

International General Certificate of Secondary Education
CAMBRIDGE INTERNATIONAL EXAMINATIONS

ECONOMICS

0455/4

PAPER 4 Structured Questions

OCTOBER/NOVEMBER SESSION 2002

2 hours

Additional materials:
Answer paper

TIME 2 hours

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet/ answer paper.

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

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

INFORMATION FOR CANDIDATES

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

Section A

Answer **all** questions.

- 1** In August 2000 Navistar, a truck manufacturer in North America, announced plans to reduce the number of workers by 1100, as increased fuel prices and higher interest rates had caused a reduction in sales. It said it would also reduce its \$600m annual capital spending.

Navistar reported a net profit for the third quarter of 2000 of \$96m. This was a reduction from \$255m for the same quarter a year earlier. Revenue for the year 2000 was \$1.92 billion; in the previous year revenue was \$1.87 billion.

- (a)**
- (i)** Calculate the reduction in profit between the third quarter of 1999 and the third quarter of 2000. [1]
 - (ii)** Calculate the change in the company's revenue between 1999 and 2000. [1]
 - (iii)** Why might a company have an increase in revenue and a fall in profits at the same time? [2]
- (b)** What evidence is there in the extract that Navistar is likely to be a public limited company? [4]
- (c)** Explain how higher interest rates might have affected the company. [5]
- (d)** The article says that the net profit of the company was reduced. What might be the likely effects of this? [7]

Section B

Answer **three** questions.

- 2 (a) Identify **three** causes of a change in the demand for a good. [1]
- A combination of excess supply, weak consumer demand and competition from new channels such as the internet has pushed prices down in shops for goods from clothing to electrical products.
- (b) Using demand and supply analysis, explain whether the reasons given in the above extract would lead to the stated effect on prices. [7]
- (c) Define what is meant by price elasticity of demand and explain how it is calculated. [3]
- (d) Discuss whether clothing and electrical products would be likely to have an elastic or an inelastic price elasticity of demand. [7]
- 3 A US trade agency ruled that US imports of steel bars from China and South Korea might be unfair to US companies because they were sold at below market price. The agency wanted a tariff to be imposed on the imports.
- (a) How would the trade in steel bars be classified in the Chinese balance of payments? [2]
- (b) What is the difference between a tariff and a quota? [4]
- (c) Consider how cheap imports might affect US companies. [4]
- (d) Why is free trade often considered advantageous to a country? [6]
- (e) Discuss how the use of a protective measure such as a tariff might be better than allowing free trade. [4]
- 4 In 2000 the Singapore government revenue from income tax, motor vehicle tax, betting tax and the tax on goods and services all increased. However, the revenue from the tax on goods and services doubled while that from income tax rose 7%. Singapore depends on its tourist trade for part of its wealth.
- (a) Explain the difference between direct and indirect tax and identify **one** direct and **one** indirect tax in the above statement. [4]
- (b) Discuss why governments impose taxes. [6]
- (c) An increase in revenue from taxes is mentioned in the extract. Discuss whether you can draw conclusions about what might have happened in Singapore to
- (i) the numbers of tourists, [4]
- (ii) the level of unemployment. [6]

- 5 60% of the workforce in Java, which contains a large proportion of Indonesia's population, are farmers.
- Given this information, explain why Indonesia is likely to be a developing rather than a developed economy. [5]
 - Describe the difference in living standards that might be found in a developing economy compared with a developed economy. [7]
 - Why do some countries have lower standards of living than others? [6]
 - Discuss **two** economic indicators that can be used to measure the standard of living in a country. [4]
- 6 Protestors often oppose large companies that wish to erect large buildings on open rural land rather than in more expensive city centres. The protestors regard this as a destruction of the environment rather than the use of natural resources.
- Explain the concept of opportunity cost and illustrate it by using the above statement. [5]
 - Explain what is meant by
 - external cost, [2]
 - social benefit. [3]
 - Discuss the possible costs and benefits of developing a site in a rural area rather than in a city centre. [10]
- 7 'Even after a decade of economic growth, with record trade and global investment, 24% of the world's population are still very poor and live on an income of less than \$1 a day per person.'
- Explain what is meant by economic growth. [5]
 - Discuss how trade and investment can help economic growth. [5]
 - Discuss whether economic growth should be the main aim of government economic policy. [10]

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Question 1 © *International Herald Tribune*, 16 August 2000
 Question 4 © *The Straits Times*, 24 May 2000
 Question 7 © *International Herald Tribune*, 14 September 2000