Cambridge Assessment International Education

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ECONOMICS **0455/21**

Paper 2 Structured Questions **May/June 2023**

2 hours 15 minutes

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: Is there a future for Australian coal?

Australia fact file	2021	2026 (forecast)
Population	25.8 m	27.1 m
Labour force	14.0 m	14.8 m
Number unemployed	0.56 m	0.62 m
GDP	$1618 bn	$2017 bn
Government budget balance	–3.2% of GDP	

Australia is a major producer of coal. Most coal is used to produce electricity. In this process, carbon dioxide is emitted. Global demand for coal has declined in recent years as countries have tried to reduce pollution. There has been a switch to, for example, gas, offshore wind and solar power.

Coal is mined in each of Australia's six states but most is mined in Queensland and in New South Wales. In Queensland, some of the firms are very large. These firms employ both low-paid, unskilled workers and high-paid, specialist mining engineers, site managers and accountants. The firms use the latest excavators, mining drills, crushing equipment, earth movers and drones to detect maintenance issues.

Coal can be stored to meet changes in market conditions but storage costs can be high. It can also take years to construct a new coal mine. Table 1.1 shows the output and consumption of the seven largest producers in 2020.

Table 1.1 The output and consumption of the seven largest producing countries 2020

Country	Output of coal (million tonnes)	Consumption of coal (million tonnes)
China	3640	4215
India	765	939
US	671	660
Australia	515	121
Indonesia	510	142
Russia	419	234
South Africa	250	186

Global coal production has fallen in recent years with most countries switching to renewable sources of energy. However, there are some countries where coal production is set to increase. There are plans in both Australia and India, for example, to open new coal mines. The Indonesian government sets a maximum price on coal to encourage the country's power stations to use it.

The Australian coal industry contributes to its government's tax revenue. There are, however, other influences on Australia's government's budget balance including changes in tax rates and state support for some of the country's industries.

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

1 **(a)** Calculate Australia's unemployment rate in 2021. [1]

View solution

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

(c) Explain **one** economy of scale that could benefit a coal-mining firm. [2]

View solution

(d) Explain **two** influences on the price elasticity of supply of coal. [4]

(e) Draw a demand and supply diagram to show how setting a maximum price below the equilibrium price will affect a market. [4]

View solution

(f) Analyse whether large coal-producing countries are likely to be net exporters of coal. [5]

(g) Discuss whether or not an increase in the size of its coal industry will benefit the Australian economy. [6]

View solution

(h) Discuss whether or not Australia is likely to have a budget deficit in 2026. [6]

View solution

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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 Living standards, including education, have improved for most people in South Africa in recent years. Most households have more money and the government has more tax revenue. There is, however, considerable income inequality. In 2020, 36% of the population were living in poverty. An increase in unemployment benefit payments might reduce this poverty.

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

View solution

(b) Explain how improved education may affect the demand for cigarettes and for fresh fruit. [4]

(c) Analyse the causes of an increase in a government's tax revenue. [6]

View solution

(d) Discuss whether or not an increase in unemployment benefit payments would reduce poverty. [8]

View solution

3 Germany's death rate is higher than some other countries, including Sweden, Cuba and the Maldives. Germany's labour force increased in size between 2011 and 2021 and has become even more productive. The country has also experienced low inflation and a growing surplus on the current account of its balance of payments.

(a) Identify **two** reasons why death rates may vary between countries. [2]

View solution

(b) Explain **two** causes of an increase in the size of a country's labour force. [4]

(c) Analyse how an increase in labour productivity in a country can increase a surplus on the current account of its balance of payments. [6]

View solution

(d) Discuss why some countries may experience lower inflation in the future and some may not. [8]

View solution

4 Many people from the Philippines work in another country, often in industries that provide merit goods and public goods. In 2020, the Philippine government raised more tax revenue. Some was spent on policy measures to increase life expectancy and some on policy measures to reduce unemployment. The country's unemployment rate was also affected by a rise in the country's foreign exchange rate.

(a) Identify **two** influences on which country a person decides to work in. [2]

View solution

(b) Explain, with examples, the difference between a merit good and a public good. [4]

(c) Analyse how an increase in government spending could increase life expectancy. [6]

View solution

(d) Discuss whether or not a rise in a country's foreign exchange rate would benefit its economy. [8]

View solution

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5 In Greece, rich households spend more than the average household. The amount of spending in an economy influences whether its production point is on or inside its production possibility curve (PPC). In 2020, household spending in Greece fell. This affected some firms' plans to merge. It also increased unemployment. More than half of those unemployed in Greece had been unemployed for more than a year.

(a) Identify **two** reasons why rich households spend more than the average household. [2]

View solution

(b) Explain the significance of a production point inside a PPC and a production point on its PPC. [4]

View solution

(c) Analyse why someone who has been unemployed for more than a year may **not** get another job. [6]

(d) Discuss whether or not a government should encourage firms to merge. [8]

View solution

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