Cambridge Assessment International Education

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ECONOMICS **0455/22**

Paper 2 Structured Questions **October/November 2021**

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. Any blank pages are indicated.

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Section A

Read the source material carefully before answering Question 1.

Source material: India's airline industry

Air India fact file	
total revenue 2018	$2.2 bn
total cost 2018	$2.9 bn
number of passengers carried in 2018	16.4 m
number of passengers carried in 2017	14.8 m
share of India's international and national air travel market in 2018	13%
share of India's international and national air travel market in 1994	100%

Air India is owned by the Indian government. The entry of new firms into India's air travel market has reduced Air India's ability to set price. The state-owned firm faces competition not only from other airlines but also from other forms of transport including trains and ships.

In 2017 the Indian government tried, unsuccessfully, to sell Air India to the private sector. A successful sale would have raised money for the Indian government and might have increased the airline's efficiency.

It is predicted that India will have the third largest airline industry by 2025. The growth in the industry may affect the current account position of India's balance of payments. Table 1.1 shows the current account position in India and four other countries.

Table 1.1 The current account position of the balance of payments of selected countries in 2017

Country	Current account ($ bn)	Current account % of GDP
Brazil	–9.8	–0.5
China	164.9	1.4
India	–48.7	–1.9
Kenya	–5.4	–6.8
Russia	35.4	2.2

A rise in both the number of routes flown and the quality of the passenger experience may increase the number of tourists visiting India. A larger Indian airline industry is likely to increase the ease of movement of people and goods into and out of India. This might attract more multinational companies (MNCs) and reduce firms' costs of production.

India's air travel market faces a number of challenges. India has Asia's highest airline fuel tax. Some economists suggest that this should be increased further to increase tax revenue and to reduce market failure. The airlines' other costs are rising but it is difficult for them to raise prices. This is because India's air passengers are among the most price-sensitive in the world. Some airlines stop their costs rising any further by improving their staff training, introducing new technology and improving their pilots' working conditions. The airlines' ability to hire pilots is influenced by, among other factors, the quality of education and other job opportunities.

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

(a) Calculate, in $, Air India's loss in 2018. [1]

(b) Identify **two** substitutes for air travel. [2]

(c) Explain **one** characteristic that suggests that Air India was a monopoly in 1994. [2]

(d) Explain **two** reasons why a government may privatise an industry. [4]

(e) Analyse how India's position on the current account of its balance of payments in 2017 compares with the other four countries. [4]

(f) Analyse how a successful airline industry can promote economic growth. [5]

(g) Discuss whether the Indian government should increase the tax on airline fuel. [6]

(h) Discuss whether more people will apply to be pilots for Indian airlines in the future. [6]

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Section B

Answer any **three** questions.

Each question is introduced by stimulus material. In your answers you may refer to the material and/or to other examples you have studied.

2 A number of countries, including Morocco, capture water from fog. Water is used in the primary, secondary and tertiary sectors. In recent years, Morocco has increased the quantity and quality of its resources and has moved more of them into the tertiary sector. The quantity, quality and composition of a country's resources are influenced by a number of factors, including its birth rate. Morocco's birth rate fell from 19.9 in 2016 to 18.7 in 2018.

(a) Define *a free good*. [2]

(b) Explain, with examples, the difference between the secondary sector and the tertiary sector. [4]

(c) Analyse, using a production possibility curve (PPC), the effect of an increase in the quality of its resources on an economy. [6]

(d) Discuss whether or not a fall in a country's birth rate will benefit an economy. [8]

3 Two of Uzbekistan's main industries are cotton and gas. Uzbekistan is the world's seventh largest producer, and fifth largest exporter, of cotton. The Uzbek government has tried to influence the cotton industry's price elasticity of supply. It has also nearly ended the use of child labour in cotton production. The country's output of gas increased by 7% in 2018 and its average cost of gas production fell.

(a) Identify **two** determinants of price elasticity of supply. [2]

(b) Explain **two** advantages to an economy of ending child labour. [4]

(c) Analyse how average cost can change as output increases. [6]

(d) Discuss whether or not an economy would benefit from allocating more of its resources to agriculture. [8]

4 In Tunisia, resource allocation decisions are made by both the public sector and private sector. Tunisia's GDP increased from 2014 to 2018 but its households saved less. Income levels can be affected by changes in trade union activity and the foreign exchange rate. From 2014 to 2018, Tunisia experienced a number of strikes organised by its largest trade union, the Tunisian General Labour Union. There was also a significant fall in its foreign exchange rate.

(a) Identify **two** of the three resource allocation decisions. [2]

(b) Explain **two** reasons why households may save less even though their income has increased. [4]

(c) Analyse how a trade union may benefit its members. [6]

(d) Discuss whether or not a fall in its foreign exchange rate will improve a country's macroeconomic performance. [8]

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5 The US operates a mainly market economic system. Life expectancy in the US fell in 2017, for the third year in a row. Although the US has a high GDP per head, it also has a high level of income inequality. The poor benefited from the US's low and stable inflation rate. The government's supply-side policy measures were partly responsible for reducing inflationary pressure.

(a) Identify **two** ways a government could reduce income inequality. [2]

(b) Explain **two** advantages of a market economic system. [4]

(c) Analyse why life expectancy may decrease. [6]

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

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