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CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS **0455/06**

Paper 6 Alternative to Coursework

October/November 2003

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 Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
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 **4** printed pages.

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1 **Saving in South Africa**

In South Africa, between 1995 and 1998, savers were able to benefit from higher interest rates and reduced inflation. Moreover, they did not have to pay income tax on some of their income from savings. However, between 1990 and 1998 the amount of income from savings that was exempt from income tax (the 'tax allowance') remained unchanged.

The level of personal savings in South Africa in 1998 was thought to be low and meant that less than 10% of the people were able to retire financially independent.

An economist at the Industrial Development Corporation (IDC) in South Africa suggested that an increase in the level that was exempt from tax would encourage people to save. In 2002 this level was raised from R4000 to R6000. (R = rand, the currency of South Africa).

Changes in taxes can, however, have other effects. There is no guarantee that an increase in the amount of income exempt from tax will result in increased savings. Lower taxes do increase disposable income but this might result in extra spending rather than extra savings.

(a) Explain how savers can benefit from

(i) high interest rates, [1]

(ii) reduced inflation. [3]

(b) Using information in the article, comment on the effect that changes in tax allowances might have on total savings in an economy. [5]

(c) The article says that not many people will be financially independent when they retire. Why might this be a concern for the government? [5]

(d) **(i)** What is meant by the expression 'disposable income'? [2]

(ii) You are asked to investigate the differences in the spending and savings patterns of people with low disposable income and those with high disposable income. What do you think you would discover? [9]

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2 **Lufthansa to cut 4000 jobs**

The following information appeared in the press in November 2001.

> The German airline Lufthansa is to make up to 4000 employees redundant in response to a reduction in demand which has affected the whole airline industry. The number of passengers travelling with Lufthansa declined by 13.3% in October 2001, having already fallen by 9.1% in September.
>
> A spokesman said that the airline, which employs 85000 people, would try to reduce staff, starting with workers who were still on temporary contracts in their six-month trial period. If that did not prove enough then other employees would also lose their jobs. Cabin staff would be retained where possible and the emphasis would be on reducing ground staff.
>
> Management and trade unions have been negotiating on cost-cutting measures but have failed to reach an agreement. Lufthansa has agreed to sell four of its Boeing 747 jumbo jets in order to reduce capacity. Despite the difficulties, Lufthansa is in a better position than its competitors such as Swissair and Sabena.

(a) Identify the reason for the difficulties faced by Lufthansa. [1]

(b) Explain whether a reduction in the labour force would affect the fixed costs or the variable costs of Lufthansa. [4]

(c) Imagine you are a business correspondent for a newspaper. You have been told that up to 4000 Lufthansa employees are to lose their jobs. You have to assess whether this is necessary.

(i) Explain **two** pieces of information you have already been given in the above article that might be significant to your assessment. [4]

(ii) What other information might you like to collect in order to make a decision? [6]

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Question 2 *The Namibian*

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