Cambridge Assessment International Education

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ECONOMICS **0455/23**

Paper 2 Structured Questions **May/June 2024**

2 hours 15 minutes

219231005

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: Indonesia and climate change

Indonesia fact file	2021
GDP of Indonesia	$1100bn
Economic growth rate of Indonesia	3.7%
GDP of Jakarta	$300bn
Economic growth rate of Jakarta	2.4%

Jakarta, Indonesia's capital city from 1945 to 2024, is one of the world's fastest sinking and most polluted cities. The city is expected to record a large decrease in real Gross Domestic Product (GDP) per head which could lead to a fall in living standards.

The free market can be blamed for air pollution and rising sea levels across some areas of Indonesia. Schools and other buildings have been flooded and roads have been destroyed. Floods have also led to an increase in diseases transmitted through water and mosquitoes which breed in water.

Farmland has been submerged, cutting off a vital source of income for many farmers. This has led to internal migration (people moving between regions of the same country). For example, some farmers have moved to areas where climate change has led to the production of different crops. There has been less pressure on both natural and local government resources in areas which people have left. However, these movements could lead to the collapse of entire communities and increase the inequality between workers who are more mobile and those who are less mobile.

Governments around the world have reacted to climate change by spending more on the environment. Table 1.1 shows the GDP and government spending on the environment of selected countries in 2019.

Table 1.1 GDP and government spending on the environment of selected countries in 2019

Country	GDP ($bn)	Government spending on the environment ($bn)
France	2730	27.03
Indonesia	1120	2.58
Japan	5150	58.20
Switzerland	730	4.02
Thailand	540	0.32

The Indonesian government has also reacted to environmental issues by relocating its capital city. The city of Nusantara will replace Jakarta as the capital city in 2024. The cost of building this new city is expected to be $32.5 billion. This city will not only provide job opportunities but could also reduce the inequality between the different regions of Indonesia. Jakarta is located on the island of Java which is a wealthier region than Kalimantan. The new city, Nusantara, will be located in Kalimantan region. In addition, the government intends for the new capital city to be carbon-neutral. However, opponents of this project have said that the cost is too high. They also claimed that the project will only benefit a small number of wealthy and powerful people.

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

1 **(a)** Calculate the percentage contribution of Jakarta to Indonesia's GDP in 2021. [1]

(b) Identify **two** examples of external costs ignored by the free market. [2]

(c) Explain how real GDP per head can be an indicator of living standards. [2]

(d) Explain **two** ways climate change can lead to a fall in the Human Development Index (HDI) of Indonesia. [4]

(e) Draw a production possibility curve (PPC) diagram to show the impact of climate change on an economy such as Indonesia. [4]

(f) Analyse the relationship between GDP and government spending on the environment. [5]

(g) Discuss whether or not internal migration benefits an economy such as Indonesia. [6]

(h) Discuss whether or not relocating the capital city from Jakarta will benefit the Indonesian economy. [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 Shenzhen, once a fishing village, is now one of China's richest cities with a large secondary sector. This transformation was possible as local villages shared resources to develop their area. For example, they constructed new housing to rent to migrants working in the factories in the city. However, the supply of housing has not been able to keep up with demand and the government is now setting a maximum price on housing.

(a) Define *secondary sector* using an example apart from construction. [2]

(b) Explain **two** key resource allocation decisions. [4]

(c) Analyse why workers may want to migrate to another area. [6]

(d) Discuss whether or not a government should introduce a maximum price on housing. [8]

3 Since 2020, the revenue gained in the video gaming industry has been higher than the revenue in the film industry. The fastest growing part of the video gaming industry is mobile gaming, which is a substitute for console gaming. Young people are spending many hours playing video games and some governments are concerned that this may have negative effects on their health and educational progress. Therefore, regulations have been introduced to reduce the time young people spend playing these games.

(a) Identify **two** pairs of products, not in the gaming industry, which are substitutes. [2]

(b) Explain **two** reasons why a firm's revenue may increase. [4]

(c) Analyse **two** economic consequences of having a large proportion of the population aged under 16. [6]

(d) Discuss whether or not it would benefit the economy if a government imposed regulations on video game use by young people. [8]

4 In 2021, the US had a trade in goods deficit on the current account of its balance of payments. The US has many firms in a wide range of industries. Import tariffs are used to protect some of these industries. The US government's higher spending on healthcare, which reached $797bn that year, also affected many of the country's industries.

(a) Define a *trade in goods deficit*. [2]

(b) Explain **two** ways firms can be classified. [4]

(c) Analyse why a government may protect its country's industries from foreign competition. [6]

(d) Discuss whether or not a government should increase its spending on healthcare. [8]

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5 In 2020, investment in vaccine production was very high. There was a plan for a major vaccine producer to horizontally merge with another firm but the plan was cancelled. This was not surprising as a similar merger of two firms in the same industry had failed the previous year. However, most firms in this industry are still meeting their objectives and also creating many external benefits for the wider economy.

(a) Identify **two** benefits of a horizontal merger. [2]

(b) Explain **two** possible external benefits of vaccines. [4]

(c) Analyse potential reasons why a merged firm may fail. [6]

(d) Discuss whether or not investment is beneficial to an economy. [8]

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