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Cambridge IGCSE™

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ECONOMICS **0455/21**

Paper 2 Structured Questions **May/June 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 [ ].

APPROVED
By Smart Edu Hub at 8:30 am, May 24, 2023

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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: Cyprus

Cyprus fact file	2015	2019
Life expectancy (years)	79	81
GDP per head	$23 334	$27 900
Population	1 100 000	1 200 000
Birth rate (per 1000)	11.0	10.2

Cyprus is a small country which had a relatively high HDI ranking in 2019. It exports a range of goods and services including fruit, pharmaceuticals and clothing. Cyprus imports the majority of the food it consumes but produces most of its own grapes and potatoes. In 2019, the global grape harvest was affected by bad weather. Global grape production fell by 35% which caused a shortage.

Approximately 14% of Cyprus's labour force is employed in the primary sector. The average age of Cyprus's workers is increasing and more of them are now working past retirement age. This is particularly true of highly qualified workers who tend to be well-paid, healthy and have jobs that do not require physical strength.

The rise in life expectancy and the increase in the cost of providing state pensions led some economists to suggest a rise in the retirement age. Such a change would have an impact on the government's budget balance. In 2019, the Cypriot government had a budget surplus. In contrast, Cyprus had a deficit on the current account of its balance of payments. The size of a country's current account balance can be influenced by its inflation rate. Fig. 1.1 shows selected countries' inflation rates (%) and current account balances (% of GDP) in 2019.

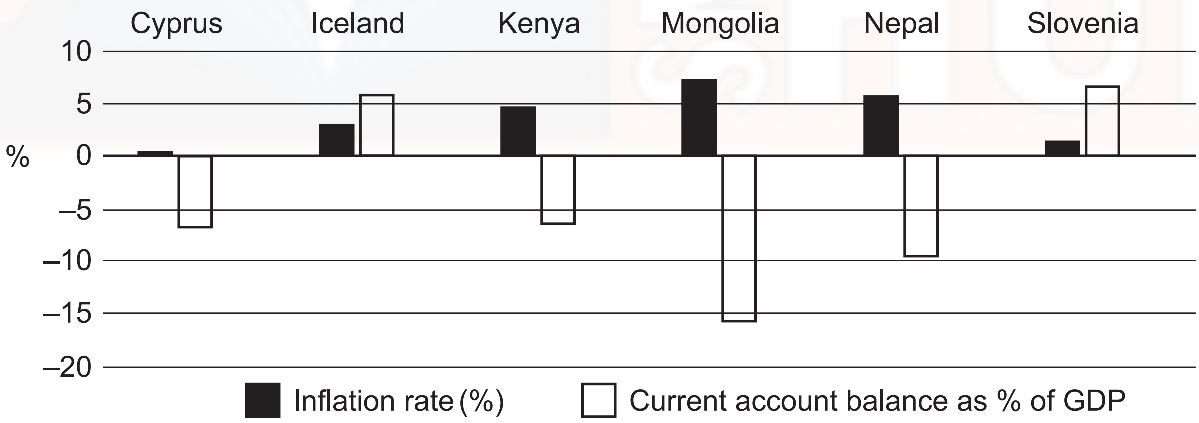

Fig. 1.1 Inflation rates (%) and current account balances (% of GDP) in selected countries 2019

The interest rate in Cyprus was very low in 2019. It was expected that this would influence the country's investment. Since 2015, some of the country's firms have become more capital-intensive. This change has affected Cyprus's productivity and may have influenced the standard of products produced.

In 2019, two concerns for the future of Cyprus's economy were that the quality of some of its agricultural land may decline and that some of its top entrepreneurs may emigrate.

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

1 **(a)** Calculate the number of births in Cyprus in 2019. 12240 [1]

(b) Identify **two** indicators of living standards. [2]

(c) State why the global market for grapes was in disequilibrium in 2019. [2]

(d) Explain **two** reasons why more well-educated workers tend to work past retirement age than less-educated workers. [4]

(e) Analyse how a rise in a country's retirement age is likely to affect its government's budget. [4]

(f) Analyse the relationship between inflation rates and current account balances. [5]

(g) Discuss whether or not, after 2019, Cyprus's production possibility curve (PPC) is likely to shift to the right. [6]

(h) Discuss whether or not adopting capital-intensive production will benefit consumers. [6]

1(a) :
Number of Births = Crude Birth Rate * Population / 1000
[10.2 x 1200 000]/1000

1(b): Two indicators of living standards are:

1. GDP per capita (or GDP per head).
2. HDI (Human Development Index

Other indicators could be:

- Life expectancy / healthy people
- Proportion of people in primary sector
- Level of education / qualifications

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1(d)

The global market for grapes was in disequilibrium in 2019 due to bad weather or the failure of the grape harvest. This resulted in a shortage of grapes, meaning that the demand for grapes exceeded the available supply.

1(d)

Two reasons why more well-educated workers tend to work past retirement age than less-educated workers are:

,Well-paid and good work benefits'. Well-educated workers often have higher-paying jobs and better work benefits compared to less-educated workers. This financial incentive provides them with a motivation to continue working past the retirement age. They may have higher job satisfaction and enjoy the perks and rewards that come with their well-compensated positions. Additionally, some well-educated workers may have entered the workforce later in life due to pursuing advanced degrees, which means they have fewer years of accumulated savings and may need to work longer to secure their financial future.

'Health and physical capability' Well-educated workers often have access to better healthcare and tend to prioritize their well-being. They are more likely to engage in healthier lifestyles, which can contribute to their overall physical health and fitness. This better health status allows them to continue working for longer periods and remain productive. Furthermore, well-educated workers are more likely to be employed in jobs that do not require intense physical labor or are less physically demanding. This enables them to sustain their work performance and extend their working lives, as they are not as affected by age-related declines in physical strength.

These factors contribute to the higher tendency of well-educated workers to work past retirement age, as they have the financial incentives, better health, and job characteristics that support continued employment.

1(e)

A rise in a country's retirement age is likely to affect its government's budget in the following ways.

'Reduced pension costs'. Increasing the retirement age means that fewer people will be eligible to receive pensions at an earlier age. This leads to a reduction in pension costs for the government. As individuals work for a longer period before retiring, the government will have to pay pensions for a shorter duration, resulting in potential savings. This can help alleviate the financial burden on the government's budget.With reduced pension costs, the government may have additional funds available to allocate towards other areas such as infrastructure development, education, or healthcare. By redirecting the saved funds, the government can invest in initiatives that contribute to economic growth, improve public services, and address societal needs. This reallocation can have positive impacts on various sectors and stimulate economic activity.

'Increased tax revenue'. A rise in the retirement age means more people will remain in the workforce and continue earning income. This leads to an increase in direct tax revenue as individuals pay income taxes for an extended period. Moreover, with more people working and businesses expanding their production, there is a boost in economic activity, resulting in higher indirect tax revenue through increased consumption and sales. The increased tax revenue can contribute to the government's budget and potentially offset any additional expenditures associated with an aging population.

However, it is essential to consider the potential counter-effects and challenges. For example, a rise in the retirement age may lead to higher unemployment rates among younger individuals seeking job opportunities, which can impact the government's spending on unemployment benefits or job creation initiatives. Additionally, the government must ensure that the infrastructure and support systems are in place to accommodate an aging workforce, including provisions for healthcare, training, and workplace adaptability.

Overall, a rise in the retirement age can have a mixed impact on the government's budget, with potential reductions in pension costs and opportunities for reallocation of funds, accompanied by the need to address associated challenges and ensure a supportive environment for an aging workforce.

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1(f)

The relationship between inflation rates and current account balances can generally be characterized by an inverse relationship. In other words, the lower the inflation rate, the higher the current account surplus, and conversely, the higher the inflation rate, the higher the current account deficit.

Supporting evidence from specific countries reinforces this relationship. For example, Mongolia exhibits the highest inflation rate and the largest current account deficit, indicating a correlation between higher inflation and a negative current account balance. Similarly, countries like Kenya and Nepal, which also have high inflation rates, experience current account deficits. On the other hand, countries such as Iceland and Slovenia have low inflation rates but maintain a current account surplus. This aligns with the expected inverse relationship, as lower inflation rates contribute to their positive current account balances.

However, there may be exceptions to this general trend. For instance, Cyprus has the lowest inflation rate but still faces a current account deficit, even ranking as the third-highest in terms of deficit. This anomaly suggests that other factors beyond inflation rates, such as trade patterns, investment flows, or fiscal policies, may influence a country's current account balance.

Overall, the majority of cases align with the expected relationship, where lower inflation rates contribute to higher current account surpluses, while higher inflation rates are associated with larger current account deficits. The competitiveness of a country's products in international markets can be influenced by inflation rates, with low inflation making products more price competitive and high inflation potentially reducing price competitiveness.

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By Smart Edu Hub at 8:31 am, May 24, 2023

1(g)

After 2019, the production possibility curve (PPC) of Cyprus may or may not shift to the right. Let's explore the logical reasons why it might shift to the right and why it might not.

Here are the reasons why the PPC might shift to the right:

'Increase in Quantity and Quality of Resources:'.If Cyprus experiences an increase in the quantity and quality of its resources, such as natural resources, skilled labor, or technological advancements, it can lead to a higher productive capacity. For example, if new oil reserves are discovered or if there is an improvement in technology, it can enhance productivity and shift the PPC to the right.

'Increase in Investment' If there is an increase in investment due to low interest rates, it can result in the acquisition of more capital goods and infrastructure. This expansion in capital stock can boost productive capacity and lead to a shift in the PPC.

Here are reasons why the PPC might not shift to the right:

'Decrease in Quantity and Quality of Resource' If Cyprus experiences a decrease in the quantity and quality of its resources, such as declining land quality or depletion of natural resources, it can hamper productivity and limit the potential for economic growth. This can result in a stagnant or leftward shift of the PPC.

'Emigration of Entrepreneurs'. If skilled entrepreneurs and workers emigrate from Cyprus, it can reduce the availability of skilled labor and entrepreneurial talent. This can negatively impact productivity and hinder the country's ability to shift the PPC to the right.

'Declining Birth Rate and Aging Workforce' If the birth rate in Cyprus continues to fall and the population ages, it can lead to a shrinking labor force in the future. A smaller workforce can limit the productive capacity of the economy and constrain the shift of the PPC.

'Productivity Effects of COVID-19' The COVID-19 pandemic has had significant impacts on economies worldwide. Cyprus may have experienced disruptions in production, reduced economic activity, and lower productivity due to lockd-owns and restrictions. These effects can impede the shift of the PPC or even cause a leftward shift.

It's important to recognize that any combination of these reasons could result in the PPC shifting to the right, remaining unchanged, or even shifting to the left. The actual outcome would depend on the specific circumstances and developments in Cyprus's economy.

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1(h)

Adopting capital-intensive production can potentially benefit consumers, but it may also have drawbacks. Let's explore the reasons why it might benefit consumers and the reasons why it might not.

Reasons why adopting capital-intensive production might benefit consumers:

Cost Reduction and Lower Prices: Capital-intensive production methods often result in increased efficiency and economies of scale. This can lead to lower production costs, and ultimately, lower prices for consumers. The reduced costs can make products more affordable and accessible to a wider range of consumers.

Supply Stability: Capital-intensive production methods are less likely to be disrupted by factors like industrial action or strikes. This means that the supply of goods can be more stable and consistent, ensuring that consumers have access to the products they need without disruptions or shortages.

Responsiveness to Consumer Demand: Capital-intensive production processes can be quicker and more responsive to changes in consumer demand. The use of advanced machinery and automation allows for faster production and adjustment to shifts in consumer preferences. This agility in responding to demand can ensure that consumers have access to the products they desire in a timely manner.

Improved Quality: Capital-intensive production methods can minimize human error and increase precision, leading to improved product quality. Automated processes can enhance consistency and accuracy in production, resulting in products that meet higher quality standards and provide better value for consumers.

Reasons why adopting capital-intensive production might not benefit consumers:

Lack of Variety: Capital-intensive production methods often focus on standardized and uniform products. This can limit the variety of options available to consumers, potentially failing to meet individual preferences and specific needs. Consumers may prefer a broader range of choices, and capital-intensive production may not adequately cater to their diverse demands.

Equipment Breakdown and Maintenance Costs: Capital-intensive production relies heavily on machinery and equipment. If the equipment breaks down or requires frequent maintenance, it can cause delays in production and impact the availability of goods for consumers. Maintenance costs can also add to the overall production costs, potentially resulting in higher prices for consumers.

High Initial Capital Investment: Adopting capital-intensive production requires a significant upfront investment in machinery and technology. These initial costs can be substantial and may lead to higher prices for consumers initially as the business seeks to recover its investment. Higher prices may limit consumer affordability and access to the products.

It's important to note that the actual impact on consumers will depend on various factors, including the specific industry, market conditions, and the ability of firms to balance cost efficiencies with consumer preferences.

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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 Australia's foreign exchange rate fluctuates. The value of Australia's exports is regularly greater than the value of its imports. Australia is Papua New Guinea's main trading partner. In 2019, the government of Papua New Guinea increased income tax to reduce its inflation rate. It used other policy measures to increase its economic growth rate.

(a) Define *foreign exchange rate*. [2]

(b) Explain **two** reasons why the value of a country's exports may be greater than the value of its imports. [4]

(c) Analyse how an increase in income tax can affect a country's inflation rate. [6]

(d) Discuss whether or not governments should aim for a high rate of economic growth. [8]

2(a)

Foreign exchange rate refers to the price or value of one currency in relation to another currency or currencies.

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2(b)

There are several reasons why the value of a country's exports may be greater than the value of its imports:

Price of exports may be lower than the price of other countries' products: When a country's exports are priced competitively compared to similar products from other countries, it can attract more buyers and increase its export volume. This can be achieved through various factors such as devaluation or depreciation of the country's currency, which lowers the price of exports in terms of other currencies. Additionally, higher productivity and lower inflation rates can contribute to lower production costs and hence lower export prices, making the country's products more attractive in international markets.

Quality of exports may be higher than the quality of other countries' products: If a country invests in improving the quality of its products, it can gain a competitive edge in international trade. Factors such as increased investment in production technologies, better education and training of the workforce, and specialization in certain industries can result in higher-quality exports. When a country's products are perceived as superior in terms of quality, they can command higher prices and attract more demand in global markets.

Incomes abroad may have increased: When the incomes of foreign consumers increase, they have greater purchasing power to buy products from other countries. If a country's exports cater to the preferences and needs of foreign consumers and there is an increase in their disposable incomes, it can lead to a higher demand for the country's products. This can result in a favorable trade balance with exports surpassing imports.

Protective measures: Governments may implement protective measures to restrict imports or provide subsidies to domestic firms or exports. These measures can give a competitive advantage to domestic industries, leading to higher export volumes compared to imports. By implementing trade barriers or supporting domestic industries, a country can promote its own products and limit competition from foreign imports.

High-value exports: If a country has valuable resources or commodities in high demand globally, such as oil or natural resources, it can generate substantial export revenues. The high demand for these products, often driven by global market conditions, can contribute to a trade surplus as the value of exports exceeds that of imports.

Recession or low demand at home: During economic downturns or periods of low domestic demand, businesses may seek opportunities in international markets to sustain their operations. This can lead to an increase in exports as firms actively target foreign markets to compensate for the sluggish domestic demand. In such cases, the value of exports can surpass imports, resulting in a favorable trade balance.

It is important to note that these reasons may vary depending on the specific circumstances and characteristics of each country's economy.

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2(c) An increase in income tax can have implications for a country's inflation rate. Here's an analysis of how such an increase can affect inflation:

One is 'Reduction in disposable income and consumer spending' When income tax is increased, individuals have less disposable income available for spending. This reduction in purchasing power can lead to a decrease in consumer spending, particularly on non-essential goods and services. As a result, the total demand in the economy may decrease. With lower demand, firms may face pressure to reduce prices or limit price rises to attract customers. This can contribute to a decrease in demand-pull inflation, which is driven by excessive aggregate demand.

Two, 'Wage pressure and cost-push inflation' Higher income tax rates can also impact the behavior of workers. When individuals experience a decrease in take-home pay due to increased income tax, they may be more inclined to demand wage increases to maintain their standard of living. If firms agree to these wage demands, it leads to higher labor costs for businesses. This, in turn, can result in cost-push inflation, as increased production costs are passed on to consumers through higher prices.

Three, 'Utilization of income tax revenue for subsidies' The revenue generated from income tax can be used by the government to provide subsidies on certain goods and services. These subsidies can effectively reduce the prices of those goods, making them more affordable for consumers. By reducing the cost of essential goods or services through subsidies, the overall inflation rate may be influenced, as the prices of subsidized items may not increase at the same rate as other goods and services in the economy.

It's important to note that the impact of an increase in income tax on inflation is not solely determined by these factors. Various other economic conditions and government policies can also influence inflationary pressures. Additionally, the effectiveness of income tax changes in impacting inflation depends on the magnitude of the tax increase, the overall tax structure, and the responsiveness of individuals, businesses, and the government to such changes.

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2(d) Discuss whether or not governments should aim for a high rate of economic growth. [8]

The question of whether governments should aim for a high rate of economic growth is a complex one, and both perspectives have valid arguments. Let's examine the reasons for and against pursuing high economic growth:

Here is why governments should aim for high economic growth:

One, Economic growth has the potential to increase incomes for individuals and households. When an economy expands, businesses generate higher profits, which can lead to wage increases and higher employment opportunities. This, in turn, can enhance people's living standards and overall well-being.

Two, Higher incomes resulting from economic growth can contribute to improved living standards. With increased purchasing power, individuals can afford better-quality goods and services, access improved healthcare, and invest in education and personal development.

Three, Economic growth often leads to job creation, reducing unemployment rates and providing opportunities for individuals to secure stable employment. This contributes to social stability and reduces dependency on government welfare programs.

Four, Economic growth generates higher tax revenues for the government, enabling increased spending on critical areas such as education, healthcare, infrastructure, and social welfare programs. This can enhance public services and contribute to long-term societal development.

Also, here is why governments should be cautious about high economic growth:

One, Pursuing rapid economic growth can lead to the overexploitation and depletion of non-renewable resources. If natural resources are not managed sustainably, it can undermine future economic growth potential and harm the environment.

Two, Environmental pollution: Rapid economic growth, particularly in industries with high pollution levels, can result in environmental degradation. This can have detrimental effects on public health, ecosystems, and long-term sustainability.

Three, High economic growth may put increased demands on workers, leading to longer working hours and potential negative consequences for work-life balance, health, and well-being. It is crucial to ensure that growth is accompanied by fair labor practices and sufficient worker protections.

Four, Excessive focus on economic growth without careful management can result in a deficit in the current account of the balance of payments. This implies that a country is importing more goods and services than it is exporting, potentially leading to economic imbalances and vulnerabilities.

Five, hile economic growth has the potential to benefit society as a whole, it may not necessarily result in equitable distribution of wealth. If the benefits of growth primarily accrue to a small portion of the population, it can exacerbate income and wealth inequality, leading to social and economic disparities.

Six, Rapid economic growth, especially if it outpaces productive capacity, can create inflationary pressures. Excessive inflation erodes purchasing power and can have adverse effects on individuals' savings, particularly those with fixed incomes.

In conclusion, the pursuit of high economic growth should be carefully balanced with considerations of sustainability, environmental impact, social well-being, and equitable distribution of benefits. Governments should adopt comprehensive policies and strategies that promote inclusive and sustainable growth, ensuring that the negative consequences associated with rapid growth are minimized while maximizing the positive impacts on living standards and societal development.

3 Trade union membership is much higher in Sweden than in most countries. In 2019, 70% of Swedish workers were members of a trade union. More than 85% of Swedish workers are employed in the tertiary sector, compared with only 2% in the primary sector. Swedish workers spend their incomes on a variety of products some of which, e.g. sweets, are demerit goods. Sweden has the 7th highest per head consumption of sweets in the world.

(a) Identify **two** influences on what products a person buys. [2]

(b) Explain **two** ways a government could decrease the consumption of demerit goods. [4]

(c) Analyse why workers may join a trade union. [6]

(d) Discuss whether or not tertiary sector workers are paid more than primary sector workers. [8]

[Only 2 are needed for scoring full marks]

3(a) Two influences on what products a person buys can be price and tastes/habits/culture. Additionally, advertising, income, availability, and social media/influencers also play significant roles in shaping consumer choices.

Price is a crucial factor that influences purchasing decisions. Consumers often consider the affordability and value for money when selecting products. Lower-priced items may be more appealing to individuals with limited budgets, while higher-priced products may attract those who prioritize quality or luxury. For example, a person with a limited income might opt for a generic brand of cereal over a more expensive, well-known brand.

Personal tastes, habits, and cultural influences strongly impact product choices. Consumer preferences, developed over time based on individual likes and dislikes, greatly shape purchase decisions. Cultural factors such as traditions, customs, and societal norms also influence what products individuals buy. For instance, someone who grew up in a culture that favors spicy foods may have a preference for purchasing hot sauces or spices.

Advertising plays a significant role in shaping consumer behavior. Advertisements create awareness, influence perceptions, and promote products or services. Companies strategically design advertisements to appeal to target audiences, employing persuasive techniques to encourage purchases. Effective advertising campaigns can sway consumer preferences and lead individuals to choose specific products over others.

A person's income level significantly impacts their purchasing power and the types of products they can afford. Higher income individuals may have a wider range of choices and may be more inclined to purchase premium or luxury items. On the other hand, individuals with lower incomes may be more price-conscious and seek out more affordable options. Income influences the quality, brand, and quantity of products a person can buy.

The availability of products also affects consumer buying decisions. If a product is readily accessible and easily obtainable, consumers are more likely to purchase it. Conversely, if a product is scarce or difficult to find, individuals may explore alternative options or wait until it becomes available. Availability can be influenced by factors such as distribution channels, geographical location, and seasonal demand.

In today's digital era, social media platforms and influencers have a substantial impact on consumer choices. Individuals often rely on recommendations and reviews from influencers or their peers on social media to guide their purchasing decisions. Influencers, who are trusted by their followers, endorse products and provide insights, creating a sense of trust and familiarity. This influence can sway consumers towards specific brands or products.

It's important to note that these influences can vary in their significance depending on individual preferences, demographics, and specific circumstances. People make purchasing decisions based on a combination of these factors, which interact and influence their overall consumer behavior.

Note: Only 2 ways are needed:

3(b)Demerit goods refer to products or services that are considered to have negative effects on individuals or society. These goods are often associated with harmful consequences such as health risks, environmental damage, or social problems. Here are some examples of demerit goods. Examples include,Tobacco Products, Alcoholic Beverages, Sugary Drinks and Junk Food, Gambling Services, illegal Drugs and certain harmful chemicals. It is important to note that the classification of goods as demerit goods can vary across societies and may evolve over time as scientific knowledge and societal values change.

Governments often intervene to regulate or discourage the consumption of demerit goods in order to protect public health, promote responsible behavior, and mitigate the negative impacts associated with these products.

Governments have multiple strategies at their disposal to effectively decrease the consumption of demerit goods, which are products considered to have negative effects on individuals or society. By implementing a combination of approaches, governments can tackle this issue comprehensively and promote healthier choices among the population.

One way to discourage the consumption of demerit goods is by imposing an (indirect) tax or tariff on these products, effectively raising their prices. By increasing the cost of demerit goods, governments aim to make them less affordable and reduce their appeal to consumers. For example, higher taxes on cigarettes and tobacco products make them more expensive, discouraging smoking and promoting public health.

Another approach is to provide information about the harmful effects of demerit goods. Governments play a vital role in educating the public by disseminating accurate and comprehensive information. This can be achieved through public awareness campaigns, advertisements, and mandatory warning labels. For instance, warning labels on alcohol containers or graphic images on cigarette packages inform consumers about the health risks associated with these products, encouraging them to make more informed decisions and potentially reduce their consumption.

In addition, governments may choose to regulate or even ban the production, distribution, or sale of demerit goods. This strategy limits the availability and accessibility of these products, thus reducing their consumption. Governments can implement regulations such as age limits, licensing requirements, or restrictions on advertising. For example, strict regulations on the sale and distribution of drugs or the prohibition of certain substances are aimed at curbing substance abuse and protecting public health.

Furthermore, governments can utilize measures such as setting minimum prices above the market price or imposing import quotas. By raising prices through minimum pricing, governments aim to deter consumers from purchasing demerit goods. Import quotas restrict the quantity of these goods that can be imported, reducing their availability for purchase and potentially curbing consumption. For example, a government may implement a minimum price policy on alcoholic beverages to discourage excessive drinking or impose an import quota on sugary snacks to promote healthier eating habits.

By employing a combination of these approaches, governments create a comprehensive strategy to decrease the consumption of demerit goods. This multi-faceted approach includes imposing taxes/tariffs to raise prices, providing information about harmful effects, implementing bans/regulations to reduce availability, and using measures like minimum pricing and import quotas to further discourage consumption. Through these efforts, governments can mitigate the negative impacts of demerit goods and foster healthier lifestyles among the population.

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By Smart Edu Hub at 8:33 am, May 24, 2023

3(c)

Workers may join a trade union for various reasons, each of which highlights the benefits and advantages of union membership. Here is an analysis of why workers may choose to join a trade union, encompassing the points provided:

Understanding of the role of trade unions to gain greater bargaining power through industrial action and to negotiate with employers: Trade unions are formed to collectively represent workers' interests and enhance their bargaining power. By joining a union, workers can pool their resources, voice their concerns collectively, and engage in collective bargaining with employers. This allows them to negotiate for better wages, improved working conditions, and benefits. Through the threat or actual use of industrial action, such as strikes or work stoppages, unions can exert pressure on employers to meet their demands.

Seeking higher wages, better working conditions, health and safety, and fringe benefits: One of the primary motivations for workers to join a trade union is to improve their economic and working conditions. Unions negotiate with employers on behalf of their members to secure fair wages, reasonable working hours, adequate health and safety standards, and additional fringe benefits. By being part of a union, workers have a stronger voice and are more likely to achieve favorable outcomes in these areas.

Representation in disputes with employers and protection of rights: Trade unions play a crucial role in representing workers during disputes with employers. They provide legal and practical support to employees facing issues like unfair dismissal, workplace discrimination, or other violations of their rights. By joining a union, workers gain access to legal representation, advice, and protection against unjust treatment by employers. Unions also work towards increasing job security and advocating for compensation in cases of work-related injuries.

Furthermore, workers may join a trade union to gain greater influence on the government. Unions often lobby and engage in political activism to shape government policies that benefit workers. They may advocate for measures such as increasing the national minimum wage, improving job opportunities, and promoting worker-friendly legislation. By being part of a union, workers have a collective platform to voice their concerns and influence policy decisions.

Additionally, trade unions provide various services to their members, further incentivizing workers to join. These services may include training courses to enhance skills and employability, initiatives to improve health and safety standards in the workplace, and access to benefits like discounts at gyms or financial and legal advice. These additional services contribute to the overall value proposition of union membership.

In summary, workers join trade unions to gain greater bargaining power, negotiate with employers, and secure better wages, working conditions, and benefits. They seek representation and protection in disputes with employers, increased job security, and compensation for work-related injuries. Union membership also offers the opportunity to influence government policies and access various services that support workers' well-being and professional development.

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By Smart Edu Hub at 8:33 am, May 24, 2023

3(d) The comparison of wages between tertiary sector workers and primary sector workers can vary depending on various factors. Here is a discussion of the points mentioned, highlighting reasons why tertiary sector workers might be paid more and reasons why they might not be:

Here is why tertiary sector workers might be paid more:

Tertiary sector workers often require higher levels of education, specialized skills, and qualifications compared to primary sector workers. This higher level of skill and expertise can contribute to higher wages in the tertiary sector. Professions such as doctors, engineers, or IT specialists typically require extensive education and training, commanding higher salaries due to their specialized knowledge.

Tertiary sector jobs often involve knowledge-based and service-oriented work that can have higher levels of productivity compared to primary sector jobs. The value created by tertiary sector workers through intellectual contributions, innovation, problem-solving, and client interactions can result in higher wages. For example, a financial analyst who generates significant profits for a bank through effective investment strategies may be rewarded with higher pay.

Tertiary sector products often involve added value in terms of customization, convenience, or specialized services. This added value can translate into higher prices and, in turn, higher wages for workers involved in providing these services. For instance, a software developer who creates cutting-edge applications or a luxury car salesperson who deals with high-end customers may command higher salaries due to the value they bring to their respective industries.

The demand for tertiary sector products and services tends to be higher compared to primary sector products. This increased demand can result in higher revenues and profits for tertiary sector industries, providing them with a greater ability to pay higher wages to their employees. Sectors such as finance, technology, healthcare, and professional services often experience strong demand, which can translate into higher wages for workers.

Here is why tertiary sector workers might not be paid more:

Tertiary sector workers, particularly those in white-collar jobs, may have a lower likelihood of union membership compared to primary sector workers. Trade unions often negotiate for higher wages and better working conditions for their members. If tertiary sector workers are less organized and unionized, they may have less bargaining power, resulting in relatively lower wages.

Not all jobs within the tertiary sector command high salaries. Some positions, such as cleaners, administrative assistants, or entry-level customer service roles, may have lower wage levels. The presence of lower-paid jobs within the sector can bring down the average wages of tertiary sector workers.

Declining industries within the tertiary sector: Certain industries within the tertiary sector, such as traditional print media or brick-and-mortar retail, may be facing decline due to technological advancements or changing consumer preferences. In such cases, workers in these declining industries may experience wage stagnation or even reductions.

Tertiary sector workers who are early in their careers or have not yet reached senior positions may earn lower wages compared to more experienced or higher-ranking individuals. As with any sector, experience, seniority, and promotion to higher positions often correlate with higher wages.

In specific cases, primary sector products can have higher value added than certain tertiary sector products. For example, the extraction and sale of oil from natural resources can result in substantial revenues and higher wages for workers involved in the primary sector.

Wage comparisons between primary and tertiary sectors can be influenced by global factors. Primary sector workers in developed countries may be paid more than tertiary sector workers in underdeveloped countries due to variations in labor market conditions, cost of living

In conclusion, determining whether tertiary sector workers are paid more than primary sector workers involves considering multiple factors. Tertiary sector workers may enjoy higher wages due to their increased skill levels, productivity, the higher value added by their services, and the greater demand for tertiary products. However, several factors can contribute to lower wages for tertiary sector workers, including the lower likelihood of trade union membership, the presence of lower-paid jobs within the sector, declining industries, less experience or lack of promotion, higher value added in certain primary sector products, and international wage disparities.

It is important to recognize that wage comparisons can vary across industries, countries, and individual circumstances. The dynamics of wage determination involve a complex interplay of factors such as skills, market demand, industry conditions, and regional disparities. Policies and labor market conditions also influence the relative wages between the two sectors.

Ultimately, understanding wage differentials between tertiary and primary sector workers requires a nuanced analysis of the specific context, including the nature of the industry, job requirements, skills involved, and the prevailing market conditions.

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By Smart Edu Hub at 8:33 am, May 24, 2023

4 Uganda specialises in agricultural products and has a relatively small secondary sector. In the 1990s, the Ugandan government privatised most of its firms, including banks and railways. Some economists thought this privatisation was unsuccessful because poverty increased and unemployment remained high. In recent years, the Ugandan government has used supply-side policy measures to reduce unemployment.

(a) Define *privatisation*. [2]

(b) Explain the difference between absolute poverty and relative poverty. [4]

(c) Analyse how specialisation can benefit firms. [6]

(d) Discuss whether or not the use of supply-side policy measures will reduce unemployment. [8]

4(a)

Privatisation refers to the process of selling state-owned or public sector firms and assets to private sector entities, investors, or individuals.

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By Smart Edu Hub at 8:34 am, May 24, 2023

4(b) The difference between absolute and relative poverty lies in the way poverty is defined and assessed, as well as the criteria used to determine someone's poverty status. Let's delve into each concept with detailed explanations:

Absolute poverty refers to a condition where individuals or households lack the basic necessities required for survival and overall well-being. It focuses on the absence of essential resources, such as food, clothing, and housing, that are necessary to meet basic human needs. Absolute poverty is often measured by setting a specific income threshold or defining a poverty line. For example, the international poverty line set by the World Bank is $1.90 per day, which represents the minimum income required to afford basic food, shelter, and other essential goods and services. Individuals or households whose income falls below this threshold are considered to be living in absolute poverty.The concept of absolute poverty emphasizes the fundamental deprivation experienced by individuals, highlighting their inability to meet their basic needs. It provides a universal standard for poverty measurement that focuses on the absence of essential resources rather than comparing one's economic status to others in society.

Relative poverty, in contrast, assesses an individual or household's economic situation in comparison to others within their society or country. It examines the disparities in income or living standards among different segments of the population. Relative poverty is measured by setting a poverty line based on a certain percentage of the average or median income in a particular country.

For instance, a common measure of relative poverty is to consider individuals or households whose income is less than 60% of the average income as living in relative poverty. This approach takes into account the distribution of income within a society and identifies those who are economically disadvantaged in comparison to the average. Relative poverty acknowledges the importance of social and economic comparisons within a specific context. It recognizes that poverty is not solely determined by the lack of basic necessities but also by the relative position of individuals or households in terms of income or living standards compared to others in their country. Additionally, relative poverty highlights the inability to participate fully in normal activities that are considered typical or expected within a given society.

In summary, absolute poverty focuses on the absence of basic necessities and uses a fixed poverty line to determine poverty status. Relative poverty, on the other hand, considers one's economic position relative to others in society and often employs a relative poverty line based on a percentage of average income. Both concepts provide distinct perspectives on poverty, with absolute poverty emphasizing essential needs and relative poverty highlighting the relative economic disadvantage and social exclusion experienced by individuals or households within their specific context.

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4(d)Specialisation can bring several benefits to firms, enhancing their efficiency, competitiveness, and profitability. Here's an analysis of the key advantages of specialisation:

When a firm specializes in producing a particular product or providing a specific service, its workers become highly skilled and experienced in that area. This expertise leads to improved efficiency and productivity, as employees become proficient in their tasks, reducing the time and resources required for production. With a skilled workforce, firms can achieve economies of skill, which ultimately lowers their cost of production.

Moreover, specialisation allows firms to focus their resources on specific processes, technologies, and equipment related to their specialized area. This focused approach enables them to optimize production methods, streamline workflows, and identify cost-saving opportunities. By minimizing wastage and maximizing productivity, firms can lower their production costs and achieve a competitive edge.

Specialisation often results in the production of high-quality goods or the provision of specialized services. By focusing on a specific product or service, firms can dedicate their efforts to mastering the intricacies and nuances associated with it. This dedication to quality can earn firms a reputation for excellence in their field.

A good reputation for delivering high-quality products or services can significantly impact demand. Customers are more likely to trust and choose a specialized firm that is known for its superior offerings. Increased demand, in turn, allows firms to expand their output, increase sales revenue, and capture a larger market share.

Specialisation can enable firms to take advantage of economies of scale. By focusing on a particular product or service, firms can concentrate their resources on maximizing production efficiency. As production levels increase, firms can benefit from cost savings due to economies of scale. They can negotiate better deals with suppliers, invest in specialized equipment, and spread fixed costs over a larger output. These cost advantages gained through economies of scale make specialized firms more competitive, both domestically and internationally. They can offer their products at lower prices, potentially capturing a larger market share and outperforming less specialized competitors.

Specialisation can facilitate technological advancements and the adoption of improved production methods. Firms that focus on a specific product or service can allocate resources to research and development, innovation, and the implementation of advanced technologies. Specialised firms often find it easier to mechanize their production processes and leverage technology to enhance efficiency. By embracing technological advancements, specialized firms can increase the speed of production, reduce errors, and achieve higher levels of efficiency. This allows them to produce more output within a given time frame, meet customer demands more effectively, and potentially reduce costs.

In conclusion, specialisation benefits firms by developing a skilled workforce, reducing production costs, establishing a reputation for high quality, increasing demand, achieving economies of scale, and leveraging technological advancements. Through these advantages, specialized firms can enhance their competitiveness, improve profitability, and position themselves as leaders in their respective industries.

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5 Singapore is a high-income country with a shortage of land and labour. Singapore is often given as an example of a market economy. The Singaporean government does, however, intervene in the economy. For example, it encourages its population to eat two servings of fruit and two servings of vegetables per day.

(a) Identify the reward to labour and the reward to land. [2]

(b) Explain how an increase in a worker's income can affect their mobility of labour. [4]

(c) Analyse, using a demand and supply diagram, how a greater awareness of the health benefits of eating fruit will affect the market for fruit. [6]

(d) Discuss whether or not a market economic system benefits an economy. [8]

5(a)
The reward to labor is wages, while the reward to land is rent.

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By Smart Edu Hub at 8:34 am, May 24, 2023

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5(b)

An increase in a worker's income can have significant effects on their mobility of labor, influencing their ability to change occupations or locations. Let's explore the impact of increased income on labor mobility in detail:

With a higher income, a worker has the financial means to invest more in their education and skill development. They can afford to pursue additional training, certifications, or advanced degrees that can enhance their qualifications and open up opportunities in different occupations or industries. The increased income allows them to allocate resources to education, expanding their knowledge and skill set, and increasing their chances of upward mobility within their profession.

An increase in income makes housing more affordable for workers. They can allocate a larger portion of their income towards housing expenses, enabling them to access better living conditions or move to areas with more job opportunities. Affordable housing options provide the flexibility for workers to relocate to regions where their skills are in demand or where they can pursue career advancement. This increase in geographical mobility expands their options for job prospects and increases their flexibility to adapt to changing labor market conditions.

Higher income levels allow workers to afford high-tech products such as computers, smartphones, and internet services. This enhanced access to technology enables them to be better informed about job opportunities, industry trends, and skill requirements. They can leverage online platforms, job portals, and professional networks to explore a wider range of job prospects, network with potential employers, and stay updated on developments in their field. The availability of information and resources broadens both their occupational and geographical mobility, as they can explore opportunities beyond their immediate surroundings.

While higher incomes can provide financial stability and job satisfaction, they may also discourage workers from seeking new job opportunities. Some individuals may become content with their current job and income level, leading to reduced motivation for occupational or geographical mobility. If the income increase adequately meets their needs and expectations, they may prefer to stay in their current position, resulting in a decrease in labor mobility.

Increased incomes also enable workers to afford transportation options such as owning a car or utilizing public transport systems. Access to reliable transportation increases geographical mobility, as workers can commute more easily to job locations that are farther away or in different areas. This flexibility in transportation options expands their choices for employment and facilitates mobility between regions or cities.

In summary, an increase in a worker's income can positively influence their mobility of labor. It provides them with the financial means to invest in education, making occupational mobility more attainable. Additionally, it improves affordability in terms of housing and high-tech products, increasing both geographical and occupational mobility. However, higher incomes can also lead to job satisfaction and contentment, reducing the motivation for change, and may vary depending on individual preferences. Access to transportation options further enhances geographical mobility. Overall, increased income provides workers with more opportunities and resources to explore different occupations and locations, expanding their labor mobility

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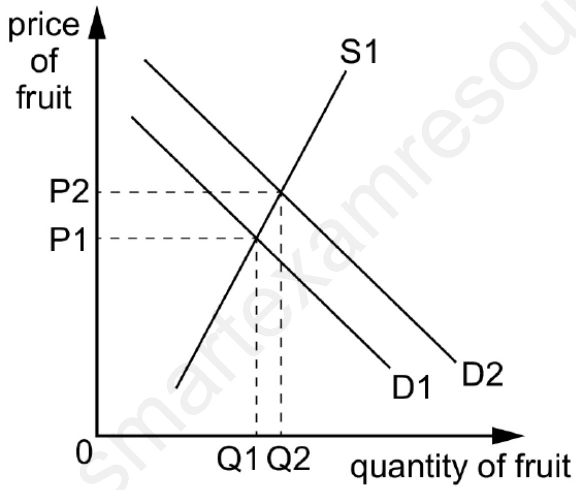

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Therefore, the greater awareness of the health benefits of eating fruit leads to an increase in the demand for fruit. This increased demand results in a higher price for fruit and a larger quantity being traded in the market. Consumers are willing to pay more for fruit as they perceive its value in promoting their health.

Overall, the shift in the demand curve signifies that more people are now willing to buy fruit due to their understanding of its health benefits. This shift influences the market dynamics, leading to an adjustment in price and quantity traded. As a result, the market for fruit experiences an increase in both price and quantity demanded, reflecting the positive impact of health awareness on the fruit market.

5(d)A market economic system, characterized by private ownership, profit incentives, and competition, can bring several benefits to an economy. However, it also poses certain challenges and drawbacks. Let's discuss both perspectives:

Why a market economic system might benefit an economy:

.Profit Incentive and Competition' In a market system, the profit motive serves as an incentive for individuals and firms to maximize their productivity and efficiency. Competition among market participants encourages innovation, cost-cutting measures, and the efficient allocation of resources. This drive for profitability and competition can lead to increased efficiency in production and allocation of goods and services.

'Wage Differentials and Effort' .Market systems often reward workers based on their skills, qualifications,'and productivity through wage differentials. Higher wages can motivate individuals to exert more effort and acquire additional skills, leading to increased productivity and economic growth.

'Price and Quality'. Market competition can result in lower prices for goods and services, benefiting consumers. Moreover, the need to attract customers fosters quality improvements as businesses strive to differentiate themselves in the market. This leads to a wide range of products with varying features, catering to diverse consumer preferences.

'International Competitiveness'Market economies often focus on producing goods and services that have a comparative advantage, making them internationally competitive. This can result in increased exports, foreign investment, and economic growth.

' Economic Growth'. Market systems have the potential to generate rapid economic growth by incentivizing entrepreneurship, innovation, and investment. The profit motive encourages individuals and firms to take risks, leading to the creation of new businesses, job opportunities, and increased productivity.

'Consumer Choice and Sovereignty' . Market economies provide consumers with a wide range of choices, allowing them to select products and services that best meet their preferences. This freedom of choice empowers consumers and reflects their sovereignty in shaping market demand.

Here is why a market economic system might not benefit an economy:

'Risk of Market Failure ' .Market failures can occur when the market mechanism does not efficiently allocate resources or provide certain goods and services. Externalities, imperfect information, and public goods are examples of market failures that require government intervention.

'Public Goods' . Market systems may not adequately provide public goods that are non-excludable and non-rivalrous, such as national defense or basic research. These goods are essential for societal well-being but may be underprovided by the private sector.

'Demerit Goods and Merit Goods'. Market economies may result in the overconsumption of demerit goods, such as tobacco or alcohol, which have negative societal effects. Conversely, merit goods like education or healthcare may be under-consumed, as their benefits may not be fully captured by market forces.

'External Costs'. Market systems often do not internalize the costs imposed on society, such as pollution or environmental degradation. These external costs can lead to environmental problems and social issues that require regulation and intervention.

'Unemployment and Lack of Coordination'. Market economies can experience periods of high unemployment due to fluctuations in demand, structural changes, or inadequate labor market coordination. The lack of central coordination can lead to market inefficiencies and temporary imbalances.

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,Lack of Support Structures' .Some countries may lack the necessary support structures, such as a well-functioning legal system, to enforce property rights and ensure fair competition. This can hinder the efficient functioning of markets and limit the benefits they can bring to the economy.

'Monopolies' Market economies may face the risk of monopolies or oligopolies, where a small number of firms dominate the market. This concentration of power can result in reduced competition, higher prices, and decreased consumer welfare.

In summary, a market economic system offers several advantages, including efficiency, competition, consumer choice, and economic growth. However, it also poses challenges such as market failures, income disparities, externalities, and the risk of monopolies. Effective regulation, public intervention, and supportive institutions are necessary to address these drawbacks and ensure that the benefits of a market system are maximized while mitigating its limitations.

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By Smart Edu Hub at 8:35 am, May 24, 2023

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