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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS **0455/06**

Paper 6 Alternative to Coursework

October/November 2004

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 **3** printed pages and **1** blank page.

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1 **Oil supplies threatened**

OPEC (the Organisation of Petroleum Exporting Countries) controls the supply of oil from a number of countries in order to influence the world price of oil. In 2002 OPEC asked its members to increase oil production by up to 1 million barrels a day. Prior to that oil prices had risen because of fears of a war in Iraq, which would disrupt exports throughout the Middle East. This price rise was made worse by an industrial strike in Venezuela, the third largest producer in OPEC.

An OPEC oil minister said that the oil markets were in a bad condition, and all producers had to co-operate to ensure a stable market. However, Iran (an OPEC member) needed to be convinced that such a large increase in the supply of oil was necessary because it feared that it would cause an excess supply on the market.

Russia supplies oil but is not a member of OPEC and is not, therefore, controlled by that organisation. Russian oil output was expected to rise by 0.8 million barrels a day during 2002. Researchers said that Russia could easily increase its output even further and become a more important world supplier. OPEC members were keen not to let Russia increase its market share at their expense.

(a) Identify **two** reasons why oil prices had risen. [2]

(b) What did the OPEC minister mean when he said producers had to co-operate to ensure a stable market? [4]

(c) Imagine you are employed as a researcher. Discuss what might be the effect of a large increase in the supply of oil by Russia on

(i) the Russian economy, [5]

(ii) the OPEC countries, [5]

(iii) the countries that import oil. [5]

[Total: 21 marks]

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2 **China's progress**

In 1992 China's per capita GDP was about the same as India's. In 2002 it was double India's. It outperformed India in almost every way, attracting ten times as much foreign capital and increasing its share of world markets. China kept its costs as low as possible, offered an even bigger domestic market than India and built better highways, power supplies, airfields and other infrastructure than India.

Many Chinese people see foreign capital as an essential tool that brings not just money for production but also modern technology and management expertise, which increase efficiency. The Chinese leadership sees economic growth as the key to retaining its hold on power and increasing its influence in the world. As part of that growth, they believe that foreign governments will be less hostile to China if they know there is much foreign capital invested in the country.

Some economists in India, by contrast, remain fiercely opposed to foreign investment, insisting that some multi-national companies will have a bad effect on the Indian economy. In India, complicated administrative procedures, the poor infrastructure and the political system lead foreign investors to doubt whether they can make reasonable profits.

(a) What is meant by per capita GDP? [2]

(b) **(i)** What is meant by a multi-national company? [2]

(ii) Explain why Indian economists think multi-national companies have a bad effect on the Indian economy. [3]

(c) Explain why Chinese economists approve of foreign investment. [4]

(d) The article says that China's GDP per capita is now double that of India. Is this beneficial to the Chinese people? [8]

[Total: 19 marks]

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