Cambridge Assessment International Education

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ECONOMICS **0455/21**

Paper 2 Structured Questions **October/November 2024**

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: The United Arab Emirates (UAE)

UAE fact file	2021
Population	10m
Foreign nationals living in the UAE	8.9m
Number of people unemployed	0.2m
Economic growth rate	3.8%

The number of foreign nationals living in the UAE is higher than the number of citizens of the UAE. Labour mobility between the UAE and other countries is high with, for example, many daily flights landing in the UAE from India and Pakistan.

The UAE was the host of the World Expo in 2021–2022 where countries from all over the world demonstrated their economic achievements. The increased connection of people through migration, the trade of goods and services and the sharing of ideas were major features of the World Expo. Another common theme that was presented in the World Expo was the technological progress which has improved global living standards. Technological development has increased both the quality and quantity of the factors of production in the UAE.

This technological progress was supported by a huge amount of finance gained from their oil production and exports of oil. Oil is a necessity and its price inelasticity of demand has brought both advantages and disadvantages to the economy. Figure 1.1 shows the annual percentage change in the oil price and the annual percentage change in the UAE's balance on the current account of the balance of payments.

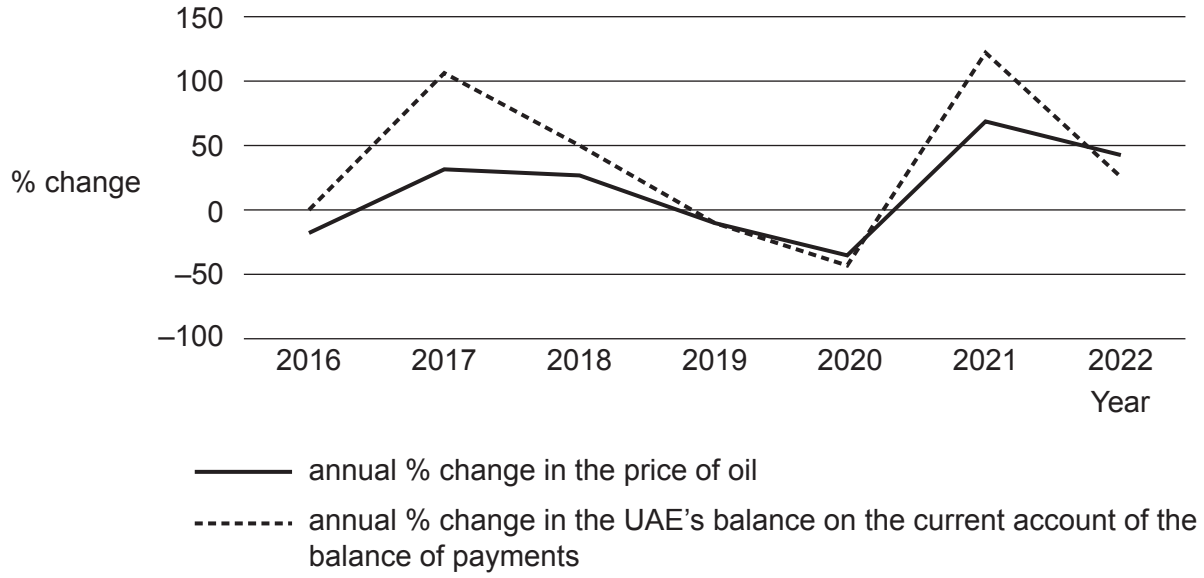

Figure 1.1 Annual percentage change in the price of oil and the annual percentage change in the UAE's balance on the current account of the balance of payments 2016–2022

Dubai, one of the cities in the UAE, is not dependent on oil as 95% of its economy is non-oil based. Dubai is known internationally for its luxury tourism and financial services, which affect employment, tax revenues and export revenues. However, there are concerns over sustainable water use in a desert area and the level of inequality in the distribution of income.

Despite rapid changes in the economy, the value of the domestic currency, the dirham, has always been very stable as the government has maintained a fixed exchange rate system since 1980. This has helped maintain investor confidence in the economy. However, a fixed rate exchange rate affects the government's ability to deliver other macroeconomic objectives.

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

1 **(a)** Calculate the percentage of the population who were foreign nationals living in the UAE. [1]

View solution

(b) Identify **two** features of globalisation. [2]

(c) Explain **one** factor that can influence labour mobility between countries. [2]

View solution

(d) Explain **one** advantage and **one** disadvantage of producing a product which is price-inelastic in demand such as oil. [4]

View solution

(e) Explain the relationship between the oil price and the UAE's current account balance. [4]

(f) Analyse, using a production possibility curve (PPC) diagram, the effect of technological progress on an economy such as the UAE. [5]

View solution

(g) Discuss whether or not luxury tourism and financial services have helped Dubai achieve economic development. [6]

View solution

(h) Discuss whether or not having a fixed exchange rate is beneficial for a country such as the UAE. [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 Unemployment in the United Kingdom (UK) fell in December 2021 to 4.1%. Market forces would usually mean that wages would increase due to this lower unemployment. However, workers' living standards did not increase. New international trade deals were not made fast enough to offset the decreasing trade between the UK and the European Union.

(a) Identify **two** ways of measuring unemployment. [2]

View solution

(b) Explain **two** factors that could influence living standards, apart from unemployment rates. [4]

View solution

(c) Analyse how market forces can increase wages. [6]

View solution

(d) Discuss whether or not free trade between countries increases economic growth. [8]

View solution

3 Approximately 95% of students in Macao, a special administrative region of China, attend a private school. Internationally, competition for students is high amongst private schools. Private schools are often technologically innovative in their methods of teaching. However, some argue that private schools make the government aim of redistribution of income more difficult to achieve.

(a) Define *privatisation*. [2]

View solution

(b) Explain how technological innovation can benefit firms. [4]

View solution

(c) Analyse the effects of increased competition amongst firms. [6]

View solution

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

View solution

4 The World Trade Organization (WTO) estimates that India has the largest levels of trade protection of any major economy. The highest tariffs are imposed on products from the primary sector. For example, in 2018 India imposed a tariff of approximately 90% on imports of coffee to protect its coffee farmers. However, the markets for coffee substitutes and complements do not have such levels of government intervention.

(a) Identify **two** methods of trade protection apart from a tariff. [2]

View solution

(b) Explain how the price of coffee substitutes and complements can affect the demand for coffee. [4]

View solution

(c) Analyse possible reasons why a government may want to intervene in a market. [6]

View solution

(d) Discuss whether or not high tariffs can reduce unemployment. [8]

View solution

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5 Hawaii's economy has grown due to tourism but the growth in this sector has also increased inflation in this US island state. It is estimated that 9% of Hawaii's population were living in poverty in 2022. Many families struggled to save. Young workers were able to leave due to high levels of labour mobility between US states. However, Hawaii is now facing an ageing population including many more retired people.

(a) Define *labour mobility*. [2]

View solution

(b) Explain the effects of an ageing population on spending and saving levels. [4]

View solution

(c) Analyse how a rise in tourism can increase inflation in an economy. [6]

View solution

(d) Discuss whether or not fiscal policy is effective in reducing poverty. [8]

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