

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
International General Certificate of Secondary Education

**ECONOMICS**

**0455/04**

Paper 4 Structured Questions

October/November 2006

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.  
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 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.

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## Section A

Answer this question.

1

## Trade and production in Bangladesh

At one time, international trade agreements ensured an export market for clothes made in Bangladesh, but these were due to end in 2005. It was feared that many workers in Bangladesh would lose their jobs as a result. The Foreign Minister hoped that the trade in medicines would grow sufficiently to reduce that unemployment. The Foreign Minister said that in 2004 Bangladesh was exporting medicines to 60 countries and could produce them up to 70% cheaper than the Developed World. He said that if Bangladesh, a developing country, could get 2% of the global trade in medicines it could be worth many times the clothing exports that Bangladesh had lost.

In 2004, 150 local firms and 6 multi-national companies manufactured medicines in Bangladesh. However, the production of medicines employed just 50 000 workers and most future jobs would require highly trained technicians. The clothing trade employed 1.8 million unskilled workers and accounted for more than 75% of Bangladesh's exports.

- (a) State **four** ways in which multi-national companies can help developing countries such as Bangladesh. [4]
- (b) International trade agreements can protect jobs. Despite this, some economists prefer free trade to trade agreements. Explain why. [6]
- (c) Summarise the main argument of the Foreign Minister of Bangladesh. [4]
- (d) Why might it be difficult for employment in the clothing industry to be replaced by employment in the manufacture of medicines? [6]

## Section B

Answer any **three** questions.

- 2 (a) Explain the difference between an equilibrium price and a disequilibrium price. [4]
- (b) Many more people travel by aeroplane today than ten years ago. With the help of a demand and supply diagram, explain what might have happened in the market for air travel to cause this increase. [6]
- (c) Define price elasticity of demand and suggest why different goods have different price elasticities. [5]
- (d) Discuss whether knowledge of price elasticity of demand is of use to a company selling holiday tours. [5]
- 3 (a) State **four** non-wage influences on an individual's choice of occupation. [4]
- (b) Explain what is meant by the primary, secondary and tertiary sectors of production and describe how the importance of each sector changes as a country develops. [6]
- (c) Explain what is meant by a trade union. [3]
- (d) Discuss the extent to which the relative strengths of trade unions influence the level of earnings in different occupations. [7]
- 4 In 2004, economists were concerned about the inflationary impact of unusually high oil prices, which were caused by political uncertainty in the Middle East.
- (a) Explain how inflation is measured. [6]
- (b) Low inflation is one of the aims of government policy. Choose **two** other macro-economic aims of the government and explain what they mean. [4]
- (c) Explain how high oil prices may cause inflation. [4]
- (d) Discuss the actions that a government might take to control inflation. [6]

- 5 In China, the State Council has ordered a reduction in urban development projects in order to conserve resources. This is because, as developers clear land, people's homes are destroyed. It will also save money, which is the government's aim of reducing total demand in the economy.
- (a) Explain what is meant by the conservation of resources. [3]
  - (b) Urban development is often thought to be beneficial. Consider who might benefit from an urban development project. [6]
  - (c) Explain how a government might control private companies that wish to develop an area. [3]
  - (d) Discuss why the development and exploitation of an urban area might be disadvantageous. [7]
- 6
- (a) Distinguish with the use of examples between
    - (i) direct and indirect taxes, [3]
    - (ii) progressive and regressive taxes. [3]
  - (b) Explain why governments impose taxes. [6]
  - (c) Discuss what might happen in an economy if a government increases income tax rates. [8]
- 7
- (a) What is meant by fixed cost, variable cost and average total cost? [4]
  - (b) Discuss what might happen to these costs if a firm replaces labour with machines. [6]
  - (c) Some firms integrate with others. Explain the different forms of integration, and suggest why integration happens. [10]

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