Cambridge Assessment International Education

Cambridge IGCSE™

ECONOMICS **0455/23**

Paper 2 Structured Questions **May/June 2023**

2 hours 15 minutes

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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: New Zealand's aim for carbon-neutrality

New Zealand fact file	2020
Total GDP	$195bn
Total GDP as a percentage of world GDP	0.16%
Population	5m

New Zealand is a relatively small economy that intends to be carbon-neutral by the year 2050. Carbon-neutrality is when a country removes the same amount of carbon dioxide from the environment as it emits or simply eliminating carbon dioxide emissions altogether.

There are now various plans in place to reduce external costs in industries such as the milk and car industries. Both industries are major contributors to air pollution and the milk industry damages the environment where many wild animals live. The government intends to end imports of petrol-powered cars by 2032 and also limit the number of cows that each farmer can keep. However, good substitutes will need to be found to achieve these targets. Consumers will want a cheaper substitute for petrol-powered cars and farmers will need a different source of revenue than cows.

The success of the government plans will be important for New Zealand's macroeconomic performance. New Zealand exporters rely on a clean and green brand image, and this will help economic growth and reduce the deficit on the current account of the balance of payments. However, not all firms will benefit from government plans to achieve carbon-neutrality and inflation rates may also increase.

A switch to a carbon-neutral economy could result in increased unemployment due to significant job losses in the coal, oil and gas industries. This could lead to increased poverty in certain communities and large losses in the firms that serve these communities. However, these changes may be temporary and an economy with a high mobility of factors of production could avoid such problems.

The good news is that New Zealand already has a low level of carbon dioxide emissions. However, not all countries can easily take the route New Zealand is planning to take. For selected countries, Table 1.1. shows their share of world GDP (%) and their share of world carbon dioxide emissions (%) in 2018.

Table 1.1 Share of world GDP (%) and share of world carbon dioxide emissions (%) in 2018 for selected countries

Country	Share of world GDP (%)	Share of world carbon dioxide emissions (%)
China	16.1	29.7
Japan	5.7	3.2
New Zealand	0.2	0.1
Thailand	0.6	0.7
United Kingdom	3.3	1.0
United States	23.8	13.9

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

1 **(a)** Calculate New Zealand's GDP per head in 2020. [1]

(b) Identify **two** external costs arising from the milk and car industries. [2]

(c) Explain the impact on a cow farmer's profits if they are unable to find a different source of revenue. [2]

(d) Explain the **two** plans that the New Zealand government has to reduce external costs to the environment. [4]

(e) Draw a demand and supply diagram to show the effect of a cheaper substitute on the market for petrol-powered cars. [4]

(f) Analyse the relationship between a country's share of world GDP (%) and its share of world carbon dioxide emissions (%). [5]

(g) Discuss whether or not an increase in exports of clean and green products will help the New Zealand government achieve its macroeconomic aims. [6]

(h) Discuss whether or not job losses caused by a change to a carbon-neutral economy will be harmful. [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 Liechtenstein is a high-income economy in the middle of Europe. The country's low tax rates and low levels of regulation make it an attractive place for foreign firms and individuals to open bank accounts. Firms' costs of production in Liechtenstein are high but this is slightly offset by low indirect taxation.

(a) Identify **two** types of cost to a firm. [2]

(b) Explain **two** roles of commercial banks for firms. [4]

(c) Analyse the causes of differences in the level of income between countries. [6]

(d) Discuss whether or not low tax rates benefit an economy. [8]

3 The number of Chinese restaurants in the UK fell by approximately 7% in 2020 compared to the year before. Reasons for this include falling demand for Chinese food and increasing competition from other types of food. Some small firms selling Chinese food are also unwilling to invest in the latest technology because of the possible opportunity costs.

(a) Identify **two** challenges facing small firms. [2]

(b) Explain **two** possible opportunity costs for firms if they invest in the latest technology. [4]

(c) Analyse **two** causes of a fall in demand for a product such as Chinese food. [6]

(d) Discuss whether or not competition is harmful to a firm. [8]

4 After the recession that struck Albania in 2013, the country experienced a significant rise in emigration. Albanian workers and students in other countries have expressed little desire to return. However, the government is trying to implement policy measures that could attract more people to return to the country.

(a) Define *emigration*. [2]

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

(c) Analyse policy measures a government could use to attract workers to return to their home country. [6]

(d) Discuss whether or not an economy benefits from many of its students studying abroad. [8]

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5 The food processing, tourism, and education industries all contribute significantly to the government budget for the US state of Wisconsin. The contribution of the education industry is higher than that of other industries due to the higher wages earned in education. This industry also contributes to the population growth of the state. This not only creates private benefits but also external benefits.

(a) Define *government budget*. [2]

(b) Explain, with examples, the difference between private benefits and external benefits. [4]

(c) Analyse the reasons why workers employed in education may earn more than workers employed in other industries. [6]

(d) Discuss whether or not having a large population is beneficial for the economy. [8]

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