Cambridge IGCSE

Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/21**

Paper 2 Structured Questions **October/November 2014**

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.

This document consists of **4** printed pages and **1** insert.

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Section A

Answer this question.

1 Economic diversification in Mauritius

The economy of Mauritius has made good progress since the country achieved independence in 1968. The economy is becoming less specialised; there is now less of a reliance on sugar-cane, and more importance has been attached to textiles, financial services, higher education and tourism. For example, there is a target of 2 million visitors by 2015, up from 1 million in 2010. There has also been rapid progress in technology services: information technology now employs some 15 000 people and contributes about 7% to Gross Domestic Product (GDP).

The country had an average economic growth rate of 4.6% per year from 2007–2010. In 2011 it had an annual economic growth rate of 5%, a population of 1.3 million and a GDP of US$11.31 billion.

There has been substantial investment, encouraged by the presence of a well-educated, skilled and multilingual labour force, new production techniques and political stability. Mauritius has also benefited from membership of a common market of 19 countries in eastern and southern Africa (COMESA), with a combined population of over 400 million. Taxation is relatively low with corporate tax, value added (sales) tax and income tax all at 15%. India is the second largest investor in Mauritius, after the United Kingdom. This investment has created a lot of jobs in Mauritius, reducing the rate of unemployment to 7.8% in 2011.

The financial services sector has been liberalised, helped by the establishment of a stock exchange in the country in 1989, which provides for the buying and selling of company stocks and shares and government bonds. It is the only stock exchange in Africa that can list, trade and settle transactions in several currencies. There are now over 130 companies listed on the Stock Exchange of Mauritius.

Table 1: Labour force in Mauritius by occupation (2011)

Occupation	% of Labour Force
Agriculture and fishing	9
Construction and industry	30
Transportation and communication	7
Restaurants and hotels	22
Finance	6
Other services	26

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(a) Define 'Gross Domestic Product'. [2]

(b) Using information from the extract, calculate the Gross Domestic Product per head in Mauritius in 2011. [2]

(c) Discuss the extent to which economic growth is advantageous for a country. [6]

(d) Using information from the extract, describe **two** functions that the stock exchange performs in the Mauritian economy. [4]

(e) Explain why governments impose taxes. [4]

(f) Using Table 1, calculate the percentage of the labour force in Mauritius employed in the services (tertiary) sector. [2]

(g) Using information from the extract, explain why there has been substantial investment by foreign firms in Mauritius in recent years. [4]

(h) Discuss whether an economy would benefit from becoming less specialised and having a greater range of different industries. [6]

Section B

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

2 All countries face the economic problem and so choices have to be made.

(a) Explain what is meant by the 'economic problem'. [2]

(b) Describe the **two** main features of the factor of production, 'enterprise'. [4]

(c) Using a production possibility curve diagram, explain how the curve can be used to show the consequences of a change in the allocation of resources between the production of two goods. [6]

(d) Discuss whether a decision by a government, with limited financial resources, to increase expenditure on education by 25% over a three year period, is likely to be an appropriate decision. [8]

3 A government decides to encourage the use of public transport by the provision of a subsidy.

(a) Using a demand and supply diagram, analyse the effect of a subsidy on the equilibrium price and the equilibrium quantity in such a market. [6]

(b) Explain what factors influence the price elasticity of demand for public transport. [6]

(c) Discuss whether transport in a country should be provided by the public sector or by the private sector. [8]

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4 Different workers can be paid vastly different amounts of money. Sometimes this can be due to the level of skill that different workers have, and sometimes it can be influenced by whether a worker is in a trade union or not.

(a) Describe **three** factors that can influence an individual's choice of occupation. [6]

(b) Explain **two** reasons why an unskilled worker is usually paid less than a skilled worker. [4]

(c) Describe what is meant by a trade union. [4]

(d) Discuss whether membership of a trade union will always be beneficial for a worker. [6]

5 In Pakistan, some businesses, especially sole proprietorships and partnerships, are perfectly competitive and other businesses are monopolies.

(a) Distinguish between a sole proprietor and a partnership. [4]

(b) Explain how some large firms can experience economies of scale, while others face diseconomies of scale. [6]

(c) Discuss whether a monopoly is always in the public interest. [10]

6 Many countries experience different degrees of poverty and migration, but in all countries it can be difficult to measure living standards.

(a) Distinguish between relative poverty and absolute poverty. [2]

(b) Explain **four** reasons why some developing countries experience immigration. [8]

(c) Discuss whether GDP per head is the best way to compare living standards in different countries. [10]

7 Trade protection and changes in exchange rates are two ways a country can try to reduce a current account deficit of the balance of payments.

(a) Explain what is meant by 'a current account deficit of the balance of payments'. [4]

(b) Analyse why the depreciation of its currency's exchange rate may lead to a reduction in a country's current account deficit. [6]

(c) Describe **two** methods of trade protection that a country could use. [4]

(d) Discuss whether trade protection should always be preferred to free trade. [6]

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