Cambridge Assessment International Education

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ECONOMICS **0455/22**

Paper 2 Structured Questions **May/June 2025**

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: The future of the economy of St. Kitts and Nevis

St. Kitts and Nevis fact file	2022
Population	54 800
GDP per head	$27 000
Government spending	$310m
Tax revenue	$292m
Unemployment rate	5.1%
Inflation rate	2.4%
Current account balance of the balance of payments	–$56m

St. Kitts and Nevis is a small, two-island country in the Caribbean. The country's three main industries are tourism, financial services and agriculture. Tourists are attracted by the country's beaches, coral reefs, forts, rainforests and shipwrecks. However, if rainforests continue to be cut down and soil erosion continues to pollute the coral reefs, killing off marine life, tourism may be discouraged. The St. Kitts and Nevis Government is also concerned that the social costs of tourism exceed the private costs.

St. Kitts and Nevis's financial services include a growing banking sector. Among the country's commercial banks are a few foreign multinational companies (MNCs). These MNCs are attracted by the country's relatively high incomes, the absence of personal income tax and a relatively high literacy rate.

Some of the country's main agricultural products are carrots, onions, peanuts and sweet potatoes. In 2017, the St. Kitts and Nevis Government introduced a training scheme to raise the productivity of onion farmers.

Other important industries in St Kitts and Nevis include healthcare and fishing. Table 1.1 shows healthcare spending as a percentage of GDP and life expectancy in six selected countries in 2022.

Table 1.1 Healthcare spending as a percentage of GDP and life expectancy in selected countries in 2022

Country	Healthcare spending as a % of GDP	Life expectancy (years)
Canada	12.9	84
Egypt	4.5	75
Haiti	3.3	65
Monaco	1.9	90
St. Kitts and Nevis	5.4	77
Sweden	11.5	83

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The small size of St. Kitts and Nevis's fishing industry means that it imports large quantities of fish. The country's fishing boats are small and some lack up-to-date equipment. A larger fishing industry, with bigger boats, may bring a number of benefits to the country.

Changes in the structure and performance of industries in St. Kitts and Nevis may alter the country's price level. Between 2018 and 2020, the country experienced deflation. This affected people's purchasing power, saving and debts. It also affected the country's exports and firms' investment decisions.

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

1 **(a)** Calculate St. Kitts and Nevis's government budget deficit in 2022. [1]

(b) Identify **two** examples of the factor of production 'land' in St. Kitts and Nevis. [2]

(c) Explain how tourism causes external costs in St. Kitts and Nevis. [2]

(d) Explain **two** reasons why a foreign bank may open a branch in St. Kitts and Nevis. [4]

(e) Draw a demand and supply diagram to show the effect of an increase in the productivity of onion farmers on the market for onions. [4]

(f) Analyse the relationship between healthcare spending as a percentage of GDP and life expectancy. [5]

(g) Discuss whether or not an increase in the size of its fishing industry would benefit St. Kitts and Nevis. [6]

(h) Discuss whether or not deflation is likely to have harmed St. Kitts and Nevis. [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 The world's four largest accountancy firms experienced a decline in demand for their services at the start of 2023. One cause of this lower demand was a decline in mergers in other industries, including the chocolate industry. Three of the accountancy firms reduced the number of new workers they hired and the other accountancy firm announced job losses. The ability of workers to gain new jobs is influenced by their mobility.

(a) Identify **two** advantages a firm may gain from merging with another firm. [2]

(b) Explain **two** disadvantages workers may experience as a result of losing their jobs. [4]

(c) Analyse the advantages of an increase in labour mobility. [6]

(d) Discuss whether or not the demand for chocolate is likely to be price elastic. [8]

3 In 2022, Paraguay's production possibility curve (PPC) shifted to the right. Paraguay has a mixed economic system. Its government provides merit goods and public goods. The country's private sector is a major producer of shampoo. The firms in the shampoo industry make use of division of labour. There are several firms in the industry, but the number is declining. There is a possibility that soon there may be just one firm in the industry.

(a) Identify what is measured on the axes of a production possibility curve. [2]

(b) Explain, with an example of each, the difference between a merit good and a public good. [4]

(c) Analyse how division of labour can benefit firms. [6]

(d) Discuss whether or not consumers would benefit from only one firm producing shampoo. [8]

4 In 2022, more than a quarter of a million workers, including doctors, left Sri Lanka to work in other countries. This was largely due to economic problems, including an inflation rate of 50% and a concern that unemployment might rise. The Sri Lankan Government increased direct taxation. It also encouraged some public sector workers to work abroad temporarily. People who work abroad often send money home to relatives.

(a) Identify **two** types of unemployment. [2]

(b) Explain **two** ways that money received from relatives working abroad could raise their families' living standards. [4]

(c) Analyse how an increase in direct taxation could increase unemployment. [6]

(d) Discuss whether or not a doctor would benefit from working in another country. [8]

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5 In 2023, the Chinese Government said that it would aim for an economic growth rate of 5% and a steady increase in both exports and imports. It was expected that higher output would be caused mainly by an increase in household spending, although this could also result in inflation. Another aim of the Chinese Government was to keep the unemployment rate at around 5.5%. China has an ageing population and an ageing labour force.

(a) Identify **two** influences on household spending. [2]

(b) Explain **two** advantages of employing older workers. [4]

(c) Analyse how an increase in household spending could cause inflation. [6]

(d) Discuss whether or not a government should aim for an increase in imports. [8]

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