Cambridge IGCSE

Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/21**

Paper 2 Structured Questions **October/November 2019**

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 **5** printed pages, **3** blank pages and **1** Insert.

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Section A

Answer this question.

1 New York: A Global Financial Centre

New York is the best city in the world in terms of human capital according to the Global Financial Centres Index. This, along with economic freedom that encourages new business start ups, has contributed to high economic growth rates. In fact, the city's economic growth rate is higher than the GDP growth rate for the entire USA. Overall, New York's economy grew 3.4% in 2015, faster than the 2.4% recorded nationally. However, land area is scarce, especially in the Manhattan district of New York, where most economic activity is concentrated.

The financial sector is the most important sector in the city's economy – New York is home to the first and second largest stock exchanges in the world and 3 of the top 10 largest banks in the USA have their headquarters in New York. Improvements in education also contribute to New York's fast economic growth rate as New York continues to attract students from all over the world and from various areas of study.

Unemployment rates in the city continue to fall. In addition, average weekly wages in New York are consistently higher than the rest of the USA. Table 1.1 shows the average weekly hours worked and average weekly wages in New York between 2011 and 2017.

Table 1.1 Average weekly hours worked and average weekly wages in New York, 2011–17

	Average weekly hours worked	Average weekly wages (US$)
2011	33.9	906.83
2012	34.1	933.66
2013	33.5	932.31
2014	33.4	935.87
2015	33.5	961.45
2016	33.4	976.95
2017	33.5	1011.03

New jobs that are created today are in middle and low-paying jobs, not in high-paying jobs. Finance industry workers are 20% of the workers in the city, but they earn more than half of all the wages paid in New York. The pay gap between workers in the finance industry and the 1.6 million other workers in the city continues to widen. This is often due to the lack of skills of the lower paid workers and also the male-dominance in the finance industry.

In addition to the income inequality, continuous economic development in the city has affected the environment. The ever-expanding finance industry is also creating the risk of a repetition of the 2007–08 Global Recession with the possibility of bank failures. Rising trade protection by the US government may negatively affect American cities such as New York, especially while Asian cities such as Singapore, Hong Kong, and Shanghai continue to open up to free trade.

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(a) State a factor of production and identify an example of it from the extract. [2]

(b) Explain, using information from the extract, **two** causes of economic growth in New York. [4]

(c) Calculate, using information from the extract, the total number of workers in New York. [2]

(d) Analyse, using Table 1.1, the relationship between average weekly hours worked and average weekly wages. [5]

(e) Explain, using information from the extract, **one** reason for differences in earnings between different jobs in New York. [2]

(f) Explain, using information from the extract, the possible negative effects of economic growth in New York. [4]

(g) Discuss the advantages and disadvantages of a city having a large tertiary sector. [5]

(h) Discuss whether or not opening up to free trade benefits an economy. [6]

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[Turn over

Section B

Answer any **three** questions.

2 In 2017, two firms in the chemical industry in China merged. This created the world's largest chemical group with approximately US$100 billion revenue. The main aim of this integration was to control the domestic market for chemicals and fertilisers by creating a monopoly. The new firm is a multinational company (MNC) as it also produces in other countries such as Italy and Switzerland.

(a) Define *industry*. [2]

(b) Explain **two** types of integration (merger). [4]

(c) Analyse the advantages that an MNC has over a firm which only produces domestically. [6]

(d) Discuss whether or not an economy benefits from firms which are monopolies. [8]

3 Estonia has one of the fastest internet speeds in the world. The government allows both direct and indirect taxes to be paid online. According to the World Bank, it is very easy for a firm to deal with construction permits and to register property in Estonia. A low level of government regulation affects how easy it is to start and to run a firm. Many new firms are labour-intensive but some become more capital-intensive as they grow.

(a) Identify **one** example of a direct tax and **one** example of an indirect tax. [2]

(b) Explain **two** reasons why a firm may become more capital-intensive as it grows. [4]

(c) Analyse, using a production possibility curve (PPC) diagram, the possible effects of faster internet speeds for economic growth. [6]

(d) Discuss whether or not an economy would benefit from less government regulation. [8]

4 In 2016, Argentina's annual inflation was 20%, down from 40% in 2015. Inflation had been high since 2003. Wages were constantly adjusted upwards. In addition, some employees demanded more non-wage benefits. Industrial action, often in the form of strikes called by trade unions, became more common in Argentina.

(a) Identify **two** non-wage factors that could affect an individual's choice of occupation. [2]

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

(c) Analyse the impact of strikes on an economy. [6]

(d) Discuss whether or not an increase in wages will reduce a firm's profit. [8]

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5 The Monetary Authority of Singapore (MAS), the government body which controls the monetary policy of the country, has allowed the Singapore dollar to appreciate. However, the high cost of the Singapore dollar has created a need for new incentives for firms, such as a reduction in taxes and granting subsidies.

(a) Define *monetary policy*. [2]

(b) Explain **two** functions of money. [4]

(c) Analyse the consequences of an appreciating currency on the current account of the balance of payments of a country. [6]

(d) Discuss whether or not a reduction in taxes is beneficial for an economy. [8]

6 A local manufacturer of medicines (pharmaceuticals) in Nigeria wants to expand which will increase the contribution of this industry to the Gross Domestic Product (GDP) of the country. This firm's expansion may enable Nigeria to reduce its dependence on imports of medicines and may make medicines more affordable. To ensure success, however, the firm will need to increase its investment in research and development.

(a) Define *Gross Domestic Product (GDP)*. [2]

(b) Explain **two** ways in which more affordable medicines can improve standards of living. [4]

(c) Analyse how investment in research and development (R&D) can help a firm to grow in size. [6]

(d) Discuss whether or not a reduction in imports is beneficial to an economy. [8]

7 In 2017, the UK included bicycle helmets for the first time in its calculation of the consumer prices index (CPI). Many bicycle retailers now provide their customers with a choice of bicycle helmets. Estimates show that 25 million bicycle helmets are sold globally per year and the number sold is on a steady upward trend.

(a) Define *choice* and give an example. [2]

(b) Explain how the CPI is calculated. [4]

(c) Analyse the possible reasons for the increase in global demand for bicycle helmets. [6]

(d) Discuss whether or not increasing sales of a product will be beneficial to a firm. [8]

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