Cambridge Assessment International Education

# Cambridge IGCSE™

**ECONOMICS** **0455/21**

Paper 2 Structured Questions **October/November 2020**

**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 [ ].

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## Section A

Read the source material carefully before answering Question 1.

**Source material: Istanbul's geographical advantage**

| Istanbul fact file | 2014 |
|---|---|
| Population | 14 million |
| Output per head | $6858 |
| Total output | $96 billion |
| Istanbul's output contribution to Turkey's total output (%) | 30% |

Istanbul is Turkey's largest city by population size. In 2014, its population was approximately 14 times more than it was in 1955. This could be due to increased migration from rural areas to cities and improved healthcare. Istanbul also has the highest output per head of all regions in Turkey.

Good transport links have contributed to Istanbul's economic growth. In addition to good land transport, Istanbul is also home to the 14$^{th}$ largest airport in the world, measured by passenger numbers. From Istanbul, there is access to a market of $24 trillion with 1.5 billion people within a flight time of 4 hours. In addition to affordable international air travel to and from Istanbul, domestic air travel is also very affordable. This is most likely due to economies of scale. There is also a high level of competition in this industry which influences prices and quality of service. The growth in transport industries, along with growth of financial services, has contributed greatly to Istanbul's growth rate as shown in Table 1.1.

**Table 1.1 The percentage growth of Istanbul's service sector and the percentage growth of Istanbul's total output 2010–2014**

| Year | % growth of Istanbul's service sector | % growth of Istanbul's total output |
|---|---|---|
| **2010** | 11.9 | 14.4 |
| **2011** | 28.2 | 21.9 |
| **2012** | 15.3 | 16.0 |
| **2013** | 14.2 | 16.1 |
| **2014** | 13.6 | 12.7 |

Foreign investment is flowing into Istanbul. Multinational companies (MNCs) are finding Istanbul an attractive city to invest in because of the low cost of living. These MNCs are affecting employment, the level of technology and wages in Istanbul.

However, there is worry that such confidence in the Turkish economy may not last. Many companies have depended on borrowing for expansion. Increased interest rates around the world may make it harder for such companies to continue borrowing and also to attract new customers. If there are greater worries about safety for tourists in Turkey in the future, this may cause fewer people to book flights to Turkey.

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

**1** **(a)** Calculate Turkey's total output. [1]

**(b)** Identify **two** factors that affect borrowing in an economy. [2]

**(c)** Explain the relationship between the growth of Istanbul's service sector and its growth in total output. [3]

**(d)** Explain **two** reasons for Istanbul's increased population. [4]

**(e)** Analyse how good transport links have contributed to Istanbul's economic growth. [4]

**(f)** Draw a demand and supply diagram to show the effects on flights to Turkey of greater worries about safety for tourists. [4]

**(g)** Discuss whether or not Istanbul benefits from investment by MNCs. [6]

**(h)** Discuss whether or not competition is beneficial for airlines. [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 election of a new president in South Africa in 2018 led to improvement in business and consumer confidence. Inflation rates fell despite a rise in total demand. One government policy measure established areas known as economic zones where firms pay lower, or no, taxes. These zones encourage domestic firms to become internationally competitive which could reduce the deficit on the current account of South Africa's balance of payment.

**(a)** State **two** components of the current account. [2]

**(b)** Explain why inflation may fall even if there is an increase in total demand. [4]

**(c)** Analyse how a country's current account deficit might be reduced if its firms become internationally competitive. [6]

**(d)** Discuss whether or not lower taxes on firms will be beneficial for an economy. [8]

**3** Among the reasons for Malaysia's continued economic growth are rises in consumer spending and the country's ability to adapt to changes in global demand. For example, when the price of natural rubber fell, most rubber plantations changed to palm oil production. The government has tried to promote the growth of different sectors, including the primary sector.

**(a)** State **two** sectors, other than the primary sector, in an economy. [2]

**(b)** Explain **two** possible reasons for a fall in the price of a product such as natural rubber. [4]

**(c)** Analyse the influences on spending. [6]

**(d)** Discuss whether or not the growth of the primary sector is beneficial to a country. [8]

**4** South east Asian countries have reduced tariffs between themselves through the ASEAN Free Trade Agreement. ASEAN member countries are also removing non-tariff methods of protection. The intention is to raise economic growth through more international trade. This should enable small and medium-sized firms in ASEAN countries to grow and increase their exports.

**(a)** Define *tariffs*. [2]

**(b)** Explain **two** non-tariff methods of protection. [4]

**(c)** Analyse, using a production possibility curve (PPC) diagram, the beneficial effects for a country of the growth of its small and medium-sized firms. [6]

**(d)** Discuss whether or not increased international trade can promote economic growth. [8]

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**5** Free trade has allowed the Mexican economy to specialise in low-cost manufacturing. Unemployment nationally is relatively low, but approximately 50 million people were still considered to be in poverty in 2016. In addition, there are worries that technological advances will soon replace labour with capital.

**(a)** State the rewards for labour and capital. [2]

**(b)** Explain the **two** types of poverty. [4]

**(c)** Analyse how firms can benefit from specialisation. [6]

**(d)** Discuss whether or not supply-side policy measures can reduce unemployment. [8]

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