

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
International General Certificate of Secondary Education

**ECONOMICS**

**0455/04**

Paper 4 Structured Questions

May/June 2005

Additional Materials: Answer Booklet/Paper

**2 hours**

**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, music or rough working.  
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer Question 1 (Section A) and any **three** questions from Section B.  
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.

## Section A

Answer this question.

**1 European recession**

In 2003 Germany, Italy and the Netherlands were in a period of recession. GDP in Germany fell by 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]

## Section B

Answer any **three** questions.

- 2 (a) Distinguish between a quota and a subsidy. [1]
- (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]
- (c) Explain what is meant by price elasticity of demand. [3]
- (d) In 2003, some tobacco growers in the US wanted to raise prices but a spokesman said the tobacco industry was no longer in a position where it could increase prices in order to increase revenue.
- Use the concept of price elasticity of demand to discuss what the spokesman meant. [7]
- 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]
- (c) Some companies are often said to benefit from economies of scale. Briefly describe **three** types of economies of scale that a computer company might experience. [6]
- (d) Discuss why a company might change its use of different factors of production. [4]
- 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]
- (c) Some workers belong to a trade union. Explain how membership of a trade union might be beneficial to a worker. [5]
- (d) An older skilled worker's pattern of spending and saving is likely to be different from that of a younger unskilled worker. Discuss why. [5]

- 5 Changes in the rate of exchange meant that exports of goods from Egypt decreased. Exports became more expensive in other countries.
- (a) Explain what is meant by a rate of exchange. [4]
  - (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]
  - (c) Describe the structure of the balance of payments of a country. [4]
  - (d) Discuss what might lead to an improvement in the balance of payments of a country. [6]
- 6
- (a) Explain what is meant by a market system. [5]
  - (b) Discuss when it might be desirable for a government to act as a producer of goods or services. [6]
  - (c) Sometimes the government does not act as a producer of goods and services but still influences private producers. Explain how it might do this. [9]
- 7
- (a) In developing countries the standard of living is often lower than the standard of living in developed countries. Identify **four** indicators that might confirm this. [4]
  - (b) Sometimes there is much poverty in developing countries. Discuss reasons why this might be so. [6]
  - (c) Discuss how the standard of living in a developing country might be improved. [10]

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