**Iceland’s Economic Structure**

The people of Iceland once depended on farming and fishing as their main source of income. By

2008, the Icelandic economy was also very heavily dependent on its financial sector. However, the

country is now well-known internationally for tourism.

Even though the primary sector now only employs a small proportion of the country’s labour force,

the influence of this sector in policy-making is very strong. For example, in the fishing industry,

there are many government regulations. Regulations that restrict foreign investment in the fishing

industry both protect domestic fisherman and the stock of fish in Icelandic waters. Regulation also

affects the price elasticity of supply (PES) of fish. The quantity of fish supplied tends to change by

a smaller percentage than the change in its price. Icelandic Salmon is considered a delicacy

and is exported to some of finest Sushi restaurants abroad.

From 2002 to 2007, Iceland’s annual economic growth rate averaged 5%. In 2006, Iceland’s Gross

Domestic Product (GDP) was US$17 billion and in 2007 it grew by 9%. This high growth rate was

due to the increased availability of bank loans and also the increasing income of its major trading

partners, including the European Union (EU) and Norway.

It was during this period of rapid economic growth that the financial sector became an important

part of the Icelandic economy. The major commercial banks supported increased consumer

spending and major construction projects which improved the standard of living of Icelanders. In

addition, commercial banks also expanded into international markets. The international markets

were growing rapidly between 2002 and 2007 which brought more money back into the Icelandic

financial sector.

However, Iceland faced a major financial crisis in 2008 where all three of its major privately-owned

commercial banks failed. This led to falling overall levels of output and increased unemployment.

Fig. 1 shows the economic growth rate and unemployment rate in Iceland from 2002 to 2014.





The economic recovery from the recession was due to successful tourism campaigns that have made

Iceland a ‘must-see’ destination for tourists.

**Question 1**

**Criteria A, C and D**

(a) Identify, using information from the extract, one industries that is in the tertiary sector of the

Icelandic economy. [1] A

(b) Explain, using information from the extract, two reasons for government regulation of the

fishing industry in Iceland. [4] A

(c) Explain, using information from the extract, two reasons, apart from changes in employment,

for Iceland’s high economic growth rate from 2002 to 2007. [4] D

(d) Calculate, using information from the extract, Iceland’s GDP in 2007. [1] D

(e) Analyse, using Fig. 1.1, the relationship between changes in the economic growth rate and

the unemployment rate over the period shown. [4] D

(f) Explain, using information from the extract, whether the supply of Iceland’s fish is price-elastic

or price-inelastic. [2] A

(g) Using a demand and supply diagram, explain what will happen to the market for Icelandic salmon

due to the increased regulations [D-2, A-2]

(h) Using the concept of external costs and benefits, discuss whether or not a growth in tourism is an advantage to a country such as Iceland. The answer should focus on the Global Context of Personal and Cultural Expression.

Personal and cultural expression

How we express ourselves: an inquiry into the ways in which we discover and express ideas, feelings, nature, culture, beliefs and values; the ways in which we reflect on, extend and enjoy our creativity; our appreciation of the aesthetic.

**Criterion B:**

Below is the transcript of the research process explained by the research team leader:

1. My team decided to compose a research question to focus our investigation 2. We eventually came up with this research question: Research question: How are foreign aids effective?

1. We interviewed citizens to understand their opinion on foreign aid. We felt that a short interview be easier to answer

2. Our questions were: a. Have foreign aids been helpful to you?

b. How have foreign aids been helpful to you?

b. Does your country require more foreign aid?

3.We added to our interview by conducting research online based on some radio interviews, articles online and our understanding based on reading newspaper articles such as Economic times, The Guardian.

Analyse any two strengths and two weakness of the research process.