Cambridge Assessment International Education

Cambridge IGCSE™

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ECONOMICS **0455/21**

Paper 2 Structured Questions **October/November 2020**

2 hours 15 minutes

You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

APPROVED
By Smart Edu Hub at 4:52 pm, May 27, 2023

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. Blank pages are indicated.

Section A

Read the source material carefully before answering Question 1.

Source material: Istanbul's geographical advantage

Istanbul fact file	2014
Population	14 million
Output per head	$6858
Total output	$96 billion
Istanbul's output contribution to Turkey's total output (%)	30%

Istanbul is Turkey's largest city by population size. In 2014, its population was approximately 14 times more than it was in 1955. This could be due to increased migration from rural areas to cities and improved healthcare. Istanbul also has the highest output per head of all regions in Turkey.

Good transport links have contributed to Istanbul's economic growth. In addition to good land transport, Istanbul is also home to the 14th largest airport in the world, measured by passenger numbers. From Istanbul, there is access to a market of $24 trillion with 1.5 billion people within a flight time of 4 hours. In addition to affordable international air travel to and from Istanbul, domestic air travel is also very affordable. This is most likely due to economies of scale. There is also a high level of competition in this industry which influences prices and quality of service. The growth in transport industries, along with growth of financial services, has contributed greatly to Istanbul's growth rate as shown in Table 1.1.

Table 1.1 The percentage growth of Istanbul's service sector and the percentage growth of Istanbul's total output 2010–2014

Year	% growth of Istanbul's service sector	% growth of Istanbul's total output
2010	11.9	14.4
2011	28.2	21.9
2012	15.3	16.0
2013	14.2	16.1
2014	13.6	12.7

Foreign investment is flowing into Istanbul. Multinational companies (MNCs) are finding Istanbul an attractive city to invest in because of the low cost of living. These MNCs are affecting employment, the level of technology and wages in Istanbul.

However, there is worry that such confidence in the Turkish economy may not last. Many companies have depended on borrowing for expansion. Increased interest rates around the world may make it harder for such companies to continue borrowing and also to attract new customers. If there are greater worries about safety for tourists in Turkey in the future, this may cause fewer people to book flights to Turkey.

1(a) Calculate Turkey's total output.
= 96 x 100]/30=320 billion
$320 billion

1(b)Identify two factors that affect borrowing in an economy.[2]
The two factors that affect borrowing in an economy are interest rates and confidence levels
The following could also be mentioned in the answer.
wages / incomes

1(c) Explain the relationship between the growth of Istanbul's service sector and its growth in total output. [3]
The growth of Istanbul's service sector and its growth in total output are closely related, and higher growth in the service sector tends to lead to higher total economic growth. Here's a logical explanation of this relationship:

Development and Structural Transformation: As countries become more developed, there is a general trend of structural transformation in the economy. The share of services in the overall economy tends to increase, while the share of the primary sector (agriculture, mining, etc.) decreases. This shift is driven by various factors, such as technological advancements, changing consumer preferences, and increased urbanization.

Higher Growth in the Service Sector: Istanbul, being a major city and economic hub, experiences significant growth in its service sector. The service sector encompasses a wide range of industries, including finance, transportation, tourism, hospitality, education, healthcare, and professional services. These industries contribute to economic growth by creating jobs, generating income, and providing value-added services to businesses and consumers.

Service Sector as a Driver of Total Output: The service sector's growth has a multiplier effect on the overall economy. As the service sector expands, it creates demand for various inputs, including goods, labor, and infrastructure. This increased demand stimulates other sectors of the economy, such as manufacturing and construction, leading to further economic growth. Example of Istanbul: Let's consider a specific example. In 2011, Istanbul experienced high growth in its service industry, with a growth rate of 28.16%. This rapid growth indicates increased economic activity and investment in service-related sectors. Consequently, the total economic growth for that year was 21.9%, which was higher than in other years.

Exceptions and Factors: However, it's important to note that the relationship between the growth of the service sector and total output can vary in specific instances. For example, in 2010, the growth rate of Istanbul's service sector was lower at 11.9%. Despite this, the total economic growth for that year was 14.38%, which was higher than in 2014 when the growth rate of the service sector was higher. This could be due to other factors influencing the economy during those years, such as changes in the manufacturing sector, government policies, or external economic conditions.

In conclusion, higher growth in Istanbul's service sector generally leads to higher total economic growth. The service sector plays a significant role in the overall economy by driving job creation, income generation, and stimulating other sectors. However, it's essential to consider other factors that can influence total output, as the relationship may not always be linear or consistent across different time periods.

1(d) Explain two reasons for Istanbul's increased population.[4]

The increased population in Istanbul can be attributed to several factors. Here's a logical explanation that covers each of the mentioned points:

Migration from Rural Areas: One significant reason for Istanbul's increased population is the movement of people from rural areas to the city center. Individuals and families often relocate to urban areas in search of better economic opportunities, including higher wages and increased employment prospects. Istanbul, being a major economic hub, offers a wide range of job opportunities across various sectors. Additionally, people may be attracted to the city due to better housing options, improved infrastructure, low cost of living in comparison to other urban centers, and efficient transport links that facilitate commuting.

Improved Healthcare: Another factor contributing to Istanbul's increased population is the availability of improved healthcare services. Access to better healthcare facilities, advanced medical technology, and a wider range of specialized treatments can enhance the quality of life and attract individuals seeking quality healthcare services. The city's healthcare system and medical institutions offer a higher standard of care, leading to longer life expectancy, lower infant mortality rates, and an overall improvement in the population's health and well-being. This factor can act as a pull factor for individuals and families considering relocating to Istanbul.

It's important to note that population growth is a complex phenomenon influenced by a multitude of factors. In addition to the reasons mentioned above, other factors like educational opportunities, cultural attractions, social amenities, political stability, and urbanization trends can also contribute to Istanbul's increased population

1(e)Analyse how good transport links have contributed to Istanbul's economic growth. [4]

Istanbul's economic growth can be analyzed with respect to several factors. Here's a coherent analysis incorporating the points mentioned:

Infrastructure and Transportation: Istanbul's economic growth is influenced by the presence of good roads and air transport infrastructure. Good road networks reduce commute time for workers, allowing them to reach their workplaces more efficiently. Additionally, efficient transportation links, including air transport, enable faster movement of goods and services, facilitating trade and business activities. This accessibility and connectivity contribute to increased economic activity and productivity.

Labour Mobility and Reduced Unemployment: With well-connected transportation systems, workers in Istanbul can move more easily within the city and between different regions. This higher labor mobility enhances the matching of job seekers with employment opportunities, reducing unemployment rates. When individuals can access a broader range of job prospects, it boosts economic growth and productivity.

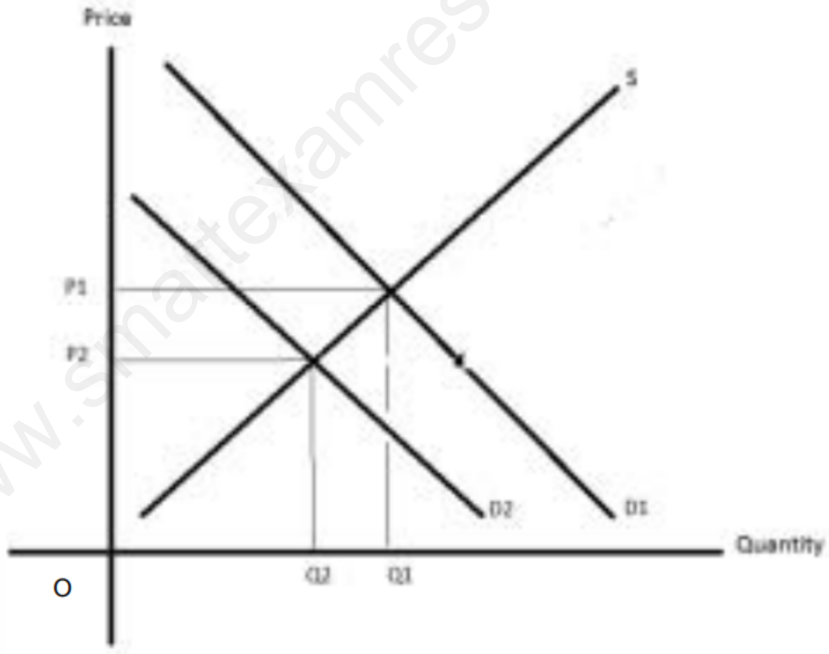
Competition and Cost of Production: The presence of a larger labor force and increased labor mobility lead to more competition in both the labor market and the product market. More competition in the labor market can drive employers to offer better wages and benefits, attracting talent and fostering higher productivity. In the product market, increased competition can result in cost-cutting measures, efficiency improvements, and innovation, leading to a fall in the cost of production. This, in turn, can benefit businesses and contribute to economic growth.

International Business Opportunities: Istanbul's good air transport links and access to a vast international market have made it easier for businesses to conduct international trade and expand their operations globally. The proximity to a significant population within a short flight time, such as the 1.5 billion people within 4 hours, has likely attracted multinational corporations (MNCs) to establish their presence in Istanbul. This international business activity and market access have further stimulated economic growth and provided opportunities for job creation and investment.

Growth of the Transport Industry: Istanbul's economic growth has also contributed to the growth of the transport industry itself. As economic activities increase, there is a greater demand for transportation services to move goods and people. This demand has allowed transport firms to take advantage of economies of scale, leading to increased efficiency, cost savings, and further growth in the transport sector.

Overall, the availability of good infrastructure, efficient transportation systems, labor mobility, competition, international business opportunities, and the growth of the transport industry have all played vital roles in driving Istanbul's economic growth. These factors create an environment conducive to business expansion, trade, and productivity, ultimately contributing to the city's economic development.

1(f) Draw a demand and supply diagram to show the effects on flights to Turkey of greater worries about safety for tourists. [4]



1(g)Discuss whether or not Istanbul benefits from investment by MNCs. [6]

Investment by multinational corporations (MNCs) in Istanbul can have both beneficial and detrimental effects on the city's economy.

Let's examine the potential benefits first:

Increased Total Demand and Economic Growth: MNCs bring investment, which leads to increased total demand for goods and services in Istanbul. This increased demand stimulates economic growth by boosting business activity, increasing production, and generating employment opportunities. As MNCs establish operations and expand their businesses, they contribute to the overall economic development of Istanbul.

Increased Demand for Workers and Improved Standards of Living: MNCs' investment creates a demand for workers in Istanbul. This can lead to a decrease in unemployment rates as more job opportunities become available. The increased employment and incomes positively impact the standards of living in the city, as individuals have access to better job prospects and improved financial well-being.

Technological Advancements and Productivity: MNCs often bring new or better technology and knowledge to the local market. This can enhance the productive capacity and productivity of businesses in Istanbul. The introduction of advanced technologies and practices can lead to efficiency gains, improved product quality, and increased competitiveness, benefiting both MNCs and the local economy.

Diversification and Tax Revenue: MNCs contribute to the diversity of products available in Istanbul. Their presence can introduce new products, services, and innovations to the market, providing consumers with a wider range of choices. Additionally, MNCs generate tax revenue for the local government through their business activities. This increased tax revenue can be utilized by the government to invest in public infrastructure, such as roads, schools, and healthcare facilities, benefiting the overall development of the city.

However, there are also potential drawbacks to MNC investment in Istanbul:

Displacement of Domestic Firms: The entry of MNCs may lead to the displacement or decreased demand for domestically-owned firms in Istanbul. MNCs often have greater resources, economies of scale, and efficiency, which can put domestic firms at a disadvantage and potentially lead to their failure. This could result in job losses and a decrease in demand for domestic businesses.

Repatriation of Profits: MNCs' profits generated in Istanbul may leave the country and not be reinvested domestically. This can limit the multiplier effect on the local economy and potentially hinder long-term sustainable development.

Worker Exploitation: MNCs may exploit workers by offering low wages or poor working conditions. This can lead to labor rights violations and negatively impact the well-being of workers in terms of income and quality of life.

Environmental Concerns: MNCs might not adhere to stringent environmental standards, potentially leading to increased pollution or resource depletion. This can have negative consequences for the environment and the overall sustainability of Istanbul.

It's important to carefully assess and manage MNC investment to maximize the potential benefits while addressing any potential drawbacks. Government regulations, labor standards, and environmental policies can play a crucial role in mitigating the negative impacts and ensuring that the benefits of MNC investment are shared by the local economy and its residents.

1(h) Discuss whether or not competition is beneficial for airlines [6]

The impact of competition on airlines can have both beneficial and detrimental effects. Let's examine the potential benefits first:

Increased Efficiency and Productivity: Competition forces airlines to become more efficient in their operations. To stay competitive, airlines are compelled to improve productivity by adopting the latest technologies, streamlining processes, and reducing wasteful spending. This focus on efficiency leads to cost reductions, increases in productivity, and overall operational improvements.

Quality Improvements and Affordability: Competition drives airlines to enhance the quality of their services to attract and retain customers. They strive to differentiate themselves by offering better amenities, more comfortable seating, improved customer service, and enhanced in-flight experiences. Additionally, the pressure to remain competitive often leads to price reductions, making air travel more affordable and accessible to a larger number of passengers.

Increased Total Revenue and Profitability: With increased competition, airlines may experience an increase in quantity demanded as more passengers are attracted by improved quality and affordability. This results in higher total revenue and potential profit growth. By offering competitive prices and a superior customer experience, airlines can capture a larger market share and generate higher revenue.

Innovation and Market Expansion: Competition fosters innovation within the airline industry. Airlines are incentivized to introduce new services, routes, and marketing strategies to gain a competitive edge. This can lead to market expansion, as airlines explore new destinations and target previously untapped customer segments, thereby stimulating growth and diversifying revenue streams.

However, there are also potential drawbacks to intense competition in the airline industry:

Decreased Market Share and Profitability: Intense competition means that each airline has a smaller market share, resulting in reduced quantity demanded. This can lead to a decline in total revenue and profitability. Airlines may have to invest more in advertising and marketing efforts to attract customers, further increasing their cost of production.

Limitations on Economies of Scale: Excessive competition can restrict an airline's ability to take advantage of economies of scale. With smaller market shares, airlines may struggle to achieve the necessary scale of operations to benefit from cost efficiencies, such as bulk purchasing, maintenance facilities, or shared resources. This can hinder their ability to reduce costs and compete effectively.

Challenges of Brand Loyalty and Lower Demand: For some airlines, strong brand loyalty among customers may limit the benefits of competition. Customers may be reluctant to switch to other airlines even when faced with competitive offers. Additionally, in certain circumstances, increased competition may result in lower overall demand for air travel, affecting the profitability and sustainability of airlines.

It's important to strike a balance between competition and market stability in the airline industry. Competition can drive improvements and benefit consumers through increased efficiency, affordability, and innovation. However, excessive competition can lead to market fragmentation, reduced profitability, and challenges for airlines to maintain sustainable operations. Regulatory frameworks and market oversight play a crucial role in promoting healthy competition while ensuring the long-term viability of airlines and the overall stability of the industry.

2(a)State two components of the current account.

Two components of the current account are trade in goods and trade in services

[You could also mention]

- primary income
- secondary income]

2(b) Explain why inflation may fall even if there is an increase in total demand. [4]

Inflation may fall despite an increase in total demand due to several factors. Here's a logical explanation incorporating the mentioned points:

Increase in Total Supply: If there is an increase in total supply that is greater than the increase in total demand, it can lead to a decrease in inflation. When the supply of goods and services outpaces demand, prices tend to stabilize or even decline. This can occur when businesses ramp up production to meet anticipated demand or when there is an improvement in overall economic conditions, allowing for increased supply capacity.

Improved Productivity and Technology: An improvement in productivity, driven by advancements in technology or capital investment, can contribute to a decrease in inflation. When businesses become more efficient in their production processes, they can increase output without significantly increasing costs. This increased productivity can help meet the rise in demand without putting excessive upward pressure on prices.

Reduction in Production Costs: If the costs of production decrease, it can lead to a decrease in inflation even with increased total demand. Lower costs can result from various factors such as reduced taxes, lower costs of raw materials, or a stronger exchange rate. These cost reductions enable businesses to produce goods and services at a lower expense, allowing them to maintain or lower prices despite increased demand.

When there is a combination of increased total supply, improved productivity, and reduced production costs, the economy can experience a situation where inflation falls even in the face of increased total demand. This scenario reflects a balance between supply and demand dynamics, where supply-side factors play a crucial role in offsetting inflationary pressures created by rising demand.

2(c) Analyse how a country's current account deficit might be reduced if its firms become internationally competitive.[6]

If a country's firms become internationally competitive, it can contribute to reducing the current account deficit. Here's a coherent analysis incorporating the mentioned points:

Increased Production and Lower Cost of Production: Firms that are internationally competitive are likely to have high productivity levels, low inflation, and competitive exchange rates. This allows them to increase production efficiently and reduce the cost of production. As a result, the prices of exports can be lowered, making them more attractive in the global market.

Enhanced Export Competitiveness: With increased productivity and lower production costs, internationally competitive firms can improve the quality of their exports. Higher quality products can meet international standards and cater to the preferences of foreign consumers, leading to increased demand for exports. This, in turn, can contribute to an increase in the value of exports and the country's net exports.

Favorable Exchange Rates and Imports: If a country's firms become internationally competitive, it often leads to a relatively weaker exchange rate. A weaker exchange rate can make imports relatively more expensive for domestic consumers. As a result, the demand for imported goods may decrease, contributing to a reduction in the country's imports. Additionally, if domestically produced goods offer higher quality compared to imports, consumers may prefer locally produced goods, further reducing the relative quantity and value of imports.

By becoming internationally competitive, a country's firms can boost export competitiveness, increase production, lower costs, improve the quality of exports, and increase the demand for its products in the global market. Simultaneously, relatively more expensive imports and lower quality imports can contribute to a decrease in import demand. These combined effects can help reduce the current account deficit by increasing the value of exports and decreasing the value of imports, ultimately improving the country's balance of trade..

2(d) Discuss whether or not lower taxes on firms will be beneficial for an economy. [3]

Lower taxes on firms can have both potential benefits and drawbacks for an economy. Let's examine each perspective:

Why it might be beneficial:

Increased After-Tax Profits: Lower taxes on firms can result in increased after-tax profits. This provides firms with more financial resources to reinvest in their businesses, expand operations, or pursue research and development activities. Higher profits can also incentivize firms to take risks and innovate, leading to potential economic growth and improved competitiveness.

Increased Investment and Economic Growth: With lower tax burdens, firms may have a higher ability and incentive to invest in new projects, technologies, and infrastructure. Increased investment can stimulate economic activity, create job opportunities, and contribute to higher levels of output and economic growth. This can have a positive impact on employment rates and overall living standards.

Improved Current Account: Lower taxes on firms can encourage higher levels of investment, innovation, and productivity. These factors can enhance a country's competitiveness in the global market, potentially improving its current account balance. Increased exports, driven by higher investment and improved productivity, can lead to higher export earnings and a reduced trade deficit.

Reduced Cost of Production and Inflation: Lower taxes can directly reduce the cost of production for firms, enabling them to offer goods and services at lower prices. This can have a positive impact on inflation, making it easier for consumers to afford goods and potentially increasing their purchasing power.

Why it might not be beneficial:

Limited Investment and Profit Retention: There is a possibility that firms may choose to retain the increased profits rather than reinvesting them in the economy. If firms prioritize maximizing profits over making additional investments, the intended economic benefits of lower taxes may not materialize fully.

Reduced Government Revenue: Lower taxes on firms can lead to reduced government revenue, limiting the ability of the government to fund public services, infrastructure projects, and social programs. This may constrain the government's capacity to stimulate economic growth through public spending, which could impact the overall economy and social welfare.

Potential Displacement of Domestic Firms: Lower taxes may attract multinational corporations (MNCs) to enter the market, potentially displacing domestic firms. MNCs often have greater resources and can outcompete local businesses, leading to market concentration and decreased competition. This can have implications for domestic industries, employment, and the overall structure of the economy.

Capital Intensity and Unemployment: Lower taxes may incentivize firms to invest in capital-intensive technologies, leading to a shift away from labor-intensive production. This could potentially result in unemployment or reduced job opportunities for certain segments of the workforce, particularly those whose skills are not aligned with the capital-intensive nature of the industry.

External Costs: Increased output resulting from lower taxes on firms can lead to potential external costs, such as increased pollution or resource depletion. If firms prioritize production without considering environmental and social impacts, it can lead to negative consequences for the environment and public health.

It is important to strike a balance when implementing tax policies, taking into account both the potential benefits and drawbacks. Effective regulation and oversight are necessary to ensure that lower taxes on firms are utilized to promote economic growth, job creation, and sustainable development while addressing any potential negative impacts.

3(a) State two sectors, other than the primary sector, in an economy. [2]

The two sectors, other than the primary sector, in an economy are the secondary sector and the tertiary sector

3(b)Explain two possible reasons for a fall in the price of a product such as natural rubber. [4]

Two possible reasons for a fall in the price of a product such as natural rubber are:

Decrease in Demand: If there is a decrease in demand for natural rubber, it can lead to a fall in its price. This can occur due to several factors, such as the emergence of substitutes for natural rubber in various industries. For example, if synthetic rubber or alternative materials become more widely used and accepted, the demand for natural rubber may decline. Additionally, a decrease in the future expected price of natural rubber, perhaps due to changes in market conditions or expectations, can also contribute to a decrease in current demand and result in a price decline.

Increase in Supply: An increase in the supply of natural rubber can also lead to a fall in its price. This can happen if there is an expansion in the number of producers or if existing producers are able to achieve a good yield, resulting in higher quantities of natural rubber being available in the market. For instance, if new rubber plantations are established or if existing plantations adopt more efficient cultivation techniques, it can lead to an increase in the supply of natural rubber. The higher supply relative to demand can put downward pressure on prices.

It is important to note that these are general reasons, and specific market dynamics and factors can influence the price of natural rubber. Supply and demand conditions, changes in technology, shifts in consumer preferences, and global economic factors can all play a role in determining the price of a product like natural rubber.

3(c) Analyse the influences on spending. [6]

Influences on spending can be analyzed through various factors that affect individuals' decisions and ability to spend. Here is a coherent analysis of these influences:

Income: Income plays a significant role in determining spending levels. Higher income generally increases the ability to spend and improves individuals' purchasing power. When individuals have more disposable income, they are likely to allocate a larger portion of it to consumption, which can drive overall spending in the economy.

Interest Rates: The rate of interest influences both spending and saving behaviors. Changes in interest rates can affect the proportion of income that individuals choose to spend or save. For example, lower interest rates can reduce the cost of borrowing, encouraging individuals to spend more and take on debt. Conversely, higher interest rates can incentivize saving and decrease borrowing, leading to reduced spending.

Confidence: Consumer confidence plays a crucial role in determining spending levels. When individuals are optimistic about their future income, job security, and overall economic conditions, they tend to be more willing to spend. Confidence can influence both consumer spending and business investment decisions, as individuals and firms are more likely to engage in economic activity when they have positive expectations.

Wealth: The level of wealth individuals possess can impact their spending patterns. Wealth can be in the form of assets such as savings, investments, property, or shares. When individuals have accumulated wealth, they may choose to spend a portion of it on goods, services, or investments. For example, they may sell shares or use their assets as collateral to access credit and finance their spending.

Inflation: Inflation can have mixed effects on spending. If prices rise faster than money wages, individuals' purchasing power may be eroded, leading to a decrease in spending. Conversely, in anticipation of future price increases, individuals may choose to increase their spending to purchase products before they become more expensive. Thus, inflation can have both dampening and stimulating effects on spending, depending on individuals' expectations and the specific circumstances.

Expansionary Fiscal/Monetary Policy: Government policies, such as expansionary fiscal and monetary measures, can influence spending levels. When governments implement policies that increase government spending, lower taxes, or reduce interest rates, they can stimulate economic activity and encourage higher levels of spending by both consumers and businesses.

These influences on spending interact and can have varying effects depending on the specific economic conditions, individual preferences, and the overall state of the economy. Understanding these influences helps policymakers and economists analyze and predict spending patterns, which are crucial for managing economic growth and stability.

3(d) Discuss whether or not the growth of the primary sector is beneficial to a country. [8]

The growth of the primary sector, which includes activities such as agriculture, mining, and forestry, can have both beneficial and detrimental effects on a country. Let's analyze the arguments for and against the growth of the primary sector:

Why it is beneficial:

Increased Total Output and Economic Growth: The expansion of the primary sector can lead to an increase in the total output of the economy, contributing to economic growth. It can provide a foundation for other sectors to thrive by supplying raw materials and inputs necessary for manufacturing and production processes.

Employment Opportunities: The primary sector often offers employment opportunities that are accessible to a wide range of individuals, including those with low skills or limited access to technology. This can be particularly beneficial for rural areas and contribute to poverty reduction and improved living standards in those regions.

Raw Materials for Secondary Sector: The primary sector provides essential raw materials for the secondary sector, which encompasses manufacturing and industry. A robust primary sector ensures a reliable supply of inputs necessary for the production of goods, supporting industrial growth and diversification.

Food Security and Reduced Imports: An expanded agricultural sector can contribute to a country's food security by producing sufficient quantities of food domestically. This reduces the dependence on imports for essential food items, helping to stabilize prices and improve self-sufficiency. Additionally, the export of primary sector products, such as oil or minerals, can generate substantial revenue and contribute to reducing the current account deficit.

Why it is not beneficial:

Low Productivity and Value Added: The primary sector often exhibits lower productivity and value-added compared to other sectors. The reliance on manual labor and traditional techniques can limit efficiency and technological advancements, leading to lower overall economic productivity.

Low Wages and Poor Working Conditions: Workers in the primary sector, such as agricultural laborers or miners, may face low wages and poor working conditions. This can contribute to income inequality and social challenges, particularly if labor rights and protections are inadequate.

Overdependence and Limited Sectoral Growth: Excessive reliance on the primary sector may hinder the growth of other sectors, such as manufacturing and services. Overemphasis on primary activities can limit diversification and lead to economic vulnerability, particularly when primary sector prices are subject to fluctuations or when resources become depleted.

Vulnerability to Weather and Natural Disasters: Primary sector activities, especially agriculture, forestry, and fishing, are highly vulnerable to weather conditions and natural disasters. Droughts, floods, storms, or other natural events can disrupt production, leading to instability and potential economic losses.

Price Fluctuations and Inelastic Supply-Demand: Primary sector products often face inelastic supply and demand, making them susceptible to significant price fluctuations. This can create economic uncertainty for producers and impact their profitability, affecting overall economic stability.

Depletion of Natural Resources: Some primary industries rely on finite natural resources, such as minerals or fossil fuels, which may eventually be depleted. Overreliance on these resources without sustainable management practices can lead to long-term environmental and economic consequences.

In conclusion, the growth of the primary sector can bring benefits such as increased output, employment opportunities, and raw material supply. However, it also poses challenges related to productivity, working conditions, sectoral imbalance, vulnerability to natural factors, price fluctuations, and resource

4(a) Define tariffs. [2]

Tariffs are taxes imposed on imported or exported goods, increasing their price and aiming to protect domestic industries or generate revenue for the government

4(b) Explain two non-tariff methods of protection. [4]

Non-tariff methods of protection refer to various measures implemented by governments to restrict or regulate international trade without involving the imposition of tariffs. Here are three examples of non-tariff methods of protection:

Quotas: Quotas are a form of quantitative restriction imposed on imports. They limit the quantity of a specific product that can be imported into a country within a given period. By setting limits on imports, quotas aim to protect domestic industries by reducing competition from foreign producers. Quotas can help maintain a certain level of domestic production and control the balance of trade.

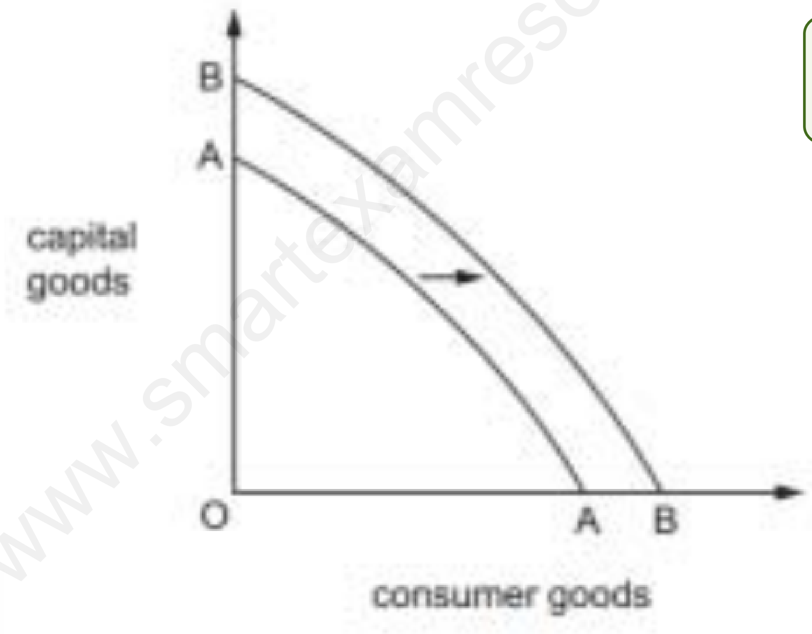
Subsidies: Subsidies are financial assistance provided by the government to domestic firms or industries. They are intended to reduce the cost of production for domestic producers, making them more competitive in the market. Subsidies can take various forms, such as direct cash payments, tax incentives, or discounted loans. By reducing the cost of production, subsidies encourage domestic production and may decrease the demand for imported goods.

[following is an additional third method]

Embargoes: Embargoes involve a complete restriction on the import or export of specific products to or from a particular country. This measure is often imposed for political or security reasons, and it can be used to prevent the flow of certain goods that are deemed undesirable or harmful. Embargoes aim to cut off trade ties with a specific country, either partially or completely, as a form of economic sanction or pressure.

These non-tariff methods of protection work alongside tariffs and are used by governments to control and regulate international trade, protect domestic industries, and pursue various economic and political objectives.

4(c) Analyse, using a production possibility curve (PPC) diagram, the beneficial effects for a country of the growth of its small and medium-sized firms. [6]



Analysis:

The growth of small and medium-sized firms in an economy can lead to an increase in the number of firms, which in turn enhances productive potential, expands productive capacity, and fuels economic growth. Additionally, it fosters diversification, innovation, and job creation, contributing to a more resilient and dynamic economy

4(d) Discuss whether or not increased international trade can promote economic growth [8]

Increased international trade can indeed promote economic growth, and here's an analysis of the reasons supporting this view:

Increased market size and demand: International trade expands the market for domestically produced goods, leading to increased exports and total demand. When a country can access larger markets, its businesses have the opportunity to sell more goods and services, boosting economic growth.

Specialization and economies of scale: International trade allows firms to specialize in producing goods and services in which they have a comparative advantage. By focusing on their strengths, firms can achieve economies of scale, reduce costs of production, and increase efficiency. This can lead to higher output, increased competitiveness, and economic growth.

Competitive pressure and efficiency: International trade exposes domestic firms to competition from foreign companies. This competition can drive firms to become more efficient, improve their productivity, and innovate in order to stay competitive. As a result, the overall efficiency of the economy increases, leading to economic growth.

Access to unavailable products and resources: International trade provides access to products and resources that may not be available domestically. This includes raw materials, intermediate goods, and capital inputs necessary for production. By having access to these inputs, domestic firms can increase their output and expand economic activity.

However, there are also arguments against the idea that increased international trade always promotes economic growth:

Increased imports and decreased demand: An increase in international trade can lead to higher imports, which may decrease the total demand for domestically produced goods. This can have a negative impact on domestic industries, revenue, profits, and employment.

Domestic firms' competitiveness: If domestic firms are unable to compete with foreign competitors, they may experience reduced revenue, lower profits, and higher unemployment rates. This can be particularly challenging for industries that are less competitive or face difficulties in adapting to international market conditions.

Potential shortages in domestic markets: Increased international trade may lead to domestic market shortages if the country relies heavily on imports for essential goods. For example, if a country becomes highly dependent on imported rice and faces disruptions in the global rice market, it could experience shortages that negatively impact its economy.

Vulnerability to global market fluctuations: An economy that heavily relies on international trade becomes more susceptible to sudden changes in global demand and supply. Economic shocks, such as recessions or trade disruptions, can have a significant impact on countries highly integrated into the global trade system, potentially leading to economic instability.

In summary, while increased international trade generally promotes economic growth through expanded markets, specialization, efficiency gains, and access to resources, there are also potential downsides to consider, such as increased imports, competitiveness challenges, market shortages, and vulnerability to global market fluctuations. The overall impact of international trade on economic growth depends on various factors, including a country's industrial structure, competitiveness, and ability to adapt to changing global market conditions.

5(a)State the rewards for labour and capital.

The rewards for labour and capital are: Wages (1) for labour and Interest (1) for capital

5(b) Explain the two types of poverty. [4]

Poverty, a global issue impacting millions, can be classified into absolute and relative poverty. Understanding these types is vital for addressing poverty, developing targeted strategies, and promoting inclusive growth.

Let us delve deeper into the two types of poverty, examining their characteristics, implications, and the importance of addressing them. By gaining insights into the complexities of poverty, we can work towards creating a more equitable and just society where everyone has the opportunity to thrive and overcome the challenges associated with poverty.

Absolute poverty refers to a condition where individuals or households lack the financial resources to afford the basic necessities required for survival. This includes access to food, clean water, shelter, healthcare, and education. The international poverty line set by the World Bank defines absolute poverty as living on less than $1.90 per day at purchasing power parity (PPP), which is a measure that accounts for differences in the cost of living across countries.

Relative poverty, on the other hand, is a measure of poverty in relation to the overall distribution of income or wealth in a society. It focuses on the relative disadvantage individuals or households face compared to the rest of society. In this context, poverty is determined by assessing whether someone earns less than what is needed to participate in the normal activities and opportunities available to the majority of the population. Relative poverty is closely tied to income inequality, as it recognizes that people can be considered poor even if their income is above the absolute poverty line.

It's important to note that these two types of poverty are not mutually exclusive and often intersect. While absolute poverty primarily focuses on meeting basic survival needs, relative poverty acknowledges the social and economic disparities within a society. Both types of poverty highlight the need for addressing income inequality, improving access to essential services, and promoting inclusive economic growth to uplift individuals and communities out of poverty.

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

Firms can reap several benefits from specialization, which involves focusing on a specific area of production or a particular task. Here is a coherent analysis of how firms can benefit from specialization:

Improved Skills: Specialization allows workers to focus on specific tasks, leading to the development of specialized skills and expertise. As workers become more specialized, they become more efficient and proficient in their respective roles, resulting in higher productivity and quality of output.

Time Savings: Specialization enables workers to become highly proficient in their specialized tasks, reducing the time required to complete them. This efficiency leads to time savings, allowing firms to produce more output within a given timeframe.

Technological Advancement: Specialization often drives innovation and the development of new technologies. When firms specialize in a particular area, they invest in research and development to enhance their processes, resulting in the invention and adoption of new technologies that further improve productivity and quality.

Increased Productivity: Specialization allows workers to focus on tasks that align with their skills, leading to increased productivity. By dividing the production process into specialized tasks, each worker can perform their specific task more efficiently, ultimately contributing to higher overall productivity for the firm.

Decreased Average Cost of Production: Specialization can lead to a reduction in the average cost of production. As workers become more skilled and efficient in their specialized tasks, they can produce more output with fewer resources, resulting in lower production costs per unit.

Decreased Prices and Increased Demand: The decrease in average production costs due to specialization can translate into lower prices for consumers. Lower prices, in turn, can increase the demand for the firm's products or services, as consumers find them more affordable and attractive.

Economies of Scale: Specialization often enables firms to take advantage of economies of scale. By focusing on specific tasks, firms can optimize their production processes, streamline operations, and achieve higher levels of efficiency. This efficiency, combined with increased production volumes, can lead to lower costs per unit and higher overall profitability.

In summary, specialization benefits firms by improving worker skills, saving time, driving technological advancements, increasing productivity, reducing average production costs, lowering prices, increasing demand, and enabling economies of scale. These advantages contribute to enhanced competitiveness, profitability, and growth for specialized firms.

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5(d)Discuss whether or not supply-side policy measures can reduce unemployment. [8]

Supply-side policy measures have the potential to reduce unemployment through various mechanisms. Here is a detailed discussion of each point:

Decrease in corporation/profit tax: Reducing corporation or profit taxes can lead to higher profits for businesses. With increased profitability, firms are more likely to invest in expanding their operations, which creates a greater demand for labor. This can help reduce cyclical unemployment, which is caused by fluctuations in the overall level of economic activity.

Decrease in interest rates: Lowering interest rates can stimulate borrowing and investment by businesses. With easier access to credit and reduced borrowing costs, firms can undertake new projects and expand their operations. This increased investment leads to a higher demand for labor and can contribute to the reduction of cyclical unemployment.

Decrease in income tax: By lowering income tax rates, individuals have more disposable income at their disposal. This increased purchasing power can stimulate consumer spending, resulting in a higher demand for goods and services. As businesses respond to this increased demand, they may need to hire more workers, leading to a reduction in unemployment.

Government subsidies: Providing subsidies to firms can incentivize them to expand their operations and hire additional workers. By reducing the costs of production or providing financial support, subsidies can help businesses overcome barriers to expansion and create more job opportunities. This can contribute to the reduction of cyclical unemployment.

Increased spending on education and training: Investing in education and training programs can enhance the skills and productivity of the workforce. By aligning training with market needs, workers can acquire the necessary skills that are in demand by employers. This can reduce structural unemployment, which arises from a mismatch between available jobs and the skills of the labor force.

Improved job information and support: Enhancing the availability of job information through job centers or online platforms can facilitate the matching of job seekers with employment opportunities. By providing comprehensive and up-to-date information about job vacancies, workers can more effectively search for suitable employment, reducing frictional unemployment caused by search and information gaps.

Reduction in unemployment benefits: Lowering the duration or level of unemployment benefits can incentivize individuals to actively seek employment and accept job offers more quickly. By reducing the financial support during unemployment, individuals may be motivated to secure employment sooner, thereby reducing frictional unemployment.

However, there are also reasons why supply-side policies may not effectively reduce unemployment:

Time lag: Implementing supply-side measures may involve a time lag before their full impact is felt. It takes time for businesses to adjust their investment plans, and for the effects to translate into increased job creation. Therefore, the impact on unemployment may not be immediate.

Technological advancements and job displacement: Increased investments in technology and automation can lead to job displacement as businesses seek more efficient production methods. While supply-side policies may boost investment, the resulting technological developments may reduce the overall demand for labor in certain sectors, potentially offsetting the positive impact on unemployment.

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Mismatch between education programs and market needs: If education and training programs do not align with the skills demanded by the labor market, there may still be a gap between available jobs and the skills of the workforce. In such cases, supply-side measures may not effectively address the structural unemployment issue.

Privatisation could lead to firms cutting the number of workers: Privatisation often aims to improve efficiency and profitability by reducing costs. This may result in job cuts as private firms prioritize cost reduction and streamlining operations. As a result, unemployment may increase rather than decrease.

Decrease in minimum wage could decrease the incentive to work: If the minimum wage is lowered below a livable standard, it may reduce the motivation for individuals to seek employment. When wages are insufficient to cover basic needs, individuals may opt for alternative sources of income or may choose to remain unemployed, which can hinder efforts to reduce unemployment.

Lack of total demand: Supply-side policies primarily focus on improving production capacity, skills, and efficiency. However, if there is a lack of overall demand in the economy, businesses may not have sufficient customers to sell their products or services. In such cases, even if firms are able to increase production, they may not create additional jobs as there is insufficient demand, resulting in limited job opportunities and persistent unemployment.

In conclusion, supply-side policy measures have the potential to reduce unemployment by stimulating investment, increasing consumer demand, improving worker skills, and facilitating job matching. However, the effectiveness of these measures can be influenced by factors such as technological advancements, skill mismatches, and time lags. Therefore, a comprehensive and well-designed approach that considers both demand-side and supply-side factors is necessary for effectively reducing unemployment.