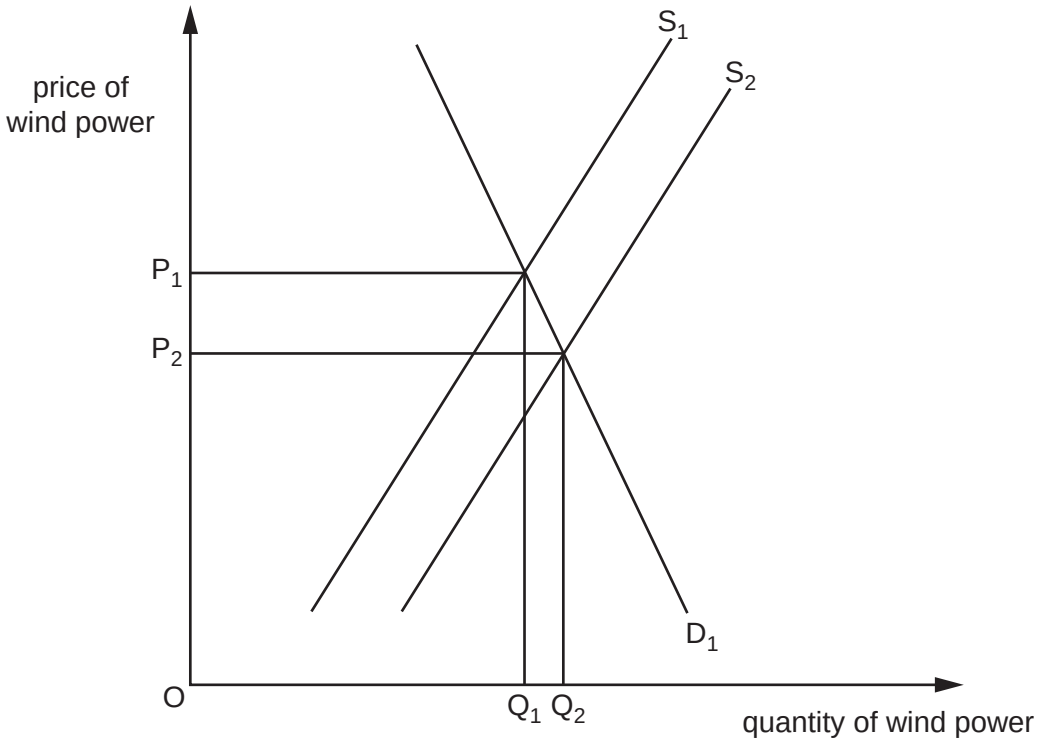


Fig. 1 The market for wind power in 2015

Some countries protect their energy industries from foreign competition, in some cases to reduce a current account deficit. The governments of a number of coal-producing countries also regulate their coal industries. The extent of government intervention is influenced by the type of economic system operated.

(a) Identify, using information from the extract, **two** external costs that arise from using coal to produce electricity. [2]

(b) Explain **two** reasons why a firm may continue to produce a good despite making a loss. [4]

(c) Calculate, using information from the extract:

(i) the percentage fall in the price of coal between 2010 and 2015 [2]

(ii) the cost (in US$) of producing a tonne of coal in Poland in 2015. [2]

(d) Analyse how resources are allocated in a mixed economy. [5]

(e) Discuss whether governments should regulate the coal industries of their countries. [5]

(f) Explain, using information from the extract and Fig. 1, what happened to the market for wind power in 2015. [4]

(g) Discuss whether a government should use trade protection to reduce a current account deficit. [6]

Section B

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

2 Between 2014 and 2015, Sao Paulo, a large city in Brazil, opened more than 120 km of cycle-only lanes alongside roads. The city has a car culture, with demand for car travel being price-inelastic. In contrast, in Copenhagen, the capital of Denmark, 36% of commuter journeys are now by bicycle, which has reduced the demand for car travel in the city.

(a) Define 'price-inelastic demand'. [2]

(b) Explain **two** causes of a shift of a demand curve to the left. [4]

(c) Analyse how a government could promote the purchase of bicycles. [6]

(d) Discuss whether governments should discourage car use. [8]

3 In 2015, money sent home by Nepalese workers working abroad accounted for 29% of Nepal's total income. These remittances also contributed positively to the country's current account position on its balance of payments. In Kerala, a state in India, remittances accounted for 36% of total income, with people from the state going abroad to undertake a range of jobs including working as dentists and hotel cleaners.

(a) Identify **two** factors that affect an individual's choice of occupation. [2]

(b) Explain **two** effects of a country having a surplus on the current account of its balance of payments. [4]

(c) Analyse why dentists are paid more than hotel cleaners. [6]

(d) Discuss whether an economy will benefit from recruiting workers from other countries. [8]

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4 2015 saw more than US$4000 billion-worth of mergers worldwide, many in the USA and the UK. Some mergers occur between firms in different countries. These are influenced by a number of factors, including the size and structure of the markets in the countries and their exchange rates. Mergers influence the level of competition in markets.

(a) Define 'conglomerate integration'. [2]

(b) Explain why firms in a perfectly competitive market are price-takers. [4]

(c) Analyse the causes of an increase in a country's exchange rate. [6]

(d) Discuss whether a large firm will always have lower average costs of production than a small firm. [8]

5 The Central Bank of Nigeria has set a limit for inflation of 9%, but in August 2015 the country's inflation rate reached 9.2%. The Governor of the Central Bank said he would welcome the use of fiscal policy to reduce the inflation rate and would resist calls to devalue the country's exchange rate.

(a) Define 'Central Bank'. [2]

(b) Explain the difference between a fixed exchange rate and a floating exchange rate. [4]

(c) Analyse how fiscal policy could reduce the inflation rate. [6]

(d) Discuss whether inflation causes more problems than deflation. [8]

6 Living standards have risen in a variety of ways in recent decades. Between 1990 and 2015, more than 2.5 billion people in the world gained access to improved water and the proportion of undernourished people declined from 24% to 13%. Countries have made different rates of progress and these have been reflected in their Human Development Index (HDI) rankings.

(a) Define the 'Human Development Index'. [2]

(b) Explain why the concept of opportunity cost is important in deciding how to allocate resources. [4]

(c) Analyse how a reduction in the rate of interest could reduce poverty. [6]

(d) Discuss whether rapid economic growth always increases living standards. [8]

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7 Argentina once had one of the highest levels of Gross Domestic Product (GDP) per head in the world and one of the highest economic growth rates. Many multinational companies were producing in the country. Some suggest that for Argentina to regain its position among the top ten richest countries, it needs to increase spending on education and move towards free trade.

(a) Define 'free trade'. [2]

(b) Explain **two** reasons why governments aim for economic growth. [4]

(c) Analyse why the social benefits of education are greater than the private benefits. [6]

(d) Discuss whether multinational companies (MNCs) will always locate in countries with a high GDP per head. [8]

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