



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
International General Certificate of Secondary Education

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**ECONOMICS**

**0455/02**

Paper 2 Structured Questions

**For Examination from 2014**

SPECIMEN PAPER

**2 hours 15 minutes**

Additional Materials: Answer Booklet/Paper

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**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.

**Section A**

Answer Question 1.

**Section B**

Answer any **three** 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.

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This document consists of **4** printed pages.



## Section A

Answer this question.

### 1 Workers in Sri Lanka

More people are being employed in Sri Lanka's service sector. A number of skilled workers are, for instance, employed in the country's banking industry. The manufacturing sector is also growing in importance. For example, the country's clothing industry employs more than a quarter of a million workers out of a labour force of eight million people. Most of the workers in the clothing industry are young women, some of whom are relatively unskilled. In recent years, the industry has employed more capital goods, which has raised fixed costs as a proportion of total costs. The rise in investment has unsettled the industry and caused workers to become more concerned about their job security. Wage rates in the industry are low although bonuses increase the amount clothing workers can earn.

The largest clothing company in Sri Lanka is Brandix Lanka Limited. It uses its resources to produce both clothes and clothing accessories such as hangers. It sells its products to clothes shops in the European Union and in the United States of America. Brandix Lanka provides its workers with good medical facilities, as do many other clothing firms.

Sri Lankan workers and trade unions are pressing for wage rises for clothing workers. However, Brandix Lanka and the other clothing firms are concerned that higher wages may reduce their competitiveness against clothing firms in other countries, including Bangladesh, where wages are lower. The firms claim that increasing the wage they pay may cause unemployment and inflation. In 2010 there were half a million unemployed workers in Sri Lanka and its inflation rate was 5.9%.

Receiving higher wages might influence clothing workers in a number of ways. It might cause them to reduce the large amount of overtime they work. It may reduce the gap between their pay and the pay of bankers who, on average, are older than clothing workers. In addition, it might change their spending and saving patterns. Table 1 shows the income per head and the average amount saved per head in Sri Lanka from 2005 to 2010.

**Table 1: Gross Domestic Product (GDP) per head and the average amount saved per head in Sri Lanka 2005 – 2010**

| Year | GDP per head (US\$) | Amount saved per head (US\$) |
|------|---------------------|------------------------------|
| 2005 | 4300                | 777                          |
| 2006 | 4700                | 799                          |
| 2007 | 4000                | 704                          |
| 2008 | 4300                | 598                          |
| 2009 | 4500                | 810                          |
| 2010 | 5000                | 855                          |

## 3

- (a) What is meant by 'fixed cost'? [2]
- (b) Using a production possibility curve, explain how Brandix Lanka may allocate its resources between clothes and clothing accessories. [5]
- (c) Using Table 1, comment on whether economists would expect to see the relationship shown between the changes in GDP per head and amount saved per head. [3]
- (d) Using information from the extract, identify **three** reasons why someone may choose to work for a clothing firm despite the low wage. [3]
- (e) Using information from the extract, calculate Sri Lanka's unemployment rate in 2010. [2]
- (f) Discuss whether trade unions increase unemployment. [5]
- (g) Using information from the extract, explain **two** reasons why clothing workers are paid less than bankers. [4]
- (h) Discuss whether an increase in wages paid to clothing workers will cause inflation. [6]

## Section B

Answer any **three** questions from this section.

- 2 The equilibrium price of some newspapers rose in both India and the United Kingdom in 2011. However, demand for newspapers rose in India and fell in the United Kingdom.
- (a) What is the difference between equilibrium price and disequilibrium price? [4]
- (b) Explain why the demand for newspapers may rise in one country but fall in another country. [6]
- (c) Discuss whether an advertising campaign would increase the profit earned by a newspaper firm. [10]
- 3 Traffic congestion is a problem in many cities. Among the possible ways of reducing congestion are allocating more resources to building roads, taxing petrol and subsidising bus travel.
- (a) Describe how resources are allocated in a market economy. [3]
- (b) Explain why the social costs of car use are greater than the private costs. [4]
- (c) Using a demand and supply diagram, analyse the effect of a tax on petrol on the market for petrol. [5]
- (d) Discuss whether bus travel should be subsidised. [8]

- 4** Some international airlines are public corporations and some are public limited companies. Whether they make a profit or a loss depends on a number of factors, including the price they charge, their costs of production and the level of competition they face.
- (a) Describe how a public corporation differs from a public limited company. [3]
- (b) Explain two factors that influence the size of a firm. [4]
- (c) Analyse how an airline can use the concept of price elasticity of demand to decide whether or not to lower its prices. [5]
- (d) Discuss whether more competition in the airline industry would benefit consumers. [8]
- 5** Brazil's economic growth rate of 7.5% in 2010 was its highest since 1986. This was achieved, in part, by the government's expansionary fiscal policy. The rapid increase in output helped to reduce absolute poverty, relative poverty and unemployment. It also raised living standards in the country.
- (a) What is the difference between absolute poverty and relative poverty? [4]
- (b) Explain two economic advantages of a fall in unemployment. [4]
- (c) Analyse how fiscal policy may reduce unemployment. [5]
- (d) Discuss whether economic growth always results in higher living standards. [7]
- 6** China is experiencing a shortage of workers, which is putting upward pressure on its inflation rate. This problem is caused, in part, by a low birth rate and an ageing population. It has led some politicians to suggest lowering the school leaving age.
- (a) Describe what is meant by a country's inflation rate. [3]
- (b) Explain the factors that influence a country's birth rate. [7]
- (c) Discuss whether a country would benefit from lowering its school leaving age. [10]
- 7** One aim of government economic policies is balance of payments stability. Whether a country has a deficit or a surplus in its current account is influenced by a number of factors, including its exchange rate and its government's trade policies.
- (a) Describe two aims of government economic policy, other than balance of payments stability. [4]
- (b) Explain why a country may have a trade in goods (visible trade) deficit but still have a current account surplus in its balance of payments. [4]
- (c) Analyse how a fall in a country's exchange rate may reduce a current account deficit in its balance of payments. [5]
- (d) Discuss whether a government should protect its industries from foreign competition. [7]

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