Cambridge Assessment International Education

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ECONOMICS **0455/21**

Paper 2 Structured Questions **October/November 2022**

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: Mauritius's international reach

Mauritius fact file	2019
Tertiary sector as a % of GDP	76%
Total GDP	$14.2 billion
Population	1.26 million

Mauritius is an island nation in the Indian Ocean. The economy of Mauritius has grown since it changed from an economy based on the primary sector to one based on the tertiary sector. The growth of the economy not only increased income per head but also improved healthcare in Mauritius. Life expectancy has increased and the infant mortality rate (number of infant deaths per thousand births) has fallen significantly.

Mauritius is known for many attractions, including its beautiful beaches, and more than a million tourists visit each year. Tourists from most countries only need their passport to visit Mauritius as a visa is not required. The tourism industry not only creates many jobs, it also raises tax revenue for the government. The tax revenue from the tourism industry is used to fund development projects that benefit the entire population, not just those working in tourism. There are also more than 32 000 foreign firms based in Mauritius. Firms set up in Mauritius due to its fast growth and political stability, as well as having few regulations to set up and run a firm.

The government tries to attract more investment by providing good infrastructure. The government spent more than $1 billion on infrastructure development in 2019. It upgraded the international airport on the island, the seaport, and public transportation around the island. This could reduce the cost of doing business in Mauritius and increase the size of a firm's market. Critics are worried, however, that the money has been used to fund projects which have not benefited the economy as much as spending on education or healthcare would have.

The government is also looking for new sources of economic growth, including increasing international trade and foreign investment. More international trade is seen as key to economic growth. Table 1.1 shows the percentage of international trade to GDP and the GDP per head in selected countries in 2019.

Table 1.1 Percentage (%) of international trade to GDP and GDP per head ($) in selected countries 2019

Country	Percentage (%) of international trade to GDP	GDP per head ($)
India	40	2 104
Kenya	33	1 817
Luxembourg	382	114 704
Mauritius	93	11 225
Qatar	87	64 782

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The Mauritian government encourages both inward and outward investment. By country, Mauritius is one of the largest foreign investors in India. Mauritian firms plan to invest in the new Special Economic Zones (SEZs) being set up in Kenya. Outward investment enables Mauritian firms to enter new markets in other countries, to import at a lower cost and increase access to foreign technology. However, the risk is that profit earned abroad may not be reinvested back to the domestic economy. Any changes in the international economy may also affect potential profits.

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

1 **(a)** Calculate the total value of the tertiary sector in Mauritius in 2019. [1]

View solution

(b) Explain the meaning of a change from an economy based on the primary sector to one based on the tertiary sector. [2]

View solution

(c) Identify **two** indicators of improving healthcare in Mauritius. [2]

(d) Explain **two** reasons why millions of tourists visit Mauritius each year. [4]

View solution

(e) Explain **two** advantages of setting up a firm in Mauritius. [4]

(f) Analyse the relationship between the percentage of international trade to GDP and GDP per head. [5]

View solution

(g) Discuss whether or not outward investment might benefit a Mauritian firm. [6]

(h) Discuss whether or not government infrastructure spending benefits the Mauritian economy. [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 Medan is the third largest city in Indonesia by population. It is sometimes known as the city of a million shop-houses as many people start small firms at the street level of their homes. This has led to an increase in the market supply of industries such as cafes and clothes shops. Also, due to the growth in demand for food delivery, the unemployment rate has fallen. However, mobility of labour is limited both within Medan and within Indonesia.

(a) Identify the difference between individual supply and market supply. [2]

View solution

(b) Explain **two** influences on the mobility of labour. [4]

(c) Analyse the reasons for the existence of small firms. [6]

View solution

(d) Discuss whether or not a reduction in the unemployment rate benefits an economy. [8]

View solution

3 Jordan has a fixed foreign exchange rate with the US dollar. The monetary policy of Jordan, therefore, follows the monetary policy of the US very closely. Due to low confidence in the global economy in 2019, central banks around the world, including Jordan and the US, cut interest rates to stimulate growth. However, this may have conflicted with the macroeconomic aim of low inflation.

(a) Define *inflation*. [2]

View solution

(b) Explain the effects of low confidence on both spending and borrowing. [4]

(c) Analyse how a cut in interest rates might create conflicts between macroeconomic aims. [6]

View solution

(d) Discuss whether or not a country will benefit from having a fixed foreign exchange rate system. [8]

View solution

4 Some firms have social welfare as their main objective. Globally, the number of this type of firm is increasing. Consumers are also starting to change their spending patterns by moving towards environmentally friendly products such as solar energy. Environmentally unfriendly firms are less able to make profits and some of these firms must merge to survive.

(a) Identify **two** examples of social welfare objectives of firms. [2]

View solution

(b) Explain **two** types of merger. [4]

(c) Analyse, using a demand and supply diagram, the effects on the solar energy industry of the change in spending patterns towards environmentally friendly products. [6]

View solution

(d) Discuss whether or not a merger can help a firm survive. [8]

View solution

5 Bulgaria is part of the European Union (EU), but it has much lower corporation tax rates than other EU members. However, regulation by the Bulgarian government has discouraged foreign investment into Bulgaria. In addition, Bulgaria's economic growth rate has decreased in recent years, due in part to a steady fall in its quantity of labour.

(a) Define *regulation*. [2]

View solution

(b) Explain **two** causes of a fall in the quantity of labour in a country. [4]

(c) Analyse how differences in the rates of corporation tax between countries may affect multinational companies (MNCs). [6]

View solution

(d) Discuss whether or not a decrease in a country's economic growth rate will harm its economy. [8]

View solution

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