

International General Certificate of Secondary Education
CAMBRIDGE INTERNATIONAL EXAMINATIONS

ECONOMICS

PAPER 4 Structured Questions

0455/4

MAY/JUNE 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 paper/
answer booklet.

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.

This question paper consists of 4 printed pages.



Section A

Answer **all** questions.

- 1** In the UK the computer games industry is bigger than the film and music industry and twice the size of the home video market. Directly or indirectly the industry affects the employment of around 100 000 people in the UK. £1.4 billion of computer games were sold in 1999. 25% of the games bought in Europe and 12% of the games bought in the US originate in the UK.
- About 70% of the games made by Japanese-owned companies are designed within 30 miles of one city in the UK. There are 250 studios employing 5600 people.
- (a) Identify **three** ways of measuring whether an industry in a country is large or small. [3]
- (b) Discuss whether you would classify the size of the UK computer games industry as large or small. [4]
- (c) Explain what is meant by specialisation. [3]
- (d) Explain whether there is any example of specialisation in the article. [2]
- (e) Are specialisation and large company size advantageous for a producer? [8]

Section B

Answer **three** questions.

- 2** In Japan persistent worries about job security, high unemployment and a steady fall in income have meant that consumers are buying less. This has caused the prices of some products to fall.
- (Far Eastern Economic Review 25 May 2000)*
- (a)** Explain how the price of a good is determined by market forces. [4]
- (b)** Use demand and supply analysis and diagrams to explain how the reasons given in the above extract could cause a fall in the price of a product. [6]
- (c)** How might a fall in prices affect consumer saving? [4]
- (d)** Discuss what motives consumers have for deciding whether to spend or save. [6]
- 3** **(a)** What determines the change in the size of a country's total population? [3]
- (b)** Contrast the population structure of a developed country with that of a developing country. [7]
- (c)** In some developed countries the number of people over 65 may soon exceed the number of children under 15.
Discuss how this change in population structure might
- (i)** cause problems for a government, [6]
- (ii)** affect the pattern of employment. [4]
- 4** The American airline United Airlines cancelled thousands of flights between April and August 2000 because of crew shortages, bad weather and technical problems with aircraft. There was also a 3% reduction in flights because pilots refused to work overtime.
- (a)** Explain the difference between a fixed cost and a variable cost. [4]
- (b)** Discuss whether the cancellation of a flight would have affected the fixed and variable costs of United Airlines. [6]
- (c)** What is meant by 'the principle of profit maximisation'? [3]
- (d)** Analyse what might have happened to the level of profits for United Airlines as a result of the problems stated. [7]

- 5 Unemployment in the Netherlands fell to a record low in July 2000. As a result there was concern that inflation could increase.
- (a) Identify **two** possible advantages for an economy if unemployment falls. [2]
 - (b) Define inflation and briefly describe how it is calculated. [8]
 - (c) Discuss whether a reduction in unemployment should be the main aim of government policy. [5]
 - (d) Explain why a reduction in unemployment might increase inflation. [5]
- 6 A government minister of a developing country has stated that exports must be increased if Gross Domestic Product is to rise and standards of living are to be improved.
- (a) Define Gross Domestic Product. [3]
 - (b) How would an increase in its exports affect the balance of payments of a developing country? [4]
 - (c) Why might an increase in Gross Domestic Product improve the standards of living in the country? [6]
 - (d) Discuss how a developing country might differ from a developed country in the types of industries and services that are most likely to contribute to Gross Domestic Product. [7]
- 7 Recently a number of governments have increased the subsidies they give to public transport. They have also increased taxes on the purchase of cars and on petrol used by private motorists.
- (a) Explain what is meant by a subsidy. [2]
 - (b) Use a demand and supply diagram to illustrate the effect of a subsidy. [4]
 - (c) Explain, using an example, what is meant by an external cost. [4]
 - (d) Discuss, using concepts of social costs and social benefits, why a government might wish to subsidise public transport but tax private motorists. [10]

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