

# **Cambridge IGCSE**<sup>™</sup>

ECONOMICS 0455/21

Paper 2 Structured Questions

October/November 2024

2 hours 15 minutes

You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

#### **INSTRUCTIONS**

Answer four questions in total:

Section A: answer Question 1.

Section B: answer three questions.

- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.
- You may use a calculator.

#### **INFORMATION**

- The total mark for this paper is 90.
- The number of marks for each question or part question is shown in brackets [].

This document has **8** pages. Any blank pages are indicated.

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#### Section A

Read the source material carefully before answering Question 1.

## **Source material: The United Arab Emirates (UAE)**

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

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

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

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

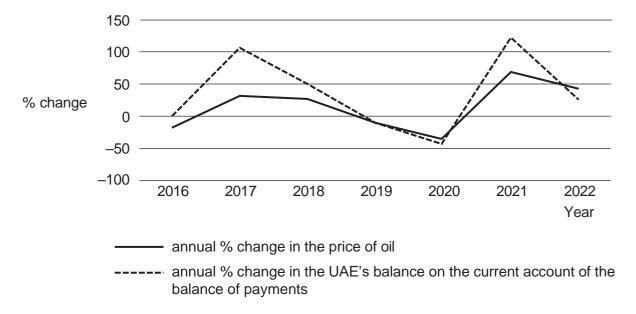


Figure 1.1 Annual percentage change in the price of oil and the annual percentage change in the UAE's balance on the current account of the balance of payments 2016–2022

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

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

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

- 1 (a) Calculate the percentage of the population who were foreign nationals living in the UAE. [1]
  - **(b)** Identify **two** features of globalisation. [2]
  - (c) Explain **one** factor that can influence labour mobility between countries. [2]
  - (d) Explain **one** advantage and **one** disadvantage of producing a product which is price-inelastic in demand such as oil. [4]
  - (e) Explain the relationship between the oil price and the UAE's current account balance. [4]
  - (f) Analyse, using a production possibility curve (PPC) diagram, the effect of technological progress on an economy such as the UAE. [5]
  - (g) Discuss whether or not luxury tourism and financial services have helped Dubai achieve economic development. [6]
  - (h) Discuss whether or not having a fixed exchange rate is beneficial for a country such as the UAE.

Question	Answer	Mark	Guidance
1(a)	Calculate the percentage of the population who were foreign nationals living in the UAE.	1	Accept answer without %
	89%		
1(b)	Identify two features of globalisation.	2	
	The increased connection of people from all over the world through migration (1) the trade of goods and services (1) the sharing of ideas (1) technological development (1).		
1(c)	Explain one factor that can influence labour mobility between countries.	2	One mark for a factor identified and one mark for an explanation.
	<ul> <li>Good transport helping workers to move (1) availability of flights / development of air travel (1)</li> <li>Technological progress / development (1) increasing quality / quantity of factors production (1)</li> </ul>		
1(d)	Explain one advantage and one disadvantage of producing a product which is price-inelastic in demand such as oil.	4	One mark for each effect identified and one mark for each explanation.
	Logical explanation which might include:		Accept responses that consider perfect price inelasticity (PED = 0)
	Advantage: when price increases, there is a less than proportionate fall in quantity demanded (1) revenue generated from the product increases (1) because it's a necessity / has no substitutes (1)		
	Disadvantage: when price decreases, there is a less than proportionate rise in quantity demanded (1) revenue generated from this product decreases (1)		

	5		
Question	Answer	Mark	Guidance
1(e)	Explain the relationship between the oil price and the UAE's current account balance.	4	Responses do not have to be in the format suggested but they should address the expected / normal relationship, offer supporting evidence of that, and analyse the overall data.
	Coherent analysis which might include:		
	Expected relationship: Positive / direct relationship (1) the oil price and the current account balance would be expected to move in the same direction (1).		
	Supporting Evidence: As the % change in the price of oil increases, the % change in the current account balance increases (1) (and vice versa).		
	When oil price goes up, the current account balance goes up, e.g. 2016 – 2018, 2020 – 2022 (1) When oil price goes down, the current account balance goes down, e.g. 2019 – 2020 (1).		
	When the % change in the price of oil is highest, the % change in the current account balance is also the highest e.g. 2021 (1).		
	When the % change in the price of oil is lowest, the % change in the current account is also the lowest e.g. 2020 (1)		
	Analysis: Higher oil prices increase export revenue as demand for oil is inelastic (1) increases inflows into current account (1).		
	Exception: There is no exception evident in the figure (1)		

Question	Answer	Mark	Guidance
dia ec PF Ax Init ax Ne cui Sh	analyse, using a production possibility curve (PPC) iagram, the effect of technological progress on an conomy such as the UAE.  PC diagram:  Exes correctly labelled with different outputs (1).  Exitial curve drawn as a curve / line sloping downward to the exes (1).  Exes (1).  Even curve drawn to the right of the initial curve as a curve / line sloping downward to the axes (1).  Exercise this indicated by arrow or PPC1 to PPC2 (1).  Exitial curve drawn to the right of the initial curve as a curve / line sloping downward to the axes (1).  Exercise this indicated by arrow or PPC1 to PPC2 (1).	5	Capital Goods  PPC1  PPC1  Consumer Goods

Question	Answer	Mark	Guidance	
1(g)	Discuss whether or not luxury tourism and financial services have helped Dubai achieve economic development.	6	Apply this example to all questions with the word DISCUSS (1g, 1h, 2d, 3d, 4d and 5d)	command
Award up to 4 marks for logical reasons why it might, which may include:  they attract foreign tourists (1) who spend on goods and services in Dubai (1) increasing total		Each point may be credited only once, on eithe argument, but separate development as to how outcome may differ is rewarded.		
	demand / economic growth (1)  employment is generated (1) increasing incomes (1)		Generic example	mark
<ul> <li>employment is generated (1) increasing incomes (1) and improving living standards (1)</li> <li>increased government's tax revenues (1) may be spent on public services / infrastructure / education / healthcare (1)</li> <li>increased export revenues (1) improve the current account of the balance of payments (1) increase profits of firms in tourism and financial services (1).</li> </ul>		Tax revenue may decrease	1	
		because of reason e.g. incomes may be lower.	1	
	account of the balance of payments (1) increase profits	account of the balance of payments (1) increase profits		Tax revenue may increase because incomes may be higher i.e. reverse of a previous argument.
	Award up to 4 marks for logical reasons why it might not, which may include:  increased pollution (1) environmental damage / external costs e.g. health problems (1) high use of water resources (1)  inequality in the distribution of income (1) some workers may be paid much lower than others (1)  spending on luxury tourism and financial services may change with income (1) depending on them could be risky (1)  workers may lack the skills for these occupations (1) be unable to gain employment to improve living standards (1)		Tax revenue may increase because of a different reason i.e. not the reverse of a previous argument e.g. government spending on subsidies may stimulate the economy more than spending on education.	1

Question	Answer	Mark	Guidance
1(h)	Discuss whether or not having a fixed exchange rate is beneficial for a country such as the UAE.	6	Maximum 3 marks for only identifying benefits / disbenefits.
	Award up to 4 marks for logical reasons why it might, that may include:		
	<ul> <li>currency has more stability (1) it will not increase / decrease in value (1) avoiding reduced / increased competitiveness (1)</li> </ul>		
	maintains investor confidence in the economy (1) increasing investments (1) increasing total demand / employment (1)		
	may maintain consumer confidence (1) by controlling inflation (1)		
	<ul> <li>it can be set at a low rate to gain a competitive advantage (1).</li> </ul>		
	Award up to 4 marks for logical reasons why might it not, that may include:		
	<ul> <li>limits the government's flexibility (1) with monetary policy (1) as interest rate changes (1) may be used to maintain the fixed exchange rate (1)</li> </ul>		
	<ul> <li>other macroeconomic objectives cannot be met (1) e.g. if a low exchange rate is fixed, inflation might occur (1)</li> </ul>		
	<ul> <li>reserves of foreign currency have to be kept (1) to maintain the exchange rate (1)</li> </ul>		
	<ul> <li>the fixed exchange rate might not reflect market conditions (supply and demand) for the currency (1)</li> </ul>		

#### Section B

## Answer any **three** questions.

Each question is introduced by stimulus material. In your answer you may refer to this material and/or to other examples that you have studied.

- 2 Unemployment in the United Kingdom (UK) fell in December 2021 to 4.1%. Market forces would usually mean that wages would increase due to this lower unemployment. However, workers' living standards did not increase. New international trade deals were not made fast enough to offset the decreasing trade between the UK and the European Union.
  - (a) Identify two ways of measuring unemployment. [2]
  - (b) Explain two factors that could influence living standards, apart from unemployment rates. [4]
  - (c) Analyse how market forces can increase wages. [6]
  - (d) Discuss whether or not free trade between countries increases economic growth. [8]

Question	Answer	Mark	Guidance
2(a)	Identify two ways of measuring unemployment.	2	
	claimant count (1) (labour force) survey (1)		
2(b)	Explain two factors that could influence living standards apart from unemployment rates.	4	One mark for each factor identified and one mark for each explanation.
	Logical explanation which might include:  income / wage levels (1) higher wages allow people to afford more goods and services (1)		Accept arguments which describe reasons for either low / high living standards.
	education (1) high education levels lead greater skills and to better paid jobs / lead to high human development index (1)		Accept answers that give HDI (1) with reference to either GDP per head, education or health.
	health standards / healthcare (1) high health standards lead to better enjoyment of life / less illness / better well- being (1)		
	cost of living / inflation rate (1) affecting purchasing power (1)		
	working hours (1) lower working hours gives more leisure time (1)		
	hygiene / sanitation (1) good water quality prevents diseases (1)		
	environmental standards (1) e.g. pollution reduces quality of life (1)		
	availability of public / merit goods (1) e.g. street lights / parks (1)		
	crime rates (1) low crime rates improve safety / quality of life (1)		

Question	Answer	Mark	Guidance
2(c)	Analyse how market forces can increase wages.  Coherent analysis which might include:  an increase in demand (1) for labour (1) may increase wages if the demand for a product increases (1) i.e. derived demand (1), there will be an increase in demand for workers producing that product (1) for example, if price of substitutes such as robots increases, there will be an increase in the demand for human labour (1)  a decrease in supply (1) of labour (1) may increase wages if it is caused by a decrease in the labour force (1) or a decrease in number of people qualified / having skills in that occupation (1).	6	Reward, but do not expect, answers that analyse this question using elasticity of demand and supply.

Question	Answer	Mark		Guidance	
2(d)	Discuss whether or not free trade will increase economic growth.	8	Level	Description	Marks
	In assessing each answer, use the table opposite.  Why it might:  may enable countries to specialise on what they are best at producing  higher competition may increase productivity and lower costs of production, increasing demand for their products  may enable firms to buy raw materials and capital goods at a lower price  may give firms access to larger markets, enabling them to expand output.  Why it might not:  may prevent infant industry from growing  may speed up the closure of declining industries  may replace domestic output with imports  may reduce tax revenue  firms may gain monopoly power and may restrict output  firms may engage in unfair competition e.g. dumping.		3	A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and / or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.	6–8

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

(a)	Define privatisation.	[2]
(b)	Explain how technological innovation can benefit firms.	[4]
(c)	Analyse the effects of increased competition amongst firms.	[6]
(d)	Discuss whether or not improving education can help a government achieve its macroecono aims.	mic [8]

Question	Answer	Mark	Guidance
3(a)	Define privatisation.	2	
	Privatisation is the sale / transfer of assets (1) from the public sector (1) to the private sector (1).		
3(b)	<ul> <li>Explain how technological innovation can benefit firms.</li> <li>Logical explanation which might include:         <ul> <li>technological innovation can lead to new / better technology (1) increasing efficiency / productivity (1)</li> </ul> </li> <li>higher levels of output (1) economies of scale / reducing average cost (1) leading to lower prices (1) attracting consumers (1) leading to higher profits (1)</li> <li>improved / faster capital equipment / IT systems / software (1) producing better quality products (1)</li> <li>more capital-intensive firms (1) reduced labour costs (1) reduced errors (1).</li> </ul>	4	One mark for each identification and one mark for each relevant explanation.

Question	Answer	Mark	Guidance
3(c)	Analyse the effects of increased competition amongst firms.	6	Accept lower quality (1) due to firms reducing costs (1)
	<ul> <li>Coherent analysis which might include:         <ul> <li>lower price (1) as firms try to attract more consumers (1) this will benefit consumers (1) but could cause firms to close down (1)</li> <li>improved quality / innovation (1) such as longer-lasting products / products that provide more satisfaction to consumers / products that consumers want to buy (1)</li> <li>increased choice (1) consumers can to choose between different firms for products (1)</li> <li>reduced profits for firms (1) costs may increase because of the need to improve quality (1) each firm will have fewer consumers since demand will be distributed between more firms (1).</li> <li>firms may need to spend more on advertising / marketing (1) increasing costs (1) this may cause external costs e.g. pollution (1) but may provide better information to consumers (1).</li> </ul> </li> </ul>		

Question	Answer	Mark		Guidance	
3(d)	Discuss whether or not improving education can help a government achieve its macroeconomic aims.	8	Level	Description	Marks
	In assessing each answer, use the table opposite.  Why it might:  a more skilled / productive workforce attracts more investments leading to higher total demand and economic growth  improved education can make finding work easier and may lead to full employment / lower unemployment  high productivity could lead to lower average cost of production leading to more stable prices / low inflation  higher level of exports leads to more balance of payments stability  education could give everyone the chance to get a well-paid job leading to a more equal redistribution of income.  Why it might not:  improving education requires increased government expenditure leading to higher total demand and may cause inflation  improved education in the country could lead to emigration of skilled workers, causing lower economic growth  there might not be enough jobs for those highly qualified leading to increase unemployment amongst graduates / underemployment  better education might only be accessible to those on higher incomes, therefore increasing inequality in income distribution		3	A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and / or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.	6-8

- 4 The World Trade Organization (WTO) estimates that India has the largest levels of trade protection of any major economy. The highest tariffs are imposed on products from the primary sector. For example, in 2018 India imposed a tariff of approximately 90% on imports of coffee to protect its coffee farmers. However, the markets for coffee substitutes and complements do not have such levels of government intervention.
  - (a) Identify **two** methods of trade protection apart from a tariff. [2]
  - (b) Explain how the price of coffee substitutes and complements can affect the demand for coffee. [4]
  - (c) Analyse possible reasons why a government may want to intervene in a market. [6]
  - (d) Discuss whether or not high tariffs can reduce unemployment. [8]

Question	Answer	Mark	Guidance
4(a)	Identify two methods of trade protection apart from a tariff.	2	Accept any relevant methods.
	Two from non-tariff barriers:		
	<ul><li>embargoes / bans</li><li>licences</li><li>product standards / regulations</li></ul>		
4(b)	Explain how the price of coffee substitutes and complements can affect the demand for coffee.	4	Maximum of 3 marks if only substitutes or complements are explained.
	Logical explanation which might include:		
	Relationship between price and demand of substitutes is positive (1) when price of coffee substitutes increases, demand for coffee increases, or vice versa (1) because as price of coffee substitutes increases, coffee is relatively cheaper (1) demand for the substitute will decrease, and the demand for coffee will increase (1) e.g. coffee and tea (1).		
	Relationship between price and demand of complements is negative (1) when price of coffee complements increases, demand for coffee falls or vice versa (1) because as price for coffee complements increases, the demand for the complement will fall, and therefore the demand for coffee will decrease (1) e.g. coffee and sugar (1).		

Question	Answer	Mark	Guidance
4(c)	Analyse the possible reasons why a government may want to intervene in a market.	6	Maximum of three marks for identification of reasons
	Coherent analysis which might include:		
	Government may want to intervene in a market due to market failure / when the market mechanism leads to inefficient allocation of resources (1)		
	Reasons for intervention:		
	<ul> <li>to provide public goods (1) not provided by the market (1) due to non-rivalry / non-excludability (1) creating the free rider problem / no profit-incentive for private producers (1)</li> </ul>		
	<ul> <li>to provide merit goods (1) under-consumed and under-produced by the market (1) external benefits which are ignored by the market (1) e.g. vaccinations (1)</li> </ul>		
	<ul> <li>to reduce provision of demerit goods (1) over-consumed and over-produced by the market (1) external costs are ignored by the market (1) e.g. pollution (1)</li> </ul>		
	<ul> <li>to reduce monopoly power (1) that creates high prices (1) while reducing consumer choices (1) and reducing quality (1)</li> </ul>		
	<ul> <li>to reduce factor immobility (1) factors of production unable to move around to its best possible use (1) e.g. labour immobility where workers cannot move around (1) and therefore are unemployed (1)</li> </ul>		
	<ul> <li>to protect consumers of essential items (1) by setting a maximum price (1) keeping the price below the market price (1)</li> </ul>		
	to protect low paid workers (1) by setting a minimum wage (1) keeping the wage above the market wage (1)		
	to give subsidies / impose tariffs (1) e.g. protect infant industries (1) so that they can grow in the long-term / protect employment (1).		

Question	Answer	Mark		Guidance	
4(d)	Discuss whether or not high tariffs can reduce unemployment.	8	Level	Description	Marks
	In assessing each answer, use the table opposite.  Why it might:  • high tariffs lead to increase price of imports reducing the demand for imports  • high tariffs make consumers choose domestic products instead which increases demand for domestic workers  • high tariffs provide government with extra revenue which could be used to subsidise domestic firms / domestic employment  • high tariffs can be a major source of tax revenue. Some of this could be spent on e.g. education and training which will increase workers' skills and mobility, and so reduce unemployment.  Why it might not:  • high tariffs lead to retaliation which leads to decrease in demand for exports and therefore decrease demand for domestic workers  • high tariffs still not enough to offset lower cost of imports  • domestic production may not be able to increase due to full employment / lack of natural resources  • higher prices of imported raw materials could increase costs of production, so reducing profits and lowering output  • domestic prices may rise as domestic firms become complacent as they are protected.		3	A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and / or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.	6–8

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

(a)	Define labour mobility.	[2]
(b)	Explain the effects of an ageing population on spending and saving levels.	[4]
(c)	Analyse how a rise in tourism can increase inflation in an economy.	[6]
(d)	Discuss whether or not fiscal policy is effective in reducing poverty.	[8]

Question	Answer	Mark	Guidance
5(a)	Define labour mobility.	2	
	The ability of workers to move (1) occupationally (1) or geographically (1) to take up another job (1).		
5(b)	Explain the effects of an ageing population on spending and saving levels.	4	Maximum of 3 marks for a relevant explanation of either spending or saving.
	Logical explanation which might include: An ageing population may mean fewer people are working and not earning an income (1) therefore savings need to be withdrawn to fund living (1) and therefore savings will decrease (1).		
	An ageing population may mean people have reached an age where they do not need to save for the future (1) have accumulated savings (1) therefore spending increases (1).		
	An ageing population may mean more people are approaching retirement / have reached retirement (1) there may be an increase in saving to support living standards in retirement (1) and decrease current spending (1).		

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Question	Answer	Mark	Guidance
5(c)	Analyse how a rise in tourism can increase inflation an economy.	6	
	Coherent analysis which might include:		
	Tourism leads to an increase in demand for resources (1) e.g. food or accommodation (1) therefore these prices will increase (1) causing demand-pull inflation (1).		
	Tourists may have higher incomes (1) and higher purchasing power (1) therefore, producers are able to charge higher prices (1) and those living the country will have to pay higher prices as well (1).		
	Depletion of resources due to tourism (1) decreases supply of these resources (1) increases the price of these resources for everyone (1).		
	Increased demand for factors of production in tourism e.g. labour (1) increases costs of production (1) may cause cost-push inflation (1).		

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Question	Answer	Mark		Guidance	
5(d)	Discuss whether or not fiscal policy is effective in reducing poverty.	8	Level	Description	Marks
	In assessing each answer, use the table opposite.  Why it might:  • policy measures to promote economic growth may increase investment and create jobs  • increased spending on education providing more qualifications / skills, making it easier to find jobs, higher wages  • more generous state benefits increasing income  • progressive taxation may increase government revenue and allow more spending to reduce poverty.  • cuts in indirect taxation e.g. VAT, may lower prices of goods and services, enabling the poor to buy more and reduce poverty.  Why it might not:  • contractionary fiscal policy / increased taxes could lead to more people losing jobs / income.  • expansionary fiscal policy / tax cuts may be inflationary, causing higher prices for essential items and increasing poverty  • education may only be accessible to those not in poverty  • state benefits may lead to a cycle of poverty  • progressive taxation may lead to brain drain and therefore less government revenue.  • cuts in higher income tax rates may not reduce absolute poverty but may increase relative poverty.		3	A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sided of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and / or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.	6-8

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