

## Section A

Read the source material carefully before answering Question 1.

### Source material: The future of the economy of St. Kitts and Nevis

St. Kitts and Nevis fact file	2022
Population	54 800
GDP per head	\$27 000
Government spending	\$310m
Tax revenue	\$292m
Unemployment rate	5.1%
Inflation rate	2.4%
Current account balance of the balance of payments	-\$56m

St. Kitts and Nevis is a small, two-island country in the Caribbean. The country's three main industries are tourism, financial services and agriculture. Tourists are attracted by the country's beaches, coral reefs, forts, rainforests and shipwrecks. However, if rainforests continue to be cut down and soil erosion continues to pollute the coral reefs, killing off marine life, tourism may be discouraged. The St. Kitts and Nevis Government is also concerned that the social costs of tourism exceed the private costs.

St. Kitts and Nevis's financial services include a growing banking sector. Among the country's commercial banks are a few foreign multinational companies (MNCs). These MNCs are attracted by the country's relatively high incomes, the absence of personal income tax and a relatively high literacy rate.

Some of the country's main agricultural products are carrots, onions, peanuts and sweet potatoes. In 2017, the St. Kitts and Nevis Government introduced a training scheme to raise the productivity of onion farmers.

Other important industries in St Kitts and Nevis include healthcare and fishing. Table 1.1 shows healthcare spending as a percentage of GDP and life expectancy in six selected countries in 2022.

**Table 1.1 Healthcare spending as a percentage of GDP and life expectancy in selected countries in 2022**

Country	Healthcare spending as a % of GDP	Life expectancy (years)
Canada	12.9	84
Egypt	4.5	75
Haiti	3.3	65
Monaco	1.9	90
St. Kitts and Nevis	5.4	77
Sweden	11.5	83

The small size of St. Kitts and Nevis's fishing industry means that it imports large quantities of fish. The country's fishing boats are small and some lack up-to-date equipment. A larger fishing industry, with bigger boats, may bring a number of benefits to the country.

Changes in the structure and performance of industries in St. Kitts and Nevis may alter the country's price level. Between 2018 and 2020, the country experienced deflation. This affected people's purchasing power, saving and debts. It also affected the country's exports and firms' investment decisions.

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

- 1 (a) Calculate St. Kitts and Nevis's government budget deficit in 2022. [1]
- (b) Identify **two** examples of the factor of production 'land' in St. Kitts and Nevis. [2]
- (c) Explain how tourism causes external costs in St. Kitts and Nevis. [2]
- (d) Explain **two** reasons why a foreign bank may open a branch in St. Kitts and Nevis. [4]
- (f) Analyse the relationship between healthcare spending as a percentage of GDP and life expectancy. [5]
- (g) Discuss whether or not an increase in the size of its fishing industry would benefit St. Kitts and Nevis. [6]
- (h) Discuss whether or not deflation is likely to have harmed St. Kitts and Nevis. [6]

## 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.