Cambridge IGCSE

Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/21**

Paper 2 Structured Questions **October/November 2017**

2 hours 15 minutes

No Additional Materials are required.



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.

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Section A

Answer this question.

1 Cigarette smoking in China

China has recently experienced rapid economic growth and an improving Human Development Index (HDI) ranking. It is, however, facing a number of health challenges. It is currently the world's largest cigarette market, with more than 350 million smokers. A higher proportion of men smoke in China than in most other countries, including Russia and the USA. While 50% of Chinese men smoke, only 2% of Chinese women smoke. It has been estimated that nearly 2 million Chinese citizens a year die from smoking-related illnesses. These include smokers and those who have suffered from passive smoking.

As well as being the largest consumer of cigarettes, China is also the world's largest producer of cigarettes. Tobacco is grown in a number of the provinces of China, including the province of Yunnan. Over 3 million workers are employed in the industry, which is increasingly using advanced technological capital equipment. However, between 2009 and 2014 the number of cigarette-producing firms declined from 200 to 40 as firms merged and grew in size.

Although revenue from taxes on cigarettes earned the Chinese Government 800 billion yuan in 2014 (5% of the government's total tax revenue), it recently introduced a number of measures to discourage smoking. It has imposed a ban on smoking in public places, hospitals, schools and public transport. Health campaigns are also being used. Such campaigns are used throughout the world both to discourage the consumption of some products that are thought to be harmful to health and to encourage the consumption of products that are considered to be beneficial to health. For example, an information campaign on the benefits of consuming fruit has met with some success in the UK. Fig. 1 shows the impact it had on the market for fruit in the UK in 2015.

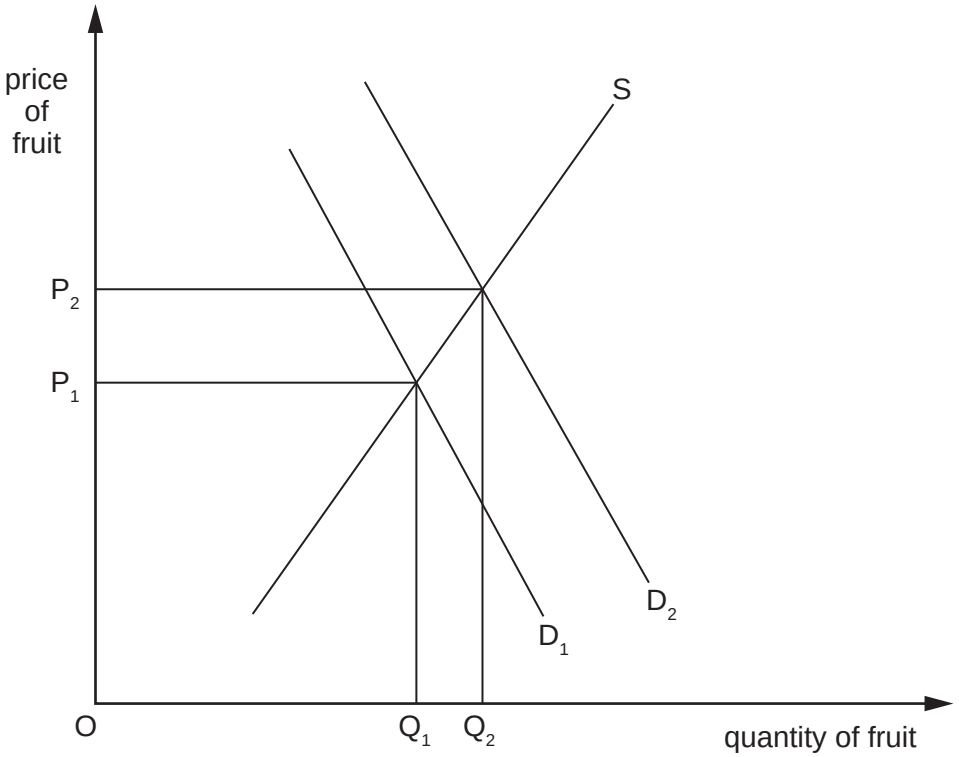


Fig. 1 The market for fruit in the UK in 2015

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(a) Identify, from the extract, **two** factors of production used in producing cigarettes. [2]

(b) Explain **two** reasons why firms merge. [4]

(c) Calculate, using information from the extract:

(i) the percentage decrease in the number of cigarette firms in China from 2009 to 2014 [2]

(ii) the total tax revenue that the Chinese Government received in 2014. [2]

(d) Analyse, using a production possibility curve diagram, the effect of moving factors of production from producing cigarettes to producing other products. [5]

(e) Discuss whether people in countries with a high HDI always enjoy a high standard of living. [5]

(f) Explain, using information from the extract and Fig. 1, what happened to the market for fruit in the UK in 2015. [4]

(g) Discuss the arguments for and against the Chinese Government increasing the tax on cigarettes. [6]

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Section B

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

2 In 2015, the global equilibrium price of milk fell. As a result, the number of farms producing milk declined. Farms tried to cut costs by becoming larger and employing fewer but more specialised workers. The reduction in the number of farms has led to less competition because some large farms have gained monopoly powers in local areas. A number of farm workers switched to other jobs, but some who remained accepted a cut in pay.

(a) Define 'equilibrium price'. [2]

(b) Explain **two** reasons why a worker may continue in a job despite a cut in pay. [4]

(c) Analyse how employing specialised workers may reduce a firm's average costs of production. [6]

(d) Discuss whether consumers would benefit if a firm became a monopoly. [8]

3 Qatar is a growing economy and has benefited from the expansion of the insurance industry. This industry is currently dominated by one firm and is a long way from perfect competition. The economy has also experienced a general increase in labour productivity. However, the nature of the relationship between free trade and economic growth is debated among economists.

(a) Define 'perfect competition'. [2]

(b) Explain **two** influences on the size of firms. [4]

(c) Analyse the causes of an increase in labour productivity. [6]

(d) Discuss whether a country that engages in free trade is likely to have a higher economic growth rate than one that uses trade protection. [8]

4 Indonesia is rich in resources including such raw materials as copper, gold and coal. Indonesia is the second-largest exporter of coal. In 2015, the Indonesian Government was considering increasing subsidies to producers, including farmers. Subsidies can be used to reduce inflation. Recent years have seen lower direct taxes in Indonesia, but higher direct taxes in some other countries.

(a) What is used to measure a country's inflation rate? [2]

(b) Explain **two** reasons for conserving resources. [4]

(c) Analyse how subsidies given to farmers could raise living standards. [6]

(d) Discuss whether a rise in direct taxes will reduce economic growth. [8]

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5 In 2015, Venezuela was facing a number of challenges. Despite government subsidies, increases in demand meant there were shortages of food. The fall in the global price of oil increased the deficit on the current account of the country's balance of payments. Oil accounted for nearly 90% of the country's export earnings. In Venezuela, oil is produced by one large state-owned company, but the country also has many sole traders involved in other industries.

(a) Define a 'subsidy'. [2]

(b) Explain **two** causes of a decrease in demand for oil. [4]

(c) Analyse the advantages of being a sole trader. [6]

(d) Discuss whether a government should be concerned about a growing deficit on the current account of its balance of payments. [8]

6 In 2008, Zimbabwe reached a record high rate of inflation of 500 trillion per cent. By 2015, it had fallen so much that there was even talk of deflation. Such deflation could be very serious given the country's high rate of unemployment. Increased government spending on training is one of the policy measures that can be used to reduce both unemployment and inflation.

(a) Identify **two** ways in which a high rate of unemployment may affect firms. [2]

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

(c) Analyse the **disadvantages** of a very high rate of inflation. [6]

(d) Discuss whether increased government spending on training will always reduce inflation. [8]

7 Despite encouragement from central banks, in 2015 some commercial banks were still reluctant to lend, especially to the poor. Attracting more lenders and borrowers would have allowed commercial banks to expand and employ more workers. A rise in employment would make more use of a country's labour force. Over time, the size of a country's labour force is likely to change.

(a) Identify **two** ways in which the expenditure patterns of the poor and the rich are different. [2]

(b) Explain **two** reasons why a commercial bank may prefer to lend to the rich rather than to the poor. [4]

(c) Analyse the effects that an increase in the labour force will have on an economy. [6]

(d) Discuss whether providing loans to the poor will reduce poverty. [8]

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