Cambridge IGCSE

Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/22**

Paper 2 Structured Questions **May/June 2019**

2 hours 15 minutes

No Additional Materials are required.

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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.

Cambridge Assessment International Education

Section A

Answer this question.

1 Premium Friday

At the start of February 2017, the Japanese government introduced its 'Premium Friday' scheme. This encourages employers to allow their workers to leave work at 15:00 on the last Friday of each month, without experiencing any reduction in their wages.

The Japanese government wants to reduce the number of hours people work. One reason is to improve the health, and so possibly the productivity, of workers. Fig. 1.1 shows the average number of hours worked and productivity (GDP per hour worked in US $) in six selected countries.

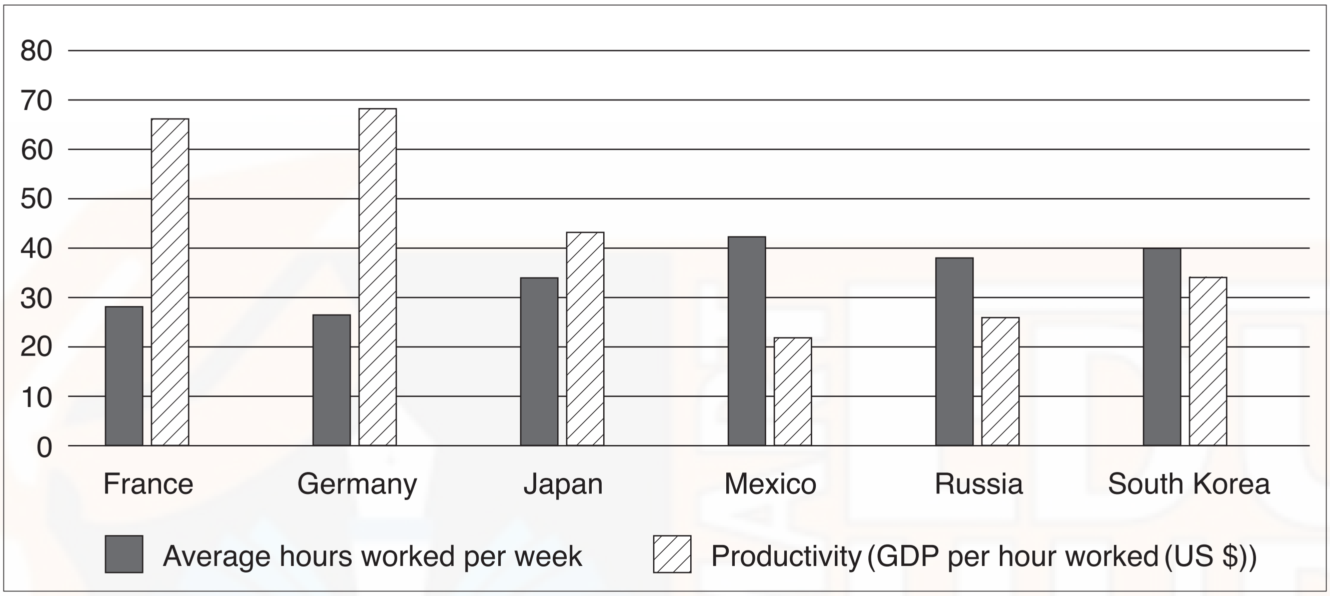


Fig. 1.1 Average hours worked and productivity of selected countries in 2017

Nearly one quarter of Japanese workers work more than 50 hours a week and some work more than 25 hours overtime a week. The average Japanese worker only takes half of their paid holidays. Nearly 20 years of low economic growth and deflation have created a sense of job insecurity. Trade unions in Japan have been concentrating on trying to achieve shorter working hours.

The government thinks that working fewer hours would give people more time to bring up a child and look after elderly relatives. Japan's birth rate has fallen every year for the last 36 years, and at a faster rate than the fall in the death rate leading to a fall in the size of the population.

The government hopes more leisure time will encourage an increase in consumer spending. Higher consumer spending would benefit Japanese firms and would reduce the chances of deflation returning.

The initial response to Premium Friday was not promising. At the end of February 2017, only 4% of Japanese workers left early. In the longer run, however, the scheme may be more successful. This is because unemployment in the country had fallen with only 2 million out of a labour force of 66 million being unemployed at the end of February 2017. Low unemployment increases job security and usually increases wages. In Japan's case, however, the higher demand for labour has been matched by a higher supply. Some of this higher supply has come from migrant workers, but a greater proportion has come from more Japanese people working past retirement age and more women working.

(a) Identify, using information from the extract, **two** factors that influence an individual's choice of occupation. [2]

(b) Explain, using information from the extract, an opportunity cost of working. [2]

(c) Calculate, using information from the extract, the number of Japanese workers who left work early on Premium Friday in February 2017. [2]

(d) Explain, using information from the extract, why the size of Japan's population has fallen in recent years. [4]

(e) Analyse, using Fig. 1.1, the relationship between the average hours worked and productivity. [5]

(f) Discuss whether or not a cut in income tax would stop deflation. [5]

(g) Explain, using information from the extract, why wage rises have been low in Japan. [4]

(h) Discuss whether or not Japan will benefit from employing more migrant workers. [6]

(a)
The wto factors that influence an individual's choice of occupation are
- working hours / leisure time
- holidays

Also accepted as per mark scheme are:
- job security / job insecurity
- wages

(b) The opportunity cost of working, as indicated in the extract, is the sacrifice of various valuable aspects of life in favor of dedicating time and effort to employment. Here's an explanation using the provided points:

Working often demands a significant portion of one's time, leaving less room for leisure activities. The opportunity cost, in this context, is the enjoyment and relaxation that could have been experienced during leisure time.

Committing to a job may mean having fewer days available for holidays or vacations. The opportunity cost is the chance to travel, explore new places, and take a break from work-related responsibilities.

Working consumes time that could otherwise be devoted to raising children. The opportunity cost involves the potential bonding moments, educational involvement, and nurturing experiences that may be foregone due to work commitments.

Similarly, the opportunity cost of working is the time that could be spent caring for elderly family members. The emotional support and assistance in daily activities that could be provided may be sacrificed in favor of job-related responsibilities.

Opportunity cost is the concept that refers to the next best alternative forgone when a choice is made. In the context of working, individuals forego the opportunities to engage in leisure activities, take holidays, dedicate time to raising children, or care for the elderly.

In essence, the opportunity cost of working encompasses the trade-offs individuals make by choosing employment over alternative pursuits, highlighting the value of the activities and relationships that may be sacrificed in the pursuit of a career.

(c)
4% x (66m – 2m)
=4% x 64m
=2,560

(d)
The size of Japan's population has fallen in recent years due to several interconnected factors, as highlighted in the extract:

The birth rate in Japan has experienced a significant decline, contributing to the overall reduction in population size.

The decline in the birth rate has outpaced the fall in the death rate. This means that the rate at which new individuals are entering the population through births is lower than the rate at which individuals are leaving due to deaths.

The extract suggests that the reasons for the falling birth rate include factors such as:More women participating in the workforce, People working longer hours. and Increased responsibilities in looking after elderly relatives.
The consequence of the falling birth rate is a reduction in the number of children being born in Japan. This demographic shift is influenced by societal changes and economic factors that impact family planning decisions.

On the other side, the death rate has fallen, indicating that people in Japan are living longer. Advances in healthcare, improved living standards, and access to medical facilities contribute to increased life expectancy.

When the birth rate falls more than the death rate, there is a natural decrease in population.

In Japan's case, this means that the number of births is insufficient to replace the number of deaths, leading to a net decrease in population.

The actual decrease in population may be influenced by the net immigration rate. If the natural decrease (births minus deaths) is more significant than the positive impact of immigration, the population will experience an actual decline.

The imbalance between fewer babies being born and an increasing number of older individuals contributes to an ageing population. The demographic structure shifts towards a higher proportion of elderly people relative to the younger population.

In summary, the falling birth rate, coupled with an increase in life expectancy, has led to a natural decrease in Japan's population. Societal and economic factors, such as changing roles of women in the workforce and the responsibility of caring for elderly relatives, have influenced family planning decisions, contributing to this demographic shift. The implications include an ageing population and potential challenges associated with a declining workforce.

(e)
Analyzing Fig. 1, the relationship between average hours worked and productivity can be observed, and several key points can be identified:

Generally, there appears to be an inverse relationship between the average hours worked and productivity. As the average hours worked decrease, productivity tends to increase. This is indicated by the overall trend of the data points sloping downward.
The shorter working hours are associated with higher productivity. This can be attributed to several factors: Workers may be less fatigued, leading to increased efficiency.
More leisure time for employees may contribute to higher motivation and job satisfaction, positively influencing productivity.
Examining specific countries in the graph reinforces the inverse relationship:
France and Germany: These two countries have the shortest working hours and the highest productivity, aligning with the expected relationship.
Mexico: Conversely, Mexico, with the longest working hours, exhibits the lowest productivity among the countries considered.
South Korea stands out as an exception to the expected relationship. Despite having relatively long working hours, South Korea demonstrates higher productivity compared to countries like Mexico and Russia, which have shorter working hours.
In summary, the analysis of Fig. 1 supports the notion of an inverse relationship between average hours worked and productivity. The data suggests that shorter working hours are generally associated with higher productivity, and this is evident in the contrasting performance of countries with shorter and longer working hours. South Korea's position as an exception highlights that factors beyond working hours, such as work culture and efficiency, also play a role in determining productivity.

(f)

Why a cut in income tax might stop deflation:

A cut in income tax would result in an increase in disposable income for individuals. With more money in hand, consumers may have higher purchasing power.

The increase in disposable income may lead to higher consumer spending. Higher spending contributes to an increase in total (aggregate) demand in the economy.

Increased consumer spending may encourage businesses to invest more. Higher investment levels contribute to economic growth and can potentially lead to demand-pull inflation as firms seek to meet increased consumer demand by raising prices.

Higher demand for goods and services may encourage firms to expand their operations. This expansion could lead to the creation of additional jobs, thereby reducing unemployment.

Why a cut in income tax might not stop deflation :

Despite the increase in disposable income, consumers may lack confidence in the economy. As a result, they may choose to save rather than spend, which could limit the impact on overall demand.

Similarly, businesses may lack confidence in the economic outlook and may be hesitant to invest, even if consumers have more money to spend.

Extra investment may lead to increased production efficiency, resulting in lower costs of production. This could potentially lead to a situation where prices continue to fall rather than rise.

If firms have existing spare capacity, they may be able to increase output without significantly increasing average costs of production. In such a scenario, prices may not rise despite increased demand.

A cut in income tax may lead to a reduction in government tax revenue. If government spending decreases as a result, the overall impact on total demand may be limited.

In summary, while a cut in income tax could potentially stimulate consumer spending and investment, the effectiveness in stopping deflation depends on various factors, including consumer and business confidence, the state of spare capacity, and the overall response of the economy.

(g)

Wage rises have been low in Japan, as indicated by the extract, due to a combination of factors:

The extract highlights that trade unions in Japan have prioritized the goal of achieving shorter working hours. This emphasis on reducing working hours suggests that trade unions may not have been pressing as strongly for wage increases. Instead, their focus on work-life balance may have diverted attention from wage negotiation efforts.

The demand for labor in Japan has increased, driven by a tightening labor market. However, this increased demand has been met with a higher supply of labor. Factors contributing to the higher supply include immigration and a greater proportion of women in the labor force, along with people working past retirement age. The increased availability of workers has made it easier for firms to recruit without the necessity of raising wages.

Japan has had a prolonged experience of deflation and low economic growth. In such an economic environment, there may be tendencies for lower consumer spending and reduced corporate profits. Despite nominal wages remaining stagnant, real wages may have increased, given the context of deflation.

The extract suggests that job insecurity is a factor contributing to low wage rises in Japan. Workers experiencing job insecurity may be less willing to actively press for wage increases. In an environment where employees are uncertain about the stability of their jobs, there may be a reluctance to advocate for higher wages.

In summary, the low wage rises in Japan can be attributed to a focus on shorter working hours by trade unions, a balance between labor demand and supply, a historical backdrop of deflation and low economic growth impacting consumer spending and profits, and the presence of job insecurity affecting employees' willingness to advocate for higher wages. These factors collectively contribute to the subdued wage growth observed in the Japanese labor market.

(h) Why Japan might benefit from employing more migrant workers

Employing more migrant workers can lead to an expansion of the labor force, contributing to increased productive capacity, potential output, and overall economic growth.

The influx of migrant workers can contribute to higher total (aggregate) demand, potentially generating more jobs in various sectors of the economy.

Given Japan's falling population, employing migrant workers helps address potential labor shortages. Without an increase in the labor supply, there could be a risk of shortages leading to cost-push inflation.

Migrant workers may bring higher skills, new ideas, and technological expertise. This could lead to an enhancement of productivity, making the country's products more internationally competitive. Additionally, if migrant workers are willing to work for lower wages, it could lower production costs and prices.

The presence of migrant workers could contribute to an increase in tax revenue for the government. This additional revenue could enable the government to invest in areas such as education, further supporting economic development.

Why it might not benefit Japan to employ more migrant workers (Up to 4 mar

The employment of migrant workers might keep wage rises low, potentially restricting increases in living standards for both domestic and migrant workers.

In some cases, the employment of migrant workers might lead to the displacement of domestic workers, causing unemployment among the local workforce.

Migrant workers may require training to adapt to specific job requirements, potentially increasing firms' costs in terms of training programs and resources.

The arrival of migrant workers and their families may increase pressure on public services such as housing, schools, and healthcare. This could lead to concerns about overpopulation and strain on existing infrastructur

If migrant workers send a significant portion of their earnings back home as remittances, it could have a negative impact on Japan's current account position, as money leaves the country.

In conclusion, while employing more migrant workers in Japan offers potential benefits such as addressing labor shortages, enhancing skills, and contributing to economic growth, there are also potential challenges related to wage dynamics, unemployment, training needs, strain on public services, and remittance impacts. The overall impact would depend on how effectively these challenges are managed.

2 The markets for cars and tyres are closely related. The five largest tyre firms used to make 66% of all tyres. The entry of more than 250 Chinese firms has reduced the global market share of the largest five firms to less than 50%. This also changed the price elasticity of demand (PED) for individual firms' tyres. Some of these firms are state-owned enterprises and some are in the private sector.

2 (a) Identify two types of business organisation that operate in the private sector. [2]

The two types of business organisation that operate in the private sector are the sole trader and the public limited companies

- Also accepted are: cooperatives and multinationals.

2(b) Explain what effect more firms producing tyres would have on the PED of individual firms' tyres. [4]

The Price Elasticity of Demand (PED) measures how sensitive the quantity demanded of a good is to a change in its price.

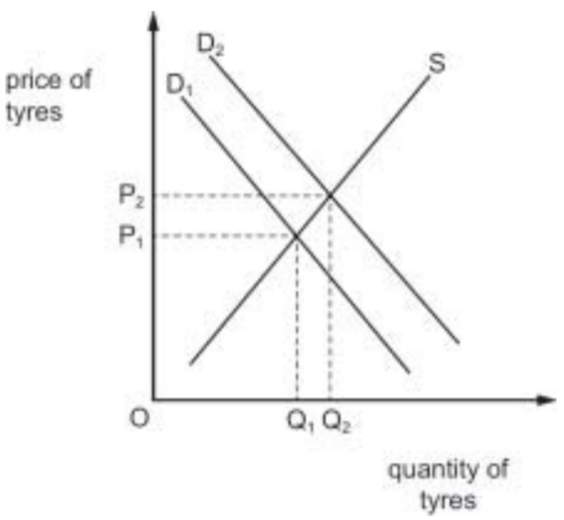
With more firms entering the tire market, there will be increased competition among them. This heightened competition is likely to lead to a more price-sensitive market as firms strive to attract customers.

As the number of firms producing tires increases, consumers will have a wider range of options and substitutes to choose from. This greater variety of products in the market makes it easier for consumers to switch from one brand to another based on factors such as price, quality, or features.

If one firm decides to increase the price of its tires, consumers now have more alternatives to consider. In response to a price hike, consumers may choose to switch to tires offered by other firms that are more competitively priced or provide better value for money.

Elasticity of demand refers to how responsive the quantity demanded is to changes in price. With more substitutes available and increased competition, the demand for individual firms' tires is likely to become more elastic. This means that consumers will be more sensitive to changes in price, and a small change in the price of tires is likely to result in a proportionally larger change in the quantity demanded.

(c) Analyse, using a demand and supply diagram, the effect of an increase in demand for cars on the market for tyres. [6]



As the demand for cars increases, the demand for tires also increases. This leads to a higher equilibrium price for tires (P2), indicating that consumers are willing to pay more for tires. The quantity of tires traded in the market will also rise (Q2).

Since tires are a complement to cars, an increase in the demand for cars results in an increased demand for tires. Consumers who purchase new cars will likely need to replace or upgrade their tires, contributing to the higher demand for tires.

With the higher demand for cars, both individual drivers and car manufacturing firms may purchase more tires. Individual drivers may buy more tires for their existing cars, while car manufacturers may increase tire purchases for the production of new vehicles.

In summary, the demand and supply diagram illustrates that an increase in demand for cars leads to a higher equilibrium price and quantity in the market for tyres. This is driven by the complementary relationship between cars and tires, as consumers respond to the increased demand for cars by purchasing more tires

(d) Discuss whether a large firm will earn more profit per unit sold than a small firm. [8]

Reasons a Large Firm Might Earn More Profit per Unit Sold:

Large firms may benefit from economies of scale, allowing them to produce at a larger scale and achieve lower average costs. This can be due to bulk purchasing, efficient production processes, and better utilization of resources. For example, a large automobile manufacturer can achieve cost savings in production compared to a small boutique car maker.

Lower Average Cost Due to economies of scale, large firms can have lower average costs per unit. This may permit them to set a lower price in the market, leading to increased sales and potentially more profit per unit sold, even if the price charged is the same.

Advertising and Brand Image : Large firms often have more funds available for advertising, helping them create a strong brand image and build brand loyalty. A well-established brand can command higher prices, contributing to increased profit per unit sold.

Large firms may have more market power, potentially keeping competitors out of the market or facing high barriers to entry. This can give them the ability to set higher prices and, consequently, earn more profit per unit sold.

Reasons a Large Firm Might Not Earn More Profit per Unit Sold:

Large firms may experience diseconomies of scale as they grow, leading to higher average costs per unit. For instance, coordination challenges, bureaucracy, or inefficiencies in larger organizations may offset the advantages of economies of scale.

Government Subsidies for Small Firms:Small firms may benefit from government subsidies, which can help lower their average costs or provide an additional source of revenue, enabling them to be competitive in the market.

Small firms may be producing a new and innovative product for which there is high demand. In such cases, they may be able to charge a premium price, resulting in higher profit margins.

Small firms operating in niche markets may have consumers who are willing to pay a higher price for specialized products or services, allowing them to earn more profit per unit sold.

Small firms may be more agile and responsive to changes in market demand, helping them avoid surpluses or shortages. This responsiveness can contribute to increased sales and profits.

Small firms may differentiate themselves by providing a personalized service or developing a personal connection with customers. This can increase demand and allow them to charge a higher price, contributing to higher profit margins.

In conclusion, whether a large or small firm earns more profit per unit sold depends on various factors, including economies of scale, market power, brand image, government support, product differentiation, and responsiveness to market changes. Each type of firm may have distinct advantages and challenges that impact its profitability.

3 There was a global surplus of steel in 2017. In mid-2017, the US government considered imposing tariffs on steel imports to protect its declining steel industry. Cheap imports from other countries were reducing employment in the US steel industry. The pattern of US employment was also being affected by improvements in education.

(a) Identify **two** methods of trade protection other than tariffs. [2]

(b) Explain how market forces will eliminate a surplus and a shortage. [4]

(c) Analyse how improvements in education can affect the pattern of employment. [6]

(d) Discuss whether or not the imposition of import tariffs by a country will reduce its unemployment. [8]

(a) Two methods of trade protection other than tariffs could include any 2 from the following [as per your mark scheme] [2]

- quotas
- embargoes
- voluntary export restraint
- red tape / bureaucracy / artificially high standards
- subsidies

(b) Explain how market forces will eliminate a surplus and a shortage. [4]

When there is a surplus in the market (i.e., quantity supplied exceeds quantity demanded), sellers find themselves with excess inventory that they are unable to sell at the current price.

To eliminate the surplus, sellers will reduce the price of the goods to make them more attractive to buyers.The lower price stimulates demand as more consumers are willing to purchase at the reduced price. Simultaneously, producers may reduce their production as the lower price makes it less profitable for them, addressing the surplus issue.

When there is a shortage in the market (i.e., quantity demanded exceeds quantity supplied), buyers find it difficult to obtain the desired goods at the existing price. To eliminate the shortage, sellers increase the price of the goods due to high demand and limited supply.

The higher price discourages some buyers, leading to a decrease in demand. Meanwhile, producers are motivated by the higher price, and some may increase production to take advantage of the more profitable market conditions. This combination of factors helps to reduce the shortage.

In both cases, the adjustment of prices is a key mechanism by which market forces bring supply and demand back into balance. Prices act as signals that guide both buyers and sellers in making decisions, ultimately leading to a market equilibrium where the quantity demanded equals the quantity supplied, eliminating surpluses and shortages.

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APPROVED
By Smart Edu Hub at 6:38 pm, Dec 24, 2023

Improvements in education can have profound effects on the pattern of employment, influencing the skills of the workforce, the distribution of employment across sectors, gender participation, employment in the education sector itself, and even migration patterns. Here's an analysis of these potential impacts:

Improvements in education can lead to a more qualified and skilled workforce. As individuals attain higher qualifications, they become more competitive in the job market, potentially opening up opportunities for better-paid and higher-skilled jobs.

With improved education, individuals are likely to seek employment in occupations that offer better pay and working conditions. This can lead to a shift in the types of jobs that are in demand, with a preference for roles that require higher skills and expertise.

As the workforce becomes more educated and skilled, there is likely to be a decline in employment in the primary sector (e.g., agriculture, mining). This shift is common in the process of economic development known as structural transformation.

Conversely, improvements in education often result in a rise in employment in the secondary (manufacturing) and tertiary (services) sectors. These sectors typically demand a more educated and skilled labor force.

Improvements in education, especially for girls, can lead to greater participation of women in the workforce. As educational opportunities for women improve, they are more likely to pursue careers, contributing to a more gender-diverse workforce.

This increased participation can lead to a change in the types of jobs women seek, with more opportunities for them in professions that were traditionally male-dominated.

The demand for education increases with improvements in the education system. This, in turn, can lead to an increase in the employment of teachers to accommodate larger student populations or to reduce class sizes for improved learning outcomes.

If education reforms include measures to reduce class sizes, it can create more teaching jobs and enhance the quality of education, indirectly affecting employment patterns.

Improved education may attract migrant workers who are seeking better educational opportunities for their children. Countries with a strong education system may become more attractive to migrants looking for a better future for their families.

This influx of migrant workers can have implications for the local labor market, affecting the supply and demand for different types of jobs and potentially contributing to a more diverse and dynamic workforce.

In summary, improvements in education can lead to a more skilled and qualified workforce, drive changes in employment sectors, increase gender diversity, impact employment in the education sector, and influence migration patterns as individuals seek better educational opportunities for themselves and their families.

3 There was a global surplus of steel in 2017. In mid-2017, the US government considered imposing tariffs on steel imports to protect its declining steel industry. Cheap imports from other countries were reducing employment in the US steel industry. The pattern of US employment was also being affected by improvements in education.

(d) Discuss whether or not the imposition of import tariffs by a country will reduce its unemployment.

Why Import Tariffs Might Reduce Unemployment:

Raise in Price of Imports: Import tariffs can increase the price of imported goods, making them less attractive to consumers.

Fall in Demand for Imports :The higher prices due to tariffs may lead to a decrease in the demand for imported goods.

Switch to Domestic Products : Consumers, faced with higher prices for imported goods, may choose to switch to domestic alternatives.

Increased Output and Employment by Domestic Firms As demand for domestic products rises, domestic firms may increase their output. This increase in production can lead to firms hiring more workers to meet the higher demand.

Protection for Infant Industries :Import tariffs can protect emerging or "infant" industries from foreign competition, allowing them to grow and become more competitive. This growth can result in increased employment within these protected industries.

Protection for Declining Industries: Tariffs can also be used to protect declining industries, reducing structural unemployment by preventing the collapse of these sectors.

Tax Revenue Increase : The government may collect more tax revenue through import tariffs. This additional revenue could be used for government spending, potentially creating jobs in public projects and services.

Why Import Tariffs Might Not Reduce Unemployment :

Risk of Retaliation : Other countries may retaliate by imposing tariffs on the country's exports. This can harm industries reliant on exports, potentially leading to job losses in those sectors.

Increased Costs of Production : Tariffs on imported raw materials can raise the costs of production for domestic industries. This may result in higher prices for domestic products, potentially reducing consumer demand and leading to job losses in industries reliant on affordable raw materials.

Lack of Domestic Substitutes : In cases where imports do not have direct domestic substitutes or where the price elasticity of demand for imports is low, consumers may continue to purchase imports despite higher prices. This means that the demand for imports may persist, and the desired switch to domestic products might not occur, limiting the potential for increased employment.

In conclusion, while import tariffs might have the potential to reduce unemployment by stimulating demand for domestic products and protecting certain industries, there are significant risks and potential negative consequences. Retaliation from other countries, increased production costs, and the possibility of consumers continuing to buy imports despite higher prices are factors that can offset the positive impacts of import tariffs on unemployment. The overall impact depends on various economic conditions and the specific circumstances of the country in question.

4 In March 2017, Peru was hit by floods and the strongest winds in decades. Roads, bridges, houses and capital goods were destroyed. It is expected that the damage caused will affect Peru's Human Development Index (HDI) and economic growth rate. In 2016, Peru experienced a 4% economic growth rate which was higher than the growth rate of the USA.

(a) Define a *capital good*. [2]

(b) Explain **two** causes of an increase in a country's HDI. [4]

(c) Analyse, using a production possibility curve (PPC) diagram, the effect of damaging weather on an economy. [6]

(d) Discuss whether countries with a high Gross Domestic Product (GDP) per head will have a faster rate of economic growth than countries with a low GDP per head. [8]

(a) A capital good is a human-made product that is utilized in the production process of other goods and services.

(b) An increase in Gross Domestic Product (GDP), Gross National Income (GNI), or income per head contributes positively to a country's Human Development Index (HDI). This increase implies a rise in the overall economic output or income, which can have several implications for human development.

Higher income levels mean that individuals have more financial resources to allocate to goods and services. This increase in purchasing power allows people to consume a greater variety and quantity of goods and services, leading to an improved standard of living.

A growth in GDP often corresponds to increased economic activity, which can lead to higher employment rates. More people having jobs means a larger portion of the population is actively contributing to and benefiting from economic development.

An increase in life expectancy is a crucial component of the HDI as it reflects the overall health and well-being of a population.

Improved life expectancy is often associated with advancements in healthcare. Countries that invest in better healthcare systems, access to medical facilities, and disease prevention tend to see an increase in life expectancy. This can result from government initiatives, private sector investment, or a combination of both.

Increased life expectancy may be a consequence of higher levels of investment in healthcare infrastructure, medical research, and public health programs. When a country allocates resources to enhance healthcare services, it can lead to better health outcomes, contributing to an overall improvement in the HDI.

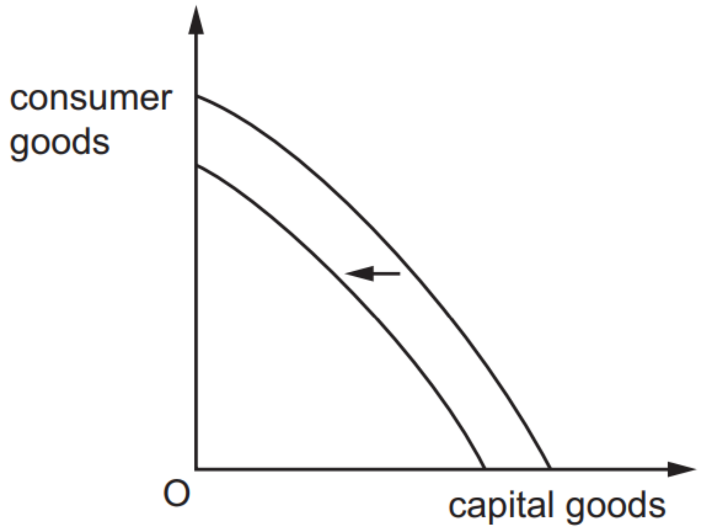
Education is a key factor in human development, and an improvement in educational indicators positively impacts a country's HDI.

Higher levels of education, both in terms of mean and expected years of schooling, contribute to an increase in job opportunities. Educated individuals are better equipped to access higher-skilled and better-paying jobs, leading to an improvement in their quality of life.

An increase in the HDI is often associated with governments investing more in education. This can involve policies to enhance school enrollment, improve educational infrastructure, and promote education at all levels. Government investments in education contribute to a more educated and skilled workforce, fostering economic and social development.

In summary, an increase in income, life expectancy, and education are crucial contributors to the improvement of a country's Human Development Index, reflecting advancements in economic prosperity, healthcare, and education.

(c)



Bad weather, such as storms, droughts, or other adverse conditions, can lead to damage or destruction of resources. For example, if agriculture is affected, there might be a reduction in the quantity of available arable land, crops, or livestock.

The inward shift of the production possibility curve reflects the fact that, due to the damaging weather, the economy is now operating with fewer resources. As a result, the maximum amount that can be produced for both types of goods decreases. This reduction in production capacity highlights the economic challenges posed by the adverse weather conditions

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In summary, the PPC diagram and analysis illustrate how damaging weather can limit the quantity of resources available in an economy, leading to a decrease in the maximum amount that can be produced for different types of goods. This reduction in production capacity reflects the negative impact of adverse weather on economic activities and overall output.

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(d)

Countries with High GDP per Head Might Have Faster Economic Growth

Good Education and Healthcare : Countries with high GDP per head are likely to invest in education and healthcare, leading to a well-educated and healthy workforce. This results in higher skills, increased productivity, and a potential for technological advances, which can reduce production costs and increase exports.

Low Unemployment and Efficient Resource Use : High-income countries often experience lower unemployment rates, indicating efficient utilization of resources. With most resources being employed, there is a higher likelihood of achieving full production capacity, fostering economic growth.

Attractiveness to Multinational Corporations (MNCs) :Countries with high GDP per head may attract multinational corporations due to a skilled workforce, stability, and potential for innovation. The presence of MNCs contributes to the country's output, creating jobs and fostering economic growth.

Access to Foreign Investment : High-income countries are often more attractive to foreign banks, which may be more willing to lend to their firms. This access to capital allows businesses to expand, invest in new technologies, and increase production capacity, contributing to economic growth.

High Demand and Consumer Spending :High-income individuals in these countries are likely to have high levels of demand and consumer spending. This encourages firms to produce more goods and services to meet the demand, driving economic growth.

Why Countries with High GDP per Head Might Not Have Faster Economic Growth:

Discovery of Raw Materials :Countries with a low GDP per head may discover valuable raw materials that are in high global demand. The export of these resources can lead to significant revenue, contributing to economic growth.

Drive for Improvement in Poorer Countries :People in poorer countries may have a strong drive to improve their living standards. This motivation can lead to hard work, entrepreneurship, and innovation, fostering economic growth despite lower initial GDP per head.

Population Growth :Richer countries may have a lower rate of population growth or even declining populations. While this may result in a more stable society, it can also mean slower growth in the labor force, limiting the capacity to produce more goods and services.

Other Influencing Factors :Various factors, such as government policies, deficits on the current account of the balance of payments, and geopolitical situations, can influence economic growth. The pursuit of certain policies or external factors may affect a country's growth trajectory independent of its GDP per head.

In conclusion, while high GDP per head is often associated with factors that support economic growth, other considerations such as resource discoveries, motivation for improvement, population dynamics, and external influences play crucial roles in shaping a country's overall economic growth rate. The relationship between GDP per head and economic growth is influenced by a complex interplay of multiple factors.

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(a) Identify **two** supply-side policy measures. [2]

(b) Explain **two** ways a government could reduce relative poverty. [4]

(c) Analyse the reasons why small shops may be easy to set up. [6]

(d) Discuss whether or not firms will benefit from a fall in unemployment. [8]

(a)Two supply-side policy measures would include a cut in income tax and a cut in corporation tax

Other acceptable policy measures as per mark scheme would be:

a cut in unemployment benefit
- education
- training
- privatisation
- deregulation
- subsidy
- legislation to reduce trade union power

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(b) There are various ways a government can work to reduce relative poverty. Here are two effective strategies:

Progressive Taxation / Higher Direct Taxes :

A government can implement a progressive tax system, where higher-income individuals are taxed at a higher rate. This means that as individuals earn more, the proportion of their income paid in taxes increases.This approach targets the wealthier segments of the population, ensuring that they contribute a larger share of their income to government revenues. The additional funds generated through progressive taxation can then be used for poverty alleviation programs and social welfare initiatives.

Governments can implement policies to reduce or eliminate taxes on essential goods, especially basic food items. Indirect taxes, such as value-added taxes (VAT) on necessities, tend to impact lower-income households more significantly.By reducing taxes on basic foodstuffs, the government directly benefits the poor, as it lowers the cost of essential items. This, in turn, helps in improving the purchasing power of lower-income individuals and contributes to raising their living standards.

Governments can provide financial assistance and social welfare benefits to those living in poverty. This direct support helps to increase the purchasing power of individuals and enhances their overall living standards.

Investing in education and training programs for the poor equips them with the skills and knowledge needed to access better employment opportunities. This, in turn, increases their earning potential and reduces the likelihood of long-term poverty.

Access to affordable healthcare services improves the overall health and productivity of the poor. It also prevents medical expenses from becoming a significant financial burden, contributing to the reduction of relative poverty.

Governments can provide subsidies to firms, especially those in labor-intensive industries. This can lead to increased employment opportunities, as well as a reduction in the prices of goods and services, benefiting consumers, especially those with lower incomes.

These measures, when implemented comprehensively, can contribute to a significant reduction in relative poverty by addressing both income inequality and access to essential services.

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(c)Small shops are often characterized by factors that make them relatively easy to set up. Here's an analysis of the reasons why:

Small shops generally do not require a significant amount of capital to establish. This is particularly true for businesses that operate in niche markets or offer specialized products or services.The low initial investment means that entrepreneurs may need less money to start their small shop, making it a more accessible option for individuals with limited financial resources.

Small shops often have lower fixed costs compared to larger establishments. The absence of large overheads, such as extensive staff, complex infrastructure, or expensive machinery, makes it easier for entrepreneurs to manage costs effectively. With lower fixed costs, it may be feasible for individuals to fund the establishment of a small shop through personal savings or by borrowing a more manageable amount of capital.

Some governments offer subsidies designed to encourage the growth of small businesses, including small shops. These subsidies can take various forms, such as reduced taxes, financial grants, or assistance with obtaining loans.

Government initiatives aimed at supporting small businesses can contribute to reducing the overall costs of production for small shops, making them more economically viable.

Running a small shop may not necessitate advanced management skills or extensive business expertise. Many small businesses operate with a simplified organizational structure, and the owner can often handle various roles, including management responsibilities.

Unlike larger enterprises that may require specialized skills and formal education, small shop owners may not need a high level of education. This lowers barriers to entry and encourages a broader range of individuals to start their own businesses.

Small shops may face fewer bureaucratic hurdles and regulatory requirements compared to larger businesses. This reduces the administrative burden on entrepreneurs, allowing them to focus more on the day-to-day operations of their shops.

The simplicity of compliance procedures and reduced paperwork means that entrepreneurs can save time and effort, contributing to a smoother and quicker setup process.

In summary, the ease of setting up small shops is attributed to factors such as low initial costs, low fixed costs, potential government subsidies, limited management skills required, and reduced paperwork and regulations. These factors collectively contribute to making small shops a more accessible option for aspiring entrepreneurs.

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(d)Why Firms Might Benefit from a Fall in Unemployment

A fall in unemployment often leads to more people finding employment, resulting in higher incomes for individuals. Higher incomes contribute to increased consumer spending, which, in turn, boosts total (aggregate) demand. Firms, especially those producing consumer goods, may experience higher sales and increased profits.

With more workers employed, firms can expand their production capacity to meet rising demand.As demand for products and services increases, firms with lower unemployment rates are better positioned to respond promptly, leading to increased production and potential growth.

A fall in unemployment contributes to a more optimistic economic environment, leading to increased consumer confidence. When consumers are more confident about their job security and incomes, they are likely to spend more. This increased spending benefits firms across various sectors.

With more people employed, tax revenue for the government tends to rise. This can lead to improved public finances.The government, with increased tax revenue and reduced spending on unemployment benefits, may choose to spend more in ways that benefit firms, such as infrastructure projects, training programs, or incentives for business development.

Why Firms Might Not Benefit from a Fall in Unemployment :

Firms may find it challenging to recruit workers, particularly for specific roles. Difficulty in filling certain positions may restrict firms' output or lead to unfilled orders, limiting their growth potential.

Increased competition for workers may drive up wages as firms offer higher salaries to attract and retain talent. Higher wage costs can reduce firms' profit margins, especially if they are unable to pass these increased costs on to consumers through higher prices.

A fall in unemployment may empower trade unions as workers gain bargaining power. Empowered trade unions may lead to more strikes or industrial actions, disrupting business operations.

In a situation where there is a rush to fill positions, firms may employ less skilled workers. Less skilled workers may be less productive, potentially increasing costs for firms due to lower efficiency.

Faced with a shortage of workers, some firms may resort to more capital-intensive production methods.The shift to capital-intensive methods may increase costs in the short run, impacting firms' profitability.

Firms may experience varying impacts based on differences in the nature of their products or services. Some firms may gain from increased demand, while others in different industries or with unique challenges may not experience the same level of benefit.

In summary, the impact of a fall in unemployment on firms is multifaceted. While there are potential benefits such as increased demand, improved consumer confidence, and higher tax revenue, challenges like recruitment difficulties, rising costs, and potential disruptions from trade unions need to be considered. Additionally, the specific circumstances of individual firms and industries play a crucial role in determining how they are affected by changes in unemployment rates.

6 In a mixed economic system, such as Portugal's, the government intervenes in the economy. Reasons for government intervention include to correct market failure and to achieve its aims for the economy, such as control of inflation. In 2017, one-fifth of Portugal's population was living in poverty and the government increased its spending.

(a) Identify **two** reasons why market failure may occur. [2]

(b) Explain how resources are allocated in a mixed economic system. [4]

(c) Analyse how a high rate of inflation may harm the poor. [6]

(d) Discuss whether or not increasing government spending will enable a government to achieve its aims for the economy. [8]

(a)market failure can occur for various reasons. Here are two common causes:

Market failure can result from the existence of external costs, which are negative side effects of a transaction that affect third parties who are not directly involved. For example, pollution from industrial production imposes costs on the broader community, such as health issues and environmental degradation, which are not accounted for in the market transaction.

Similarly, external benefits occur when positive side effects of a transaction spill over to third parties who do not participate directly in the transaction. For instance, education can generate external benefits by improving the overall level of knowledge and skills in society, leading to increased productivity and innovation.

Market failure may occur when a firm or a small group of firms has significant monopoly power, allowing them to manipulate prices and output levels. Monopolies can lead to reduced competition, higher prices, and a misallocation of resources, as the monopolistic entity has the ability to influence the market without facing adequate competitive pressures.

Misleading or manipulative advertising can also contribute to market failure. If advertising creates false perceptions or biases in consumer choices, it may lead to inefficient resource allocation. Consumers may make decisions based on inaccurate or incomplete information, resulting in suboptimal outcomes for both individuals and society.

In both cases, market failure is characterized by an inefficient allocation of resources, where the market does not produce the right quantity of goods or services, or does not produce them at the lowest possible cost. These inefficiencies can lead to suboptimal outcomes for society, and interventions such as regulations, taxes, or subsidies may be necessary to address these market failures.

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(b)In a mixed economic system, resources are allocated through a combination of both market forces and government intervention. Here are the key points to understand how resource allocation occurs in such a system:

In the public sector, which includes government-owned entities and services, resource allocation is primarily determined by government decisions and directives. Government authorities assess public needs, make decisions on what goods and services to provide, and allocate resources accordingly.

State-owned enterprises play a significant role in the public sector. These entities are often responsible for the production of goods and services deemed essential for the public welfare, such as education, healthcare, and infrastructure.

Government intervention in resource allocation aims to address market failures. In cases where the market does not efficiently allocate resources or where certain goods have external benefits or costs, the government steps in to correct these inefficiencies and ensure the provision of public goods.

In the private sector, which encompasses privately-owned businesses and enterprises, resource allocation is largely determined by market forces operating through the price mechanism. The interaction of supply and demand in the market sets prices, signaling producers and consumers about what and how much to produce or consume.

Private firms respond to consumer demand, and the preferences of consumers, known as consumer sovereignty, guide the production decisions of these firms. If consumers demand a particular good or service, firms have the incentive to produce and supply it in order to maximize profit.

The pursuit of profit serves as a powerful incentive for private firms. Firms are motivated to produce goods and services that consumers value because, in a competitive market, meeting consumer demands leads to increased sales and profitability. This profit motive is a key driver of efficiency and innovation in the private sector.

In summary, in a mixed economic system, resources are allocated through a combination of government intervention and market forces. The public sector, through government decisions and state-owned enterprises, addresses societal needs and overcomes market failures. In the private sector, the price mechanism, firms responding to consumer demands, and the profit motive collectively guide the efficient allocation of resources based on market signals and consumer preferences.

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(c)

A high rate of inflation can have detrimental effects on the poor in various ways, exacerbating economic challenges and contributing to social inequality. Here's an analysis of how inflation may harm the poor:

Inflation tends to raise the prices of basic necessities such as food, housing, and healthcare. For the poor, who spend a significant portion of their income on these essentials, the rise in prices reduces their purchasing power.As the cost of necessities increases, individuals with limited financial means may struggle to afford essential goods and services, potentially pushing them into a state of absolute poverty.

Inflation erodes the real value of money over time. The poor who have savings may see the purchasing power of their savings diminish. Diminished savings reduce the ability of the poor to access essential services such as healthcare, education, and housing, as the cost of these services may outpace the growth of their savings.

Inflation can lead to economic uncertainties and reduce investment, potentially limiting job opportunities for the poor.

High inflation can lead to reduced economic output as businesses face increased costs. This, in turn, may lead to lower job creation and opportunities for the poor.

Reduced economic output and increased costs may result in higher unemployment rates, making it more challenging for the poor to find employment.

Inflation can adversely impact a country's international competitiveness, making it more difficult for businesses to thrive and expand. This, in turn, can limit job opportunities for the poor.

Inflation reduces the purchasing power of fixed-amount state benefits such as pensions or unemployment benefits.

For individuals dependent on these benefits, the reduction in real value can lead to financial strain, making it harder to meet basic needs.

The poor may be less likely to belong to trade unions, which can be a crucial avenue for collective bargaining and advocating for workers' rights.

A reduced presence in trade unions diminishes the ability of the poor to collectively negotiate for better wages and working conditions, perpetuating income inequality.

In summary, a high rate of inflation can harm the poor by diminishing their purchasing power, eroding savings, limiting access to essential services, reducing job opportunities, and creating economic conditions that make it more difficult for them to improve their financial well-being. Addressing inflation is essential for promoting economic stability and safeguarding the welfare of vulnerable populations.

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(d)Increasing Government Spending: Possibilities and Challenges

Why Increasing Government Spending Might Achieve Aims :

Higher government spending can boost total (aggregate) demand in the economy as public sector expenditure filters through various sectors.T he boost in demand may encourage firms to increase production, leading to economic growth. This, in turn, can contribute to job creation, potentially reducing unemployment.

Government spending on healthcare can enhance living standards and life expectancy, contributing to overall social welfare.

Investments in education can not only improve human capital but also lead to better environmental awareness and standards.

Government subsidies can enhance labour productivity by reducing costs for businesses. This, in turn, may lead to increased production efficiency and lower cost-push inflation.

Lowering production costs can improve international competitiveness, potentially benefiting the economy by attracting more export orders and improving the current account position. Government spending on state benefits, when targeted effectively, can reduce income inequality and raise living standards for those in need.

Why Increasing Government Spending Might Not Achieve Aims

If the total supply of goods and services does not increase in line with the rise in total demand caused by higher government spending, it can lead to inflationary pressures.

Inflation can erode purchasing power, offsetting some of the intended benefits of increased spending.

Some of the additional income generated from government spending might be spent on imports, contributing to a potential widening of the current account deficit.

While domestic demand increases, a disproportionate share of the economic activity may benefit foreign producers, impacting the country's trade balance.

An increase in government spending on unemployment benefits may inadvertently lead to an increase in voluntary unemployment, as individuals might be less motivated to actively seek employment if benefits are perceived as more attractive.

In summary, while increasing government spending has the potential to achieve various economic aims such as stimulating demand, improving social welfare, and enhancing competitiveness, careful consideration is required to avoid unintended consequences like inflation, trade imbalances, and potential negative impacts on unemployment dynamics. The effectiveness of government spending depends on how well it is targeted, the economic context, and the overall policy framework.

7 The price elasticity of demand (PED) for sugar in most countries is less than 1. In 2017, the price of sugar fell. However, the price of specialised, higher quality sugar grown in countries such as Mauritius fell by less than the average global price. Efficient producers, such as some farmers in Brazil that have a low fixed cost of production, were also less affected by the fall in price.

(a) State the formula used to calculate PED. [2]

(b) Explain **two** reasons why the price of sugar may fall. [4]

(c) Analyse the possible reasons why a producer's fixed cost may increase. [6]

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(a)

$$PED = \frac{\text{Change in Quantity Demanded}}{\text{Change in Price}}$$

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(b) the price of sugar can fall due to various factors affecting both demand and supply. Here are two reasons, considering the interplay of demand and supply factor

Demand Factors

A decline in consumer income leads to reduced purchasing power. As a result, consumers may cut back on discretionary spending, including items like sugar. This decrease in demand due to lower income levels can contribute to a lower price for sugar.

If there is a decline in the population, there will be fewer consumers in the market. With a smaller consumer base, the overall demand for sugar may decrease, putting downward pressure on its price.

Changes in consumer preferences and tastes can significantly impact the demand for certain goods, including sugar. If people find sugar less appealing due to changing tastes or Increasing awareness and concern about the health risks associated with consuming sugar may lead to a shift in consumer preferences. If people become more health-conscious and reduce their sugar intake, the overall demand for sugar may decrease, resulting in a lower market price.

Sugar is often used as a complement in certain food and beverage products, such as tea. If the price of a complement, like tea, increases, consumers may choose to consume less of that product, indirectly reducing the demand for sugar used in conjunction with it. A decrease in demand for sugar can contribute to a lower market price.

If there is a decrease in the price of a substitute for sugar, such as sweeteners, consumers may switch to the cheaper alternative. This substitution effect can lead to a decrease in demand for sugar and a subsequent decrease in its price.

Supply Factors:

A reduction in the costs of production for sugar, such as advancements in technology or more efficient farming practices, can make it more profitable for producers to increase their output. This increase in supply, driven by lower production costs, can contribute to a decrease Government subsidies provided to sugar producers act as a financial incentive for them to expand production. Subsidies effectively lower the production costs for sugar producers, encouraging them to supply more sugar to the market. An increase in supply due to subsidies can lead to a reduction in the price of sugar.

A reduction in indirect taxes on sugar, such as a decrease in sales or excise taxes, can lower the overall costs for producers. With reduced taxes, producers may find it more profitable to increase their supply of sugar, contributing to a potential decrease in the market price.

Favorable weather conditions can positively impact crop yields and reduce the likelihood of crop losses during harvesting. This increase in the quantity of sugar produced due to good weather conditions can contribute to higher supply, resulting in a potential decrease in the price of sugar.

An increase in the number of firms producing sugar can lead to greater competition in the market. With more players in the industry, each firm may strive to attract consumers by offering lower prices. The intensified competition can contribute to a decrease in the overall price of sugar.

In summary, a combination of factors influencing both demand and supply contributes to the potential decrease in the price of sugar. Changes in consumer preferences, health considerations, and economic factors, along with advancements in production techniques and government interventions, can collectively impact the equilibrium price of sugar in the market.

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(c)let's analyze the possible reasons why a producer's fixed cost may increase:

Fixed costs are costs that do not vary with the level of output in the short run. Rent is a classic example of a fixed cost for a producer, as it remains constant regardless of the quantity produced.

If landlords decide to charge more for factories and offices, the fixed cost associated with rent will increase. This could be due to factors such as changes in property market conditions, increased demand for space, or general economic factors influencing rental prices.

Insurance is another fixed cost that remains constant in the short run, irrespective of production levels.

If the amount charged for insurance increases, it would contribute to a rise in fixed costs. Insurance companies may seek higher profits or adjust premiums based on changes in their own costs, such as increased claim payouts or higher operating expenses.

Interest on loans is a fixed cost as long as the interest rate remains constant over the short run.

An increase in the interest rate, perhaps influenced by actions taken by the central bank, can lead to higher interest payments on loans. This rise in interest costs would contribute to an increase in the producer's fixed costs.

Fixed capital costs, associated with the purchase of long-term assets like machinery and equipment, contribute to a producer's fixed costs.

If a firm decides to move to a larger factory, change its production process, or invest in more capital goods, the associated fixed capital costs will increase. These costs are incurred independently of the level of output.

Inflation can have a pervasive impact on various costs within the economy, including fixed costs.

Inflation may lead to increased costs across the board, affecting expenses like rent, insurance, and interest payments. This general rise in the price level can contribute to an overallncrease in a producer's fixed costs.

In conclusion, a producer's fixed costs may increase due to various factors, ranging from external economic conditions such as inflation and interest rate hikes to specific business decisions such as moving to a larger facility or changes in the rental and insurance landscape. Understanding these factors is crucial for businesses to make informed decisions and adapt to changing cost structures in the short run.

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(d)Benefits of Specializing in an Agricultural Product such as Sugar:

Specialization in sugar production allows for focused expertise and efficient use of resources. Workers may be well trained in sugar production processes, leading to increased productivity.

Specialization often enables the exploitation of economies of scale. Large-scale sugar production can lead to lower average costs, resulting in a competitive advantage and potentially lower prices.

By exporting more sugar and potentially reducing the need for importing competing products, the country can improve its current account balance, contributing to economic stability.

If the country has a suitable climate for growing sugar beet or cane, it can achieve higher yields and better-quality crops, leading to increased economic growth.

Agricultural activities, including sugar production, tend to be labor-intensive. Specialization in sugar can create employment opportunities for a significant number of workers, contributing to overall economic development.

Specializing in sugar production and consistently delivering high-quality products can enhance the country's reputation in the international market. This reputation can increase demand for its agricultural products.

If there is a sustained high demand for sugar, the country can benefit from a reliable market for its specialized product, leading to increased revenue and economic growth.

Drawbacks of Specializing in an Agricultural Product such as Sugar:

Demand for sugar may be subject to changes in consumer preferences. A shift in tastes or the rise of competitors offering alternative products could lead to a decline in demand.

Specializing in agriculture exposes the country to supply risks such as bad weather conditions or diseases that could adversely affect sugar production, leading to reduced supply and potential economic setbacks.

Agricultural products often have a lower income elasticity of demand compared to manufactured goods and services. As income rises, consumers may shift towards spending on non-agricultural products, potentially limiting revenue growth.

While economies of scale can be an advantage, there is a risk of diseconomies of scale as production scales up. Agricultural production may face challenges that reduce efficiency as scale increases.

Agricultural products often face more trade restrictions, including tariffs and non-tariff barriers. This can make it more challenging for the country to export its agricultural products.

Market prices of agricultural products, including sugar, tend to be more variable. Farmers may face uncertainty in predicting income, which can impact the stability of the agricultural sector.

Depending solely on one agricultural product makes the country vulnerable to external factors. It may become overly dependent on other countries for products it does not produce, leading to economic risks.

In conclusion, while specializing in sugar production can offer several benefits such as efficiency gains and employment creation, it also poses risks related to demand and supply fluctuations, trade restrictions, and dependency on a single commodity. A balanced approach to diversification and risk management is crucial for maximizing the advantages and minimizing the drawbacks of specializing in an agricultural product like sugar.