Cambridge Assessment International Education

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ECONOMICS **0455/21**

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

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: Laos, a land-locked country

Laos fact file	2017
GDP	$16.85 billion
total exports	$2.04 billion
percentage of Laos' exports sold to China	58%
GDP growth rate	6.9%
adult literacy rate	85%

Laos is a land-locked country, surrounded by Vietnam, Cambodia, Thailand, Myanmar and China. Access to seaports helps an economy take full advantage of international trade. The economy of Laos has grown rapidly since the government initiated free market reforms, with an average growth rate of approximately 7% annually in the last 10 years.

The free market reforms have encouraged Laos to sell their abundant raw materials internationally and also attracted foreign investment. Laos has large deposits of copper which are in high demand by global manufacturing industries. A new rail link connecting China and Laos is expected to make such transactions easier.

The government of Laos has also put a lot of emphasis on education. The adult literacy rate of both males and females has increased from 60% to 85% over the last 20 years.

The financial sector, including commercial banks, is growing. This has enabled local entrepreneurs to borrow money and encouraged more households to save.

However, investors are still uncertain about investing in Laos. There are strict rules and regulations for foreign investors, especially in industries such as mining. The government says the regulations are needed to avoid market failures, such as external costs, and abuse of monopoly power. However, these rules and regulations are sometimes unclear. Laos is one of the lowest in the World Bank's Ease of Doing Business index, which measures how easy it is to start up and run a business in a country. Fig. 1.1 shows the Ease of Doing Business ranking (1 = easy) and GDP per head of selected countries in 2018.

Country	Ease of Doing Business ranking	GDP per head ($)
Singapore	2	64 581
South Korea	5	31 362
Malaysia	15	11 239
Brunei	55	31 627
Laos	154	2567
Timor-Leste	178	2035

Fig. 1.1 The Ease of Doing Business ranking and GDP per head ($) of selected countries in 2018

The recent economic slowdown of China may have harmful effects on Laos. China is Laos's largest trading partner and also the largest source of foreign investment into Laos.

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

1 **(a)** Calculate, in $, the total exports of Laos to China in 2017. [1]

View solution

(b) Identify **two** roles of commercial banks. [2]

(c) Explain how access to seaports may benefit an economy. [2]

View solution

(d) Explain **two** benefits of the free market reforms introduced by the government of Laos. [4]

(e) Analyse the impact of improved education on the economy of Laos. [4]

View solution

(f) Analyse the relationship between a country's Ease of Doing Business ranking and its GDP per head. [5]

View solution

(g) Discuss whether or not strict rules and regulations benefit an economy. [6]

(h) Discuss whether or not a slowdown of China's economy will be harmful to the economy of Laos. [6]

View solution

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, the government of France proposed a 3% tax on the revenue of large firms that advertise and sell products online. This tax may lead to a redistribution of income. There are concerns that this tax may also lead to a reduction in France's export of services as firms affected may leave France. However, the government hopes that supply-side policy measures will encourage such firms to stay in France.

(a) Define *redistribution of income*. [2]

View solution

(b) Explain **two** reasons why governments redistribute income. [4]

View solution

(c) Analyse the economic effects of a reduction in a country's export of services. [6]

View solution

(d) Discuss whether or not supply-side policy measures will encourage firms to operate in an economy. [8]

View solution

3 The island of Borneo is famous internationally for its rainforests which can bring many benefits, both private and external. However, the economy is heavily dependent on a finite resource, oil. The discovery of oil reserves in other parts of the world led to a significant fall in the world price of oil. This affected producers of oil in Borneo.

(a) Define *finite resource*. [2]

View solution

(b) Explain the difference between private and external benefits. [4]

View solution

(c) Analyse, using a demand and supply diagram, the effects on the world price of oil of the discovery of new reserves of oil. [6]

View solution

(d) Discuss whether or not the fall in the price of a product is a disadvantage to an economy. [8]

View solution

4 Uruguay's inflation rate reached 8.4% in July 2018. The central bank considered increasing the interest rate to reduce the inflation rate. An increase in interest rates might influence total demand in an economy and lead to an appreciation of its currency. This might influence Uruguay's exports, especially soybean exports. The total revenue of Uruguay's soybean firms might change if there is an appreciation of the Uruguayan peso.

(a) Define *total revenue*. [2]

View solution

(b) Explain **two** causes of inflation. [4]

View solution

(c) Analyse how an increase in the interest rate could reduce total demand in an economy. [6]

View solution

(d) Discuss whether or not an appreciation of a country's domestic currency will have negative effects on its economy. [8]

View solution

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5 Some economists criticise high government spending and trade unions for creating market disequilibrium. However, trade unions may also play a key role in economic development. There are over 60 trade unions in Singapore, in both labour-intensive and capital-intensive industries.

(a) Define *market disequilibrium*. [2]

View solution

(b) Explain the difference between labour-intensive and capital-intensive industries. [4]

(c) Analyse how trade unions could increase economic development. [6]

View solution

(d) Discuss whether or not high government spending can help a government achieve its macroeconomic aims. [8]

View solution

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