CAMBRIDGE
International Education

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ECONOMICS **0455/21**

Paper 2 Structured Questions **May/June 2026**

2 hours 15 minutes

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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: How high will Uruguay's retirement age go?

Uruguay fact file	2023
population	3.5m
gross domestic product (GDP)	$77.0bn
government revenue	$10.7bn
government budget deficit	$2.5bn

In 2023, the Uruguayan Government raised the retirement age from 60 to 65. There are concerns about the current high government spending on pensions and it is expected that life expectancy in the country will continue to rise. A higher retirement age will have an impact on the country's labour force, with most workers employed in the tertiary sector.

The average age of Uruguay's population is increasing due to a fall in the birth rate and emigration of young workers. Many Uruguayan workers emigrate to the United States (US) where wages are higher. However, income inequality is considerably lower in Uruguay than in the US. The tax system in Uruguay is more progressive than in the US, and the Uruguayan Government spends a higher percentage of GDP on education and healthcare.

In both Uruguay and the US, there is increasing demand for swimming pools. These use a large amount of water. Demand for some luxury items, such as swimming pools, is increasing in Uruguay. Demand for healthcare is also rising which is likely to increase the number of doctors in Uruguay. Table 1.1 shows the number of doctors per thousand people and life expectancy in selected countries.

Table 1.1 Number of doctors per thousand people and life expectancy in selected countries in 2023

country	doctors (per 1000 people)	life expectancy (years)
Angola	0.2	62
Bangladesh	0.8	74
Chad	0.1	53
Indonesia	0.7	68
New Zealand	3.5	83
Uruguay	6.2	79

In 2023, Uruguay experienced its lowest inflation rate for eighteen years. This low level of inflation encouraged investment in the country. It changed the international competitiveness of the country's products against its main trading partners, which had higher inflation rates. It also had an impact on the cost of debt in the country and firms' willingness to increase their output.

Prices change at different rates in different markets. In several markets in Uruguay, there is only one firm. All of Uruguay's monopolies can set the price of the products they sell. Having monopoly power can also affect the firm's average total cost and the quality of what they produce.

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

1 **(a)** Calculate Uruguay's government spending in US dollars in 2023. [1]

(b) Identify **two** reasons why the Uruguayan Government raised the retirement age. [2]

(c) Explain why some Uruguayan workers emigrate to the US. [2]

(d) Explain **two** reasons why income inequality is lower in Uruguay than in the US. [4]

(e) Draw a demand and supply diagram to show the effect of an increase in demand for swimming pools on the market for water. [4]

(f) Analyse the relationship between the number of doctors and life expectancy. [5]

(g) Discuss whether or not Uruguay's low inflation rate would have benefited the Uruguayan economy. [6]

(h) Discuss whether or not Uruguay's consumers would benefit from more of its markets becoming monopolies. [6]

Section B

Answer any **three** questions.

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

2 In 2023, Argentina had a high inflation rate and a deficit on the current account of its balance of payments. Very high inflation can affect how efficiently the price mechanism works. As Argentina's products have different price elasticities of demand, the impact of price changes affected the demand for products to different extents. The high inflation also encouraged workers to try to increase their wages and some industries to ask for protection from foreign competition.

(a) Define 'price mechanism'. [2]

(b) Explain how price elasticity of demand influences the total spending on a product when its price changes. [4]

(c) Analyse the influences on workers' ability to gain a wage rise. [6]

(d) Discuss whether or not a government should protect all of the country's industries. [8]

3 Many governments tax petrol. As drivers switch to electric vehicles, this revenue will be lost. However, tax revenue may come from other sources if a country's production possibility curve (PPC) shifts to the right. Tax revenue may be used for a variety of purposes including subsidising public transport, for example bus transport.

(a) Define 'tax'. [2]

(b) Explain **two** causes of a shift to the right of a country's PPC. [4]

(c) Analyse the advantages a car firm may gain from specialising in the production of luxury electric cars. [6]

(d) Discuss whether or not a government should subsidise bus transport. [8]

4 Economists identify global cities as those with large populations, many multinational companies (MNCs), global financial markets and significant involvement in international trade. Shanghai, the largest city in China, is one of these cities. Nearly a thousand MNCs, including commercial banks, have their headquarters there. The city also has the world's biggest container port which exports and imports large volumes of goods.

(a) Identify **two** services that commercial banks provide for their customers. [2]

(b) Explain **two** reasons why a firm may produce in more than one country. [4]

(c) Analyse the ways a government could increase its country's exports. [6]

(d) Discuss whether or not a city would benefit from an increase in the size of its population. [8]

5 Temperatures continue to rise throughout the world. This affects the health of those who work outside and their productivity. Higher temperatures can also reduce the hours they work and their incomes. However, there are benefits for some entrepreneurs and their firms. For example, demand for air conditioners continues to increase. Higher output of a range of products can affect economic growth and poverty.

(a) Identify **two** causes of an increase in the quality of enterprise. [2]

(b) Explain **two** reasons why a person may be prepared to work outside in high temperatures. [4]

(c) Analyse how a decrease in productivity could affect a government's macroeconomic aims. [6]

(d) Discuss whether or not economic growth reduces poverty. [8]

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