Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/21**

Paper 2 Structured Questions **October/November 2015**

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.

At the end of the examination, fasten all your work securely together.
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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CAMBRIDGE
International Examinations

Section A

Answer this question.

1 Cambodia aims to be a top rice exporter

Currently approximately 80% of Cambodia's export revenue comes from the sale of clothing. The Cambodian Government wants to encourage clothing producers to export more but its current priority is to promote the export of rice. In 2012 Cambodia was the world's seventh largest exporter of rice. The government aim is for the country to be in the top five. Raising export revenue above its 2012 level of US$6 billion would reduce the country's deficit on the current account of its balance of payments.

To achieve the government's aim, there are a number of improvements that need to be made to increase Cambodia's Gross Domestic Product (GDP). One is to develop the country's infrastructure, including building more roads and ports. Better transport infrastructure needs to be combined with increased investment in the agriculture industry. In addition, the skills of farm workers need to be developed. Those farm workers already skilled need to be encouraged to stay in the country rather than emigrate.

The Cambodian Government is also seeking to increase investment in the manufacturing and service sectors. Investment is influenced by a range of factors. One of the most important of these is the economic growth rate. Countries with a high economic growth rate tend to spend a high proportion of their income on capital goods.

Table 1 Economic growth rates and investment in selected countries in 2012

Country	Economic growth rate (% change in GDP)	Investment (as % of GDP)
Cambodia	7.5	20
China	8.2	48
India	8.0	35
Indonesia	6.3	33
Malaysia	6.0	19
Pakistan	4.0	15

Cambodia is attracting investment from other countries, most significantly from China. Such investment is the result of a number of factors including a young population and improvements in the country's financial sector. In 2012 the country's population was 15 million with the birth rate exceeding the death rate by 13 per thousand of the population. Emigration exceeded immigration with a net migration rate of minus 0.3 per thousand of the population.

In 2012 Cambodia opened its first stock exchange which is called the Cambodian Securities Exchange (CSX). The first company to trade on the CSX was the Phnom Penn Water Supply Authority. The Cambodian company is recognised as one of the most efficient water companies in Asia. It is a popular company to work for, partly because it pays relatively high wages.

(a) Using information from the extract, calculate the value of Cambodia's clothing exports in 2012. [2]

(b) Explain **two** reasons why demand for Cambodia's rice may increase in the future. [4]

(c) **(i)** Explain why high economic growth can increase investment. [4]

(ii) Using Table 1, comment on whether the information supports the view that high economic growth leads to a high rate of investment. [3]

(d) Using information from the extract, explain whether Cambodia experienced an increase or a decrease in population in 2012. [2]

(e) Discuss whether building more roads and ports would increase Cambodia's exports of rice. [5]

(f) Explain **two** functions of a stock exchange. [4]

(g) Discuss whether a company will have to raise wage rates to attract more workers. [6]

Section B

Answer any **three** questions from this section.

2 A lack of electricity regularly results in power failure in the Lebanon. The daily gap between supply and demand may increase if the Lebanese economy continues to grow. The Lebanese Government is planning to build more power stations but there is a risk that the social costs of operating power stations may be greater than the social benefits.

(a) Define 'demand'. [2]

(b) Explain what impact an imbalance between supply and demand is likely to have on price and the quantity traded. [4]

(c) Analyse why economic growth may increase demand for electricity. [6]

(d) Discuss whether the social costs of operating power stations are likely to be greater than the social benefits. [8]

3 The average income in Mexico is rising but a number of people in the country are still poor. Carlos Slim is a Mexican entrepreneur and one of the richest men in the world. His companies dominate the mobile (cell) phone and landline phone markets in the country and employ a high number of specialised workers. The Mexican Government, however, is seeking to increase competition in the communications market.

(a) Identify **two** functions of an entrepreneur. [2]

(b) Explain **two** ways a government could redistribute income from the rich to the poor. [4]

(c) Analyse why price may be higher and output lower in a monopoly than in a more competitive market. [6]

(d) Discuss whether workers benefit from specialising. [8]

4 China's solar power industry has the biggest solar panel firms in the world. Their growth has been helped by low labour costs and government subsidies. Solar panel firms are smaller in Europe where some are sole proprietors. In 2013 the European Union was considering imposing a tariff of 47% on Chinese solar panels.

(a) Identify **two** features of a sole proprietor. [2]

(b) Explain how government subsidies can increase the size of firms. [4]

(c) Analyse **three** advantages of small firms. [6]

(d) Discuss whether imposing tariffs will benefit an economy. [8]

5 The Brazilian economy ran into difficulties in 2013. Its inflation rate rose above its Central Bank's target. More than two-thirds of the items used to calculate the inflation rate rose in price. The economic growth rate declined with fewer jobs being created. As the labour force grows in size, more jobs have to be created to avoid unemployment increasing. Greater free trade might improve Brazil's economic performance.

(a) Identify **two** causes of an increase in the size of a country's labour force. [2]

(b) Explain how a country's inflation rate is measured. [4]

(c) Analyse how free trade can reduce firms' costs of production. [6]

(d) Discuss whether unemployment always harms an economy. [8]

6 In 2013 the Japanese Government used a range of policies, including monetary policy, to increase consumer expenditure and investment to avoid deflation. At the same time, some Japanese politicians were arguing that the government should increase the rate of the country's sales tax from 5% to 10%. Sales tax is an indirect and regressive tax.

(a) Define 'regressive tax'. [2]

(b) Explain **two** influences on the amount firms spend on capital goods. [4]

(c) Analyse how monetary policy could increase the price level. [6]

(d) Discuss whether an increase in the rate of a sales tax would benefit an economy. [8]

7 The world's population is forecast to rise to 9 billion by 2050. It is predicted that Nigeria, a developing country with a mixed economy, will move from having the seventh largest population at 158 million in 2013 to having the third largest at 400 million in 2050. Some governments try to reduce the growth of their populations by using a range of government policy measures.

(a) Define 'mixed economy'. [2]

(b) Explain **two** reasons why the world population in 2050 may be more than forecast. [4]

(c) Analyse how the population structure of a developing country is likely to differ from that of a developed country. [6]

(d) Discuss the effectiveness of possible government policy measures to reduce the growth of population. [8]

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