Cambridge Assessment International Education

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ECONOMICS **0455/21**

Paper 2 Structured Questions **May/June 2020**

2 hours 15 minutes

7722528678

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. Blank pages are indicated.

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Section A

Read the source material carefully before answering Question 1.

Source material: Vietnam's growing population and economy

Vietnam fact file	2010	2017
GDP	$272.8 billion	$662.4 billion
Population	88 million	96 million
Foreign exchange rate	$1 = 19500 dong	$1 = 22780 dong

Vietnam's population and its output are increasing. Consumers, workers and firms are benefiting from the higher output. Some Vietnamese people are receiving more generous pensions and higher wages while some firms are earning higher profits.

Vietnam's population is ageing but the country still has a relatively young labour force. Age can affect workers' flexibility, mobility, level of experience and their knowledge of the latest technology. The Vietnamese government wants to raise the quality of its labour force by spending more on education. Vietnamese children have recently performed better in international tests than children in richer countries. Education spending can influence the percentage of the labour force working in the tertiary sector as shown in Table 1.

Table 1 Education spending as a percentage of GDP and the percentage of the labour force employed in the tertiary sector in selected countries in 2017.

Country	Education spending % of GDP	Labour force employed in the tertiary sector (%)
Norway	7.4	78.0
Vietnam	6.3	32.3
France	5.5	75.9
Germany	4.9	71.2
Indonesia	3.6	45.2
Iran	3.1	49.1
Bangladesh	2.0	35.6

Vietnam has had a budget deficit since 2008. The country's high economic growth rate and changes in government policies will affect its budget balance in the future. The government is privatising a number of public sector firms. It also plans to spend more on education and defence and is likely to raise some tax rates.

Deregulation has increased the number of firms, both foreign and domestically owned, in a number of markets. For instance, in 2007 there was only one Vietnamese airline. It operated only two routes and the fares it charged were not affordable to most Vietnamese. Now the country has seven airlines offering domestic and international flights.

Borrowing by both households and firms increased in Vietnam between 2010 and 2017. Households borrowed mainly to purchase more consumer goods while firms borrowed mainly to invest.

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

1 **(a)** Calculate Vietnam's GDP per head in 2017. [1]

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

(c) Explain what happened to Vietnam's foreign exchange rate between 2010 and 2017. [2]

(d) Explain **two** benefits an economy may gain from having a young labour force. [4]

(e) Analyse why Vietnam's budget deficit may decline in the future. [4]

(f) Analyse the relationship between government spending on education and the percentage of the labour force employed in the tertiary sector. [5]

(g) Discuss whether or not an increase in competition is likely to benefit Vietnamese consumers. [6]

(h) Discuss whether or not the increase in borrowing is likely to have caused inflation in Vietnam in 2017. [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 Japan has a low immigration rate and a declining population. In recent years, it has experienced deflation and a rise in child poverty. By 2017, one in six Japanese children lived in a household with less than half of the average household income. Japan operates a national minimum wage which increased every year between 2010 and 2017. This may have affected the level of poverty in the country.

(a) State **two** benefits a country may gain from immigration. [2]

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

(c) Analyse why children from low-income families may have low incomes as adults. [6]

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

3 There is a smaller proportion of large firms in Africa than in Asia. The two African countries with the largest firms are Nigeria and South Africa. These two countries' firms have more capital goods than most other African countries' firms. Firms in South Africa produce a range of products including gold and petrochemicals. In recent years, a number of African firms have developed into multinational companies (MNCs), producing mainly in other African countries.

(a) Define a *capital good*. [2]

(b) Explain **two** challenges facing small firms. [4]

(c) Analyse, using a demand and supply diagram, how a rise in income may affect the market for gold. [6]

(d) Discuss whether or not MNCs increase production and productivity in their host countries. [8]

4 Economists are uncertain about the future United States (US) macroeconomic performance. For instance, in recent years, US unemployment has fallen while the deficit on the current account of the balance of payments has fluctuated. Whether its current account deficit will rise or fall in the future may be affected by proposed tax cuts. Some economists suggest that the US government should not be concerned about the country's current account deficit.

(a) Define *macroeconomics*. [2]

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

(c) Analyse how tax cuts could increase exports. [6]

(d) Discuss whether or not a current account deficit on its balance of payments harms an economy. [8]

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5 Australian firms have been praised for introducing new technology. The actions of some of these firms, however, cause market failure. The Australian government uses subsidies, among other policies, to reduce market failure. Government spending is used both to improve the performance of individual markets and the macroeconomy. The Australian government increased its spending in 2017, in part to reduce unemployment.

(a) State **two** objectives of firms. [2]

(b) Explain how a subsidy can correct market failure. [4]

(c) Analyse, using a production possibility curve (PPC) diagram, the effect of advances in technology on an economy. [6]

(d) Discuss whether or not an increase in government spending will reduce unemployment. [8]

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