

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS

0455/02

Paper 2 Structured Questions

May/June 2005

Additional Materials: Answer Booklet/Paper

1 hour 30 minutes

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.

Answer **all** questions.

1 European recession

In 2003 Germany, Italy and the Netherlands were in a period of recession. GDP in Germany fell 0.2% between January and April, and by 0.1% between April and June. The recession spread to Italy, which is dependent on Germany as a market for its exports. The weakest of the three was the Netherlands, where output fell by 0.5% between April and June following a fall for the previous eight months. The German government planned to encourage consumer spending by introducing cuts in both indirect and direct taxation. It also approved measures to increase employment opportunities.

- (a) Why does the article refer to the Netherlands as the weakest economy? [2]
- (b) Explain what is meant by GDP. [3]
- (c) Using examples, describe the difference between direct and indirect taxes. [4]
- (d) How might a reduction in taxation help any **two** macro-economic aims of a government? [6]
- (e) Why might a government wish to increase employment opportunities? [5]
- 2 (a) Distinguish between a quota and a subsidy. [5]
- (b) Explain, using a demand and supply diagram, what effect would be likely to occur in a market if the government introduced a subsidy on the production of a good. [5]
- 3 A major computer company announced in 2003 that its profits had fallen.
- (a) Explain what might cause profits to fall. [5]
- (b) There are some very large computer companies. How might a firm become large? [5]
- 4 Some workers work long hours but earn little because the rate they receive for each hour worked is very low.
- (a) Why do you think a worker would be prepared to work for very low wages? [5]
- (b) What reasons might make a worker decide to move to another job at the same rate of pay? [5]
- 5 Changes in the rate of exchange meant that exports of goods from Egypt decreased as they became more expensive in other countries.
- (a) Explain what is meant by a rate of exchange. [3]
- (b) If exports from Egypt became more expensive, how might that affect production and employment both in Egypt and in countries importing Egyptian goods? [7]

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