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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS **0455/06**

Paper 6 Alternative to Coursework

May/June 2006

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your name, Centre number and candidate number 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 **all** 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.

This document consists of **3** printed pages and **1** blank page.

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1

Profits

In 2004 the price of shares in Manchester United, a well-known British football club, fell. The club revealed that in the financial year 2003/4 it made payments to the football players' agents amounting to £5 million. This was equal to 20% of its profits before tax. It announced a fall in profits before tax of £11.4m compared with the financial year 2002/3.

The club said that in the next financial year income from the televising of football matches would be reduced by £14 million, partly because the team was no longer at the top of the Premier League. It would also not have the benefit of the large sum it received in the previous year from selling one of its players, David Beckham, to a Spanish club.

Manchester United also planned to add another 7800 seats to its ground at a cost of £39 million. This building work meant that there would be no special dividend for shareholders as there had been in the previous year.

(a) Calculate the profits before tax for Manchester United Football Club in the financial year 2003/4. Show how you calculated your answer. [2]

(b) Why do firms need to make profits? [4]

(c) With reference to the data, and with the help of a demand and supply diagram, analyse why the price of shares in Manchester United Football Club had recently fallen. [6]

(d) Imagine you are on the board of directors of the club. In view of the information in the above extract discuss whether you would be concerned about the fall in profits in the year 2003/4. [8]

(e) You are in charge of a business whose shareholders wish for higher profits. Explain the proposals you would put to them. [8]

[Total: 28]

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2

Consumer Spending

The Central Bank's Monetary Committee is considering whether to change interest rates. In the last year it has raised interest rates on five occasions. The Committee has been told that these interest rate increases have been successful in reducing consumer spending.

Statistics have also been given to the Committee that show that consumer borrowing to buy houses has also decreased significantly. The number of applications for borrowing money to buy houses has been at its lowest level for four years. The Committee has been told that house prices are predicted to decrease in the coming months.

(a) Outline the functions of a central bank. [4]

(b) Analyse what might happen to income and employment if consumer spending decreases. [4]

(c) Explain the connection between changes in interest rates and changes in house prices. [4]

[Total:12]

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