

Cambridge IGCSE — Economics (0455)

Paper 2 Structured Questions

Time allowed: 2 hours 15 minutes	Total: 100 marks	6 questions
Answer all questions.	Name: _____	Class: _____

Show all working and give units with numerical answers; answers without working may not receive full marks. Calculators may be used.

1. A country uses all its resources to produce rice and cloth. Four combinations on its production possibility curve are: **[24]**

Combination A: 0 m of cloth, 800 kg of rice

Combination B: 200 m of cloth, 700 kg of rice

Combination C: 350 m of cloth, 500 kg of rice

Combination D: 450 m of cloth, 250 kg of rice

(a) Calculate the opportunity cost, in kg of rice, of each extra metre of cloth when moving from A to B, from B to C and from C to D. (6 marks)

(b) Explain why this opportunity cost rises as cloth output increases, and state the shape of the production possibility curve. (4 marks)

(c) The price of rice rises from \$2.50 to \$2.75 per kg and quantity demanded falls from 1,000 tonnes to 960 tonnes. Calculate the price elasticity of demand (PED) and state whether demand is elastic or inelastic. (5 marks)

(d) Calculate total revenue before and after the price rise and use your PED to explain the change. (4 marks)

(e) The government has a budget of \$40 million and can build either a hospital or a section of motorway. Using the concept of opportunity cost, discuss whether the hospital should be built. (5 marks)

- 2.** In a market $Q_d = 1,500 - 50P$ and $Q_s = 300 + 25P$, where Q is in thousands of units and P is in dollars. **[20]**
- (a) Calculate the equilibrium price and quantity. (5 marks)
- (b) Calculate the price elasticity of demand and the price elasticity of supply at equilibrium and state the type of elasticity in each case. (5 marks)
- (c) The government imposes a specific tax of \$6 per unit on producers. Calculate the new equilibrium price and quantity, the total tax revenue, and the amount of tax borne by consumers and by producers. (6 marks)
- (d) Calculate the deadweight loss caused by the tax. (4 marks)
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- 3.** A firm has total fixed cost of \$800. When it produces 100 units its total variable cost is \$1,200; when output rises to 200 units its total variable cost is \$2,000. **[16]**
- (a) Calculate average fixed cost, average variable cost and average total cost at 100 units and at 200 units. (6 marks)
- (b) At a market price of \$24 the firm produces 100 units; when the price falls to \$22 it produces 200 units. Calculate total revenue and profit in each case. (5 marks)
- (c) Calculate the marginal cost of raising output from 100 to 200 units and explain why average total cost falls. (5 marks)
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- 4.** A country's nominal GDP was \$520 billion in 2024 and \$572 billion in 2025. Its GDP deflator rose from 100 to 104, its population rose from 20.0 million to 20.5 million, its labour force is 25.0 million with 23.5 million employed, and its marginal propensity to consume is 0.8. **[16]**
- (a) Calculate real GDP in 2024 and 2025 and the rate of real economic growth. (6 marks)
- (b) Calculate the rate of inflation and real GDP per head in both years. (5 marks)
- (c) Calculate the unemployment rate. If government spending rises by \$1.2 billion, calculate the multiplier and the change in aggregate demand (real GDP). (5 marks)
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5. A developing country has a population of 50.0 million, a birth rate of 22 per thousand, a death rate **[14]** of 7 per thousand and net migration of -1 per thousand. The international poverty line is US\$2.15 per person per day. The poorest 20% of the population receive 6% of total income and the richest 20% receive 45%.

(a) Calculate the rate of population growth and the population one year later. (5 marks)

(b) Calculate the annual income per person at the poverty line and explain the difference between absolute and relative poverty. (5 marks)

(c) Use the data to describe the distribution of income and suggest two policies to reduce poverty. (4 marks)

6. A country has goods exports of \$48 billion and goods imports of \$62 billion, net services of +\$6 **[10]** billion, primary income of -\$2 billion and secondary income of +\$2.5 billion. It imposes a 25% tariff on an imported good priced at \$40, and imports fall from 9.0 million units to 7.5 million units. The exchange rate depreciates by 5% from HK\$7.80 per US dollar.

(a) Calculate the balance of trade in goods and the current account balance, and state whether the current account is in surplus or deficit. (4 marks)

(b) Calculate the import price after the tariff and the tariff revenue. (3 marks)

(c) Calculate the new exchange rate and the Hong Kong dollar receipts from an export priced at US\$50 before and after the depreciation. (3 marks)