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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 2008**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

* 6 4 7 6 1 7 4 2 3 7 *

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.

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 **India's Postal Service**

Each year in India 16 billion items of post (mail) are sent. 7 billion of these items are delivered by private firms which employ over 1 million people. There are more than 2500 of these firms ranging from large multi-nationals to small local companies with a fleet of bicycles. The government, however, is keen to gain much of that business for its own postal service, India Post, and is intending to change the law governing the Indian postal industry.

The private firms object saying that the government intends to:

- establish tighter regulatory controls over the private firms which they say is unnecessary as there is already strong competition;
- make the private firms pay a tax to subsidise India Post;
- allow India Post to have a monopoly of all letters up to 500 grams which the private firms say accounts for 60 % of their business.

Others say that these changes are necessary as India Post is the world's biggest postal network with more than 155 000 branches, 89 % of which serve rural areas. Private firms operate largely in urban areas and India Post is left with the unprofitable task of delivering post in the rural areas where revenues can cover only 15 % of the costs.

(a) How can you determine if a company is a multi-national? [1]

(b) What might explain why some firms in the Indian postal industry are small and others are large? [4]

(c) Identify why the Indian government was intending to change the law relating to postal services. [2]

(d) **(i)** The government wishes to tax private firms in order to subsidise India Post. Use two demand and supply diagrams to distinguish between a tax and a subsidy and explain what would happen in the market in each case. [6]

(ii) The private firms are objecting to these proposals. Is there enough evidence in the article for you to conclude that firstly, they will lose business and secondly, they will be worse off? [8]

[Total: 21]

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2 **Economic Indicators**

The table gives some information on Gross Domestic Product (GDP), GDP growth rate, the inflation rate and the unemployment rate for a number of countries in 2006.

country	GDP US$ billions	GDP growth rate	inflation rate	unemployment rate
Germany	2 797.34	1.4 %	1.9 %	9.0 %
China	2 224.81	11.3 %	1.5 %	4.2 %
UK	2 201.47	2.6 %	2.5 %	3.0 %
France	2 105.86	1.5 %	1.9 %	9.0 %
Brazil	792.68	3.5 %	4.0 %	10.4 %
India	775.41	9.3 %	7.9 %	7.3 %
Mexico	768.44	5.5 %	3.2 %	3.3 %

(a) Explain why a rise in GDP might be associated with a rise in a person's income. [4]

(b) Explain whether the information in the table means that, on average, people in China will have a higher income than people in the UK. [2]

(c) India has a relatively high growth rate and a high inflation rate.

(i) What is meant by inflation? [3]

(ii) Does the table confirm the idea that high growth must cause high inflation? [4]

(d) Sometimes, as an economy grows, unemployment decreases. Explain whether or not this can be concluded from the table. [6]

[Total: 19]

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