Cambridge IGCSE

Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/21**

Paper 2 Structured Questions **October/November 2018**

2 hours 15 minutes

No Additional Materials are required.

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.

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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Section A

Answer this question.

1 Russia's struggle for economic recovery

Shortly after the 2014 Winter Olympic Games in Sochi, Russia, the value of the Russian currency, the rouble, depreciated significantly against the US$. Russian Gross Domestic Product (GDP) growth rates also became negative. Political and economic instability in the region contributed to these changes.

To avoid further outflows of financial capital from the Russian economy and further falls in the value of the Russian rouble, the central bank of Russia increased the official interest rate to 17%. By 2016, the rouble fell even more and the central bank considered selling its foreign reserves to raise the exchange rate against the US$.

Overall, things did not look good for the Russian economy in 2016. Export values fell and foreign investors lacked confidence in the Russian economy. This not only had a negative impact on unemployment rates and economic growth but also had an impact on poverty rates which were expected to return to pre-2007 levels. Demographic trends did not help as Russia's population declined due to high death rate, low fertility rate, and a high level of emigration.

Domestic consumption and investment, however, showed some positive signs. Consumers bought more domestic products and domestic investment increased. However, inflation rose and the central bank introduced policy measures to avoid a rapid increase in prices.

As an oil producer, Russia's economy was affected by falling international oil prices. Saudi Arabia, the world's second largest oil producer, continued to increase oil production despite pressures by other producers to cut production. In addition, global demand for oil was weak. Table 1 shows the price of oil between 2010 and 2016.

Table 1 Price of Oil 2010–16 (US$)

Year	Price of Oil (US$ per barrel)
2010	82
2011	92
2012	103
2013	93
2014	95
2015	53
2016	37

In 2016, domestic Russian oil producers struggled to make a profit due to economic uncertainty and competition from renewable energy. They were also concerned that it may become even more difficult for them to make a profit in the future. This was because the government wanted to increase tax on oil producers to raise more revenue. The government believed that such an extra tax would not actually hurt the large oil producers.

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(a) Calculate, using the information in Table 1, the percentage change in the price of oil between 2010 and 2016. [2]

View solution

(b) Explain, using information from the extract, **two** reasons for falling oil prices. [4]

(c) Identify, using information from the extract, **two** ways a central bank could try to stop a fall in the international value of its currency. [2]

View solution

(d) Explain, using information from the extract, **two** reasons for Russia's declining population. [4]

View solution

(e) Analyse the extent to which a rise in oil prices will cause inflation. [5]

(f) Discuss whether or not increasing taxes on Russian oil producers will be harmful to those producers. [5]

View solution

(g) Identify **one** way in which monetary policy differs from fiscal policy. [2]

(h) Discuss whether or not the Russian government should have been concerned about the state of the Russian economy in 2016. [6]

View solution

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Section B

Answer any **three** questions.

2 In 2016, there was a global surplus in the steel market pushing down steel prices. This situation led to various calls for protectionist measures by other steel producers such as those in the EU and the USA. However, such measures were not supported by car producers as approximately 22% of a car manufacturer's costs depend on steel prices.

(a) Define *protectionism*. [2]

View solution

(b) Explain **two** methods of trade protection. [4]

(c) Analyse, using a demand and supply diagram, the effect of falling steel prices on the market for cars. [6]

View solution

(d) Discuss whether or not protectionism is effective in raising living standards. [8]

View solution

3 Droughts in the Pacific Coast region of the US and regulations, in the form of limits on the amount of salmon that can be caught in the wild, have reduced the supply of wild salmon. These limits were imposed to avoid market failure in the salmon market. However, the effect of this on the revenue of salmon producers is uncertain. In addition, producers of farmed salmon in the US states of Washington and Alaska have received subsidies from the US government.

(a) Define *supply*. [2]

View solution

(b) Explain **one** market failure that may occur in the salmon market. [4]

(c) Analyse how information on changes in a firm's revenue can be obtained from price elasticity of demand calculations. [6]

View solution

(d) Discuss whether or not government subsidies are beneficial to producers. [8]

View solution

4 The Malaysian government implemented the Vision 2020 policy which aims to make Malaysia a developed country by the year 2020. Along with this vision, the National Privatisation Policy was also implemented whereby various firms, such as those involved in telecommunications, were privatised. Poverty has significantly reduced since the implementation of these policy measures.

(a) Identify the difference between absolute poverty and relative poverty. [2]

View solution

(b) Explain **two** characteristics of a developed country. [4]

(c) Analyse **two** policy measures to alleviate poverty. [6]

View solution

(d) Discuss whether or not moving firms from the public sector to the private sector will benefit an economy. [8]

View solution

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5 The largest airline in Pakistan was originally formed as a result of a merger between a state-owned airline and a private airline. In April 2016, the Pakistan government made this merged firm a public limited company. This was hoped to improve the productivity of this loss-making airline and also improve the overall economy of Pakistan.

(a) Define *public limited company*. [2]

View solution

(b) Explain the difference between productivity and production. [4]

(c) Analyse how increased productivity could reduce inflation. [6]

View solution

(d) Discuss whether or not a merger might make it easier for a firm to achieve its goals. [8]

View solution

6 Teachers in many countries oppose their governments' cuts in spending on education. They worry that this could reduce the standard of education and also the welfare of teachers employed in the state sector. Some teachers specialise in teaching one subject while others teach a number of subjects.

(a) Identify **two** reasons why a person may want to work in the state sector. [2]

View solution

(b) Explain **two** reasons why a government may want to cut spending on education. [4]

(c) Analyse the contribution that education can make in an economy. [6]

View solution

(d) Discuss whether or not a worker would benefit by specialising. [8]

View solution

7 During a recent recession in Europe, Spain had an unemployment rate of over 25%. This led to high levels of emigration from Spain into higher-wage European economies such as Germany and the UK. This has created both opportunities and problems in countries where immigration was higher than emigration.

(a) Define *unemployment*. [2]

View solution

(b) Explain **two** reasons for wage differentials between different economies. [4]

(c) Analyse how a recession in one country could cause unemployment in another country. [6]

View solution

(d) Discuss whether the economic advantages of immigration into countries such as the UK and Germany outweigh the economic disadvantages. [8]

View solution

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