Cambridge Assessment International Education

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ECONOMICS **0455/23**

Paper 2 Structured Questions **October/November 2023**

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: Changes in the economy of Montenegro

Montenegro fact file	2020
Population	608 000
GDP	$4.8 bn
Government budget deficit	–$0.6 bn
Unemployment rate	18.0%
Inflation rate	0.4%

Montenegro is a European country that has seen an increase in the role of its private sector. By 2020, 90% of state-owned firms had been privatised. All commercial banking, telecommunications and aluminium production has been transferred to the private sector. The country's banks now have more computers, more workers and more office buildings.

Most years, Montenegro attracts three times as many tourists as the number of people who live in the country. Tourism is a very competitive market. Demand for holidays is price-elastic which has implications for the pricing strategy of firms in the industry. The proportion of workers employed in tourism and other tertiary sector industries has increased. In 2020, 75% of Montenegro's labour force were employed in the tertiary sector.

Some of the workers employed in the primary sector help in the growth and export of oranges. It has been suggested that a minimum price should be set for oranges and some other crops. Changes in the price of a country's exports can affect both the trade in goods and services balance and the current account balance of its balance of payments. Table 1.1 gives selected details of six East European countries' balance of payments in 2020.

Table 1.1 Trade in goods and services balance and current account balance of six East European countries 2020

Country	Trade in goods and services balance ($ million)	Current account balance ($ million)
Bosnia & Herzegovina	–2 914	–624
Bulgaria	2 318	2 742
Croatia	–317	1 456
Kosovo	–2 141	–459
Montenegro	–1 174	–837
Slovenia	4 609	3 049

A country's international trade position is influenced by the amount and pattern of consumer spending. Privatisation has had an influence on consumer spending. Moving to the private sector has affected investment, the number of workers employed and competition in those industries. It has also affected firms' objectives, prices and their responsiveness to changes in consumer demand. In 2020, Montenegro experienced very low inflation. It was expected that this could turn into deflation. A fall in the price level could affect the country's output, employment and balance of payments.

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

1 **(a)** Calculate Montenegro's budget deficit as a percentage of its GDP. [1]

(b) Identify **two** examples of capital goods in Montenegro. [2]

(c) Explain **one** way price elasticity of demand may influence firms' decision making. [2]

(d) Explain **two** ways the pattern of employment has changed in Montenegro in recent years. [4]

(e) Draw a demand and supply diagram to show the effect of a minimum price set above the equilibrium price on the market for oranges. [4]

(f) Analyse the relationship between countries' trade in goods and services balances and their current account balances. [5]

(g) Discuss whether or not privatisation is likely to have benefited consumers in Montenegro. [6]

(h) Discuss whether or not deflation would benefit the Montenegro 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 In 2019, Mozambique was hit by a serious storm which destroyed bridges, factories, roads and electricity lines. Almost 60% of Mozambique's population live in absolute poverty. The country's people are keen to increase Mozambique's economic development. There is a high level of government intervention in Mozambique's economy. Although Mozambique does not impose import quotas, it does impose a range of import tariffs.

(a) Identify **two** reasons why a person may experience absolute poverty. [2]

(b) Explain **two** causes of an increase in a country's economic development. [4]

(c) Analyse, using a production possibility curve (PPC) diagram, the effect of a serious storm on an economy. [6]

(d) Discuss whether or not imposing tariffs on imports will increase a country's output. [8]

3 Saudi Arabia's economic system may change in the future. The country's central bank is dealing with more private sector banks. In 2020, the population's average age of 31.8 was just above the global average of 31.2. In that year, plans were announced to build a city where no cars would be needed or allowed. Such a development might encourage more young people to move to Saudi Arabia.

(a) Identify **two** types of economic system. [2]

(b) Explain **two** functions of a central bank. [4]

(c) Analyse the advantages to a country of having a young population. [6]

(d) Discuss whether or not a ban on cars in a city will benefit the city's households and firms. [8]

4 People in Ecuador buy products using a variety of forms of money. The Ecuadorian government pays public sector workers' wages directly into their bank accounts. In 2019, some Ecuadorian firms' profits were affected by advances in technology. That year, the Ecuadorian government cut public sector workers' hours and, in 2020, it reduced its spending. Economists were uncertain what effect the decrease in government spending would have on unemployment.

(a) Identify **two** characteristics of money. [2]

(b) Explain **two** reasons why a reduction in their working hours may **not** cause public sector workers to move to working in the private sector. [4]

(c) Analyse how advances in technology could affect firms' profits. [6]

(d) Discuss whether or not a decrease in government spending will increase unemployment. [8]

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5 In 2020, Paraguay's Consumer Prices Index rose by 3% and its foreign exchange rate fluctuated. Each year Paraguay experiences net emigration. People leave a country for a number of reasons. These include a low rate of economic growth and high level of market failure. The Paraguayan government does intervene in the economy in an attempt to reduce market failure.

(a) Define *Consumer Prices Index*. [2]

(b) Explain **two** ways a government could intervene to reduce market failure. [4]

(c) Analyse how an increase in a country's foreign exchange rate could reduce inflation. [6]

(d) Discuss whether or not an increase in a country's economic growth rate will reduce emigration from the country. [8]

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