



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS

Paper 2 Structured Questions

0455/02

May/June 2007

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.

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.



Answer **all** questions.

1 Airline Industry Losses

At an international conference, at which 95 % of the world's airlines were represented, it was said that the global airline industry would have a \$6 billion loss for the year 2005. Only parts of the industry were said to be profitable. Although there had been a growth in travel and revenue in Asia and Europe, increased costs in North America and high fuel prices were estimated to outweigh that. It was stated that losses from 2001 to 2004 had already exceeded \$36 billion.

Globally, non-fuel costs were forecast to fall by 4.5 % in 2005. This was particularly the case in Asia where labour costs were low. European airlines were recording profits due to increased traffic and some industry mergers. However, the biggest obstacle to growth in the industry was North America, where airlines recorded large losses. In North America labour costs and airport taxes were high. In addition, competition from the smaller low-cost airlines charging cheap fares was causing a fall in the profits of the larger companies. The airline industry also criticised the high taxes, averaging 26%, which are imposed on ticket sales in North America. To try to improve profits the industry launched some major projects to cut costs, which included the complete replacement of paper tickets with electronic tickets by 2007.

- (a) Calculate the estimated average yearly loss between 2001 and 2005. Show your working. [2]
- (b) Identify **four** causes of the airline industry's losses in North America. [2]
- (c) Discuss whether (i) fuel and (ii) labour would be classified as a fixed or a variable cost for the airline industry. [4]
- (d) How might the replacement of paper tickets affect the demand for each of the factors of production by the airlines? [4]
- (e) A company is making losses. Discuss what policies it might adopt. [8]

2 Partnerships are owned by only two people while public companies are owned by the government.

- (a) Explain whether the above definitions are correct. [4]
- (b) Why do some firms remain small in size? [6]

- 3 (a)** Explain what is meant by specialisation and the division of labour. [4]
- (b)** Discuss why some people are prepared to work in low-paid occupations. [6]
- 4** World population has more than doubled since 1950. People in many countries face poverty and malnutrition.
- (a)** What differences might you expect to find in the factors that affect population growth in developed and developing countries? [4]
- (b)** Analyse what might happen to the occupational distribution of the population as a country becomes more developed. [6]
- 5** In 2005 Namibia entered into trade agreements with France, Italy and Austria. These countries would provide capital and technology in order to broaden the manufacturing industry in Namibia and to increase its trade and investment in industries which are labour-intensive.
- (a)** Explain the meaning of the terms 'investment' and 'labour-intensive'. [4]
- (b)** Discuss the difference between free trade and a trade agreement. [6]

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