Cambridge Assessment International Education

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ECONOMICS **0455/23**

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 [ ].

This document has **8** pages. Blank pages are indicated.

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Section A

Read the source material carefully before answering Question 1.

Source material: Traffic jams in the Philippines

Philippines fact file	2010	2017
Social cost per kilometre of driving a car in Manila ($)	0.88	1.22
Private cost per kilometre of driving a car in Manila ($)	0.45	0.68
Population (millions)	72.9	105.8
Economic growth rate (%)	7.3	6.9

Manila, the capital city of the Philippines, is densely populated and has almost no spare land to build on. It is well-known for its traffic jams (congestion). People can spend hours travelling just a short distance. The Philippine government is concerned that the traffic congestion may damage people's health, discourage multinational companies (MNCs) from setting up in the country and reduce economic growth. It will also stop the country achieving full employment and reduce labour productivity. Entrepreneurs and workers are regularly arriving at their firms stressed and tired.

More Philippine workers are moving into Manila to take up jobs in the expanding computer, retail and education industries. One of the advantages of the Philippine economy is its young and well-educated population. Increases in the skills of Philippine workers are making it easier for workers to transfer from declining to expanding industries.

Rises in the country's population are increasing the number of cars on Philippine roads. Driving is also encouraged by the low cost and ease of parking, and the poor quality of public transport. Manila has too few trains but too many buses. By 2017, deregulation had increased the number of bus companies in the city to more than 1100.

Taxes in the Philippines are relatively high but disposable income has risen. As a result consumer spending, including on cars, has increased. Some of the cars purchased are imported. Table 1.1 shows consumer expenditure and imports in selected countries in 2017.

Table 1.1 Consumer expenditure and imports in selected countries in 2017

country	consumer expenditure ($bn)	imports ($bn)
Brazil	1322.6	160.6
Argentina	412.3	61.2
Philippines	240.9	93.2
Chile	168.2	60.1
Peru	137.2	40.2
Costa Rica	37.5	15.8
Panama	28.9	9.2

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The government is considering a number of measures to reduce the traffic congestion in Manila. These include building more roads, building a rapid bus route where buses travel along bus-only lanes and increasing car park charges. Building more roads may affect not only journey time but also the number of cars purchased and driven in the city.

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

1 **(a)** Calculate the external cost per kilometre of driving a car in Manila in 2017. [1]

(b) Identify **two** macroeconomic aims of the Philippine government. [2]

(c) Explain **one** reason why traffic congestion can reduce labour productivity. [2]

(d) Explain how an increase in the mobility of Philippine workers would be likely to affect unemployment in the Philippines. [4]

(e) Draw a demand and supply diagram to show how a rise in the price of car parking could affect the market for cars in the Philippines. [4]

(f) Analyse the relationship between the countries' consumer expenditure and imports. [5]

(g) Discuss whether or not the supply of enterprise is likely to increase in the Philippines. [6]

(h) Discuss whether or not building more roads in Manila will benefit the Philippine economy. [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 Changes in tobacco production and consumption can have both microeconomic and macroeconomic effects. Tobacco plants are grown in at least 124 countries with different levels of development. A higher proportion of the poor than of the rich consume tobacco products. The market for cigarettes, produced using tobacco, is changing. Demand for cigarettes and some other demerit goods is declining in a number of countries.

(a) Define *microeconomics.* [2]

(b) Explain **two** causes of differences in economic development between countries. [4]

(c) Analyse how a cut in the interest rate could reduce poverty. [6]

(d) Discuss whether or not government intervention will correct the market failure caused by a demerit good. [8]

3 Russia's birth rate fell by 11% in 2017 to its lowest level for a decade. Over the next 30 years, Russia's population is forecast to fall from 144 million to 107 million. The government announced measures to reverse this decline in population. In 2017, it also announced privatisation plans and measures to reverse a decrease in investment which could lead to a fall in the quantity of capital goods. Privatisation can reduce monopoly power in a market.

(a) Define *privatisation*. [2]

(b) Explain **two** causes of a fall in the birth rate. [4]

(c) Analyse, using a production possibility curve (PPC) diagram, the effects of a decrease in the quantity of capital goods in an economy. [6]

(d) Discuss whether or not a government should allow monopolies. [8]

4 The use of supply-side policy measures, including deregulation, is moving China closer to a market economic system. Some supply-side policy measures, such as education and subsidies, can also increase a country's economic growth rate. China joined the World Trade Organisation in 2001 and has since removed some quotas on imports and reduced some import tariffs. These measures may influence the size of its current account surplus.

(a) Define *deregulation.* [2]

(b) Explain **two** benefits consumers may gain from a market economic system. [4]

(c) Analyse how education and subsidies can increase a country's economic growth rate. [6]

(d) Discuss whether or not a reduction in a country's trade protection will reduce its current account surplus. [8]

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5 It was announced in November 2016 that 500 and 1000 rupee banknotes could no longer be used in shops in India. These were replaced by the central bank, an institution that makes extensive use of division of labour. In India, cash is still an important form of money used in economic transactions. The replacement of banknotes put pressure on banking staff and other workers in the tertiary sector, and affected the general price level.

(a) State **two** functions, other than issuing banknotes and coins, of a central bank. [2]

(b) Explain **two** reasons why workers in the tertiary sector may be paid more than workers in the primary sector. [4]

(c) Analyse the advantages for firms of using division of labour. [6]

(d) Discuss whether or not deflation will benefit an economy. [8]

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