International General Certificate of Secondary Education

CAMBRIDGE INTERNATIONAL EXAMINATIONS

ECONOMICS

0455/6

PAPER 6 Alternative to Coursework

MAY/JUNE SESSION 2002

1 hour 30 minutes

Additional materials:
Answer paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

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

Answer **all** questions.

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.

SJF2299/CG S15729/2

UNIVERSITY *of* CAMBRIDGE
Local Examinations Syndicate

1 Changes in coffee prices

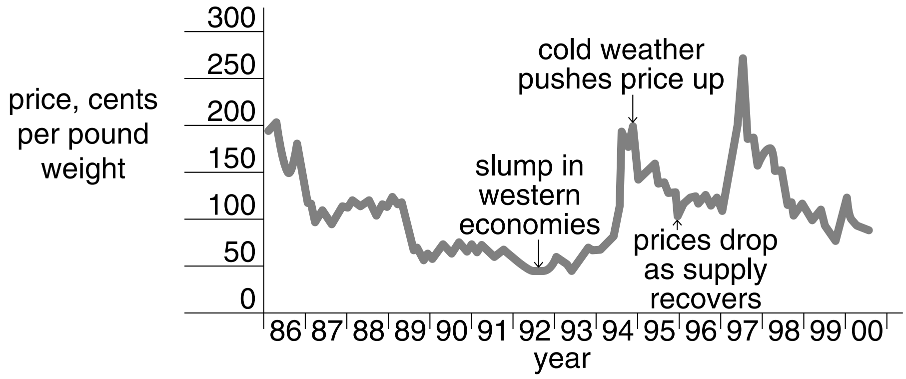
The following extract is adapted from an article that appeared in a UK newspaper in 2000.

On average, 6300 m kilos of coffee are produced globally each year. Between 1800 m and 2400 m kilos are produced in Brazil, depending on the harvest. The difference between a good and bad harvest in Brazil is equivalent to the entire annual production of the world's next largest producer, Colombia.

The trend in coffee prices has been one of decline since a peak in 1986. However, the period between 1986 and 2000, in which coffee has been cheap and plentiful, may soon be replaced by a period of expensive coffee. Countries accounting for three-quarters of the world production have signed a price support agreement. The most significant coffee producer, Brazil, is firmly in favour of the agreement.

The agreement is intended to stop prices falling. Smaller coffee producers are especially affected by changes in price. Uganda, one of Africa's biggest coffee exporters, produces approximately 4% of global output but that accounts for more than two-thirds of Uganda's export earnings. Some countries, such as Uganda, are almost one-crop economies. A fall in the price of that crop can have a devastating effect on the whole economy of the country.

Coffee: the changing price



(a) **(i)** Would the supply of coffee beans be in the primary, secondary or service sector? [1]

(ii) Identify **one** other industry that would be classified in that sector. [1]

(b) Calculate the approximate amount of coffee produced annually by

(i) Colombia,

(ii) Uganda. [2]

(c) Uganda produces approximately 4% of world output of coffee. Why then does the article say that a fall in coffee prices 'can have a devastating effect on the whole economy'? [4]

(d) Imagine that there was a significant fall in coffee prices. What would you need to find out in order to decide if the fall in price would have a devastating effect on a country's economy? [7]

(e) Using information in the chart, and demand and supply diagrams, discuss what happened in the market for coffee in

(i) 1992

and **(ii)** 1994. [8]

(f) Discuss whether the chart supports the statement in the article that there has been a trend towards cheap coffee between 1986 and 2000 as prices have collapsed. [4]

2 **Changes in Australia's tax system**

From July 2000 Australia had a new tax structure as part of its economic reform programme. Before the changes were introduced, consumer groups expressed concern about their likely effects. The new system involved a redistribution from direct to indirect taxes through a new tax on goods and services charged at 10%. However, to compensate for this, income tax was cut and social security benefits were increased.

Those in favour of the change insisted that the new system would improve economic efficiency. The new tax covered services, by far the most important sector of the economy, which had previously escaped the tax. As compensation for companies, there were reductions in company tax.

Those against the new tax feared that it would cause a sharp increase in inflation, which was already beginning to increase as a result of strong domestic demand and a rise in the price of imported oil.

(a) Explain the difference between a direct and an indirect tax and give **two** examples of a direct tax from the above information. [3]

(b) If you had to decide whether consumers were disadvantaged by the changes in the tax system, what evidence would you need to investigate? [10]