UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS **0455/33**

Paper 3 Analysis and Critical Evaluation **May/June 2012**

1 hour 30 minutes

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READ THESE INSTRUCTIONS FIRST

This Insert contains extracts for Questions 1 and 2.

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UNIVERSITY *of* CAMBRIDGE
International Examinations

Extract for Question 1

A tax on high fat foods

Health issues are causing problems in many countries. For example, obesity, that is being significantly overweight, is becoming an increasing problem in the United States (US), where one in three people are obese. The two main causes of obesity are eating too much high fat food and lack of exercise.

Obesity causes a number of both private and external costs. These include diabetes, heart disease and breathing problems. In most countries, health care provision is under stress with demand exceeding the resources available to supply it. Dealing with health problems caused by obesity prevents other health problems being treated. The health care problems experienced by those suffering from obesity also result in working days being lost through sickness.

High fat food is usually consumed more by the poor than the rich. This is not always through choice but because in some poor areas there is less fresh food available for people to buy. The poor also spend a higher proportion of their income on food than the rich.

A range of government measures has been proposed in the US to reduce obesity. These include subsidising low fat food, advertising the benefits of healthy eating and exercising, and taxing high fat foods, such as chocolate, and high sugar drinks. In the US, chocolate is often cheaper than healthy foods such as fruit and vegetables.

Taxes are already placed on a range of harmful products including cigarettes. In the past, attempts to reduce smoking by raising the tax on cigarettes have proved not to be very effective. This is largely because people become addicted to smoking.

Extract for Question 2

Challenges facing the BRICs

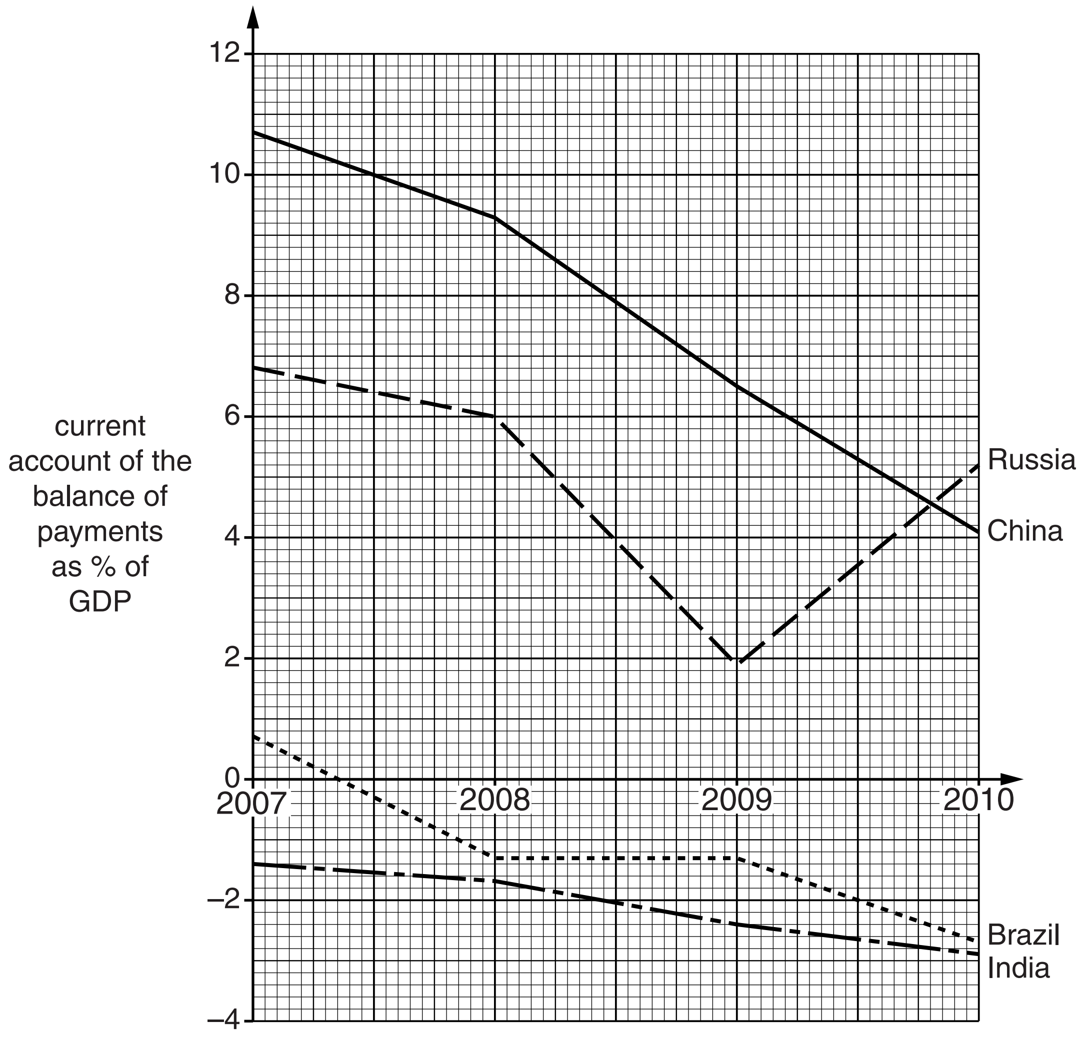
'The BRICs' is a term used to describe four countries which are expected to grow significantly and become very important economies by 2050. China has already become the second largest economy in the world because of its very high rate of economic growth. The other three, Brazil, Russia and India, have also been growing relatively fast. In 2009/2010 they were all, however, facing significant economic challenges.

China experienced a shortage of workers in some industries at the same time as it was encountering a relatively high unemployment rate. Brazil had also been trying to reduce unemployment and had been seeking to make income more evenly distributed, in part by improving education. Russia had been trying to achieve greater economic stability. India had recently focused on reducing its relatively high inflation rate. In 2009 India's inflation rate was +11.3%, Russia's was +9.8%, Brazil's +4.5% and China's was –1.2%.

In March 2010, the Reserve Bank of India raised its interest rate in an attempt to cut its inflation rate. Increasing the rate of interest can reduce inflation by lowering total (aggregate) demand or at least the growth of total demand. Trying to reduce inflation, however, may conflict with the government's aim of reducing unemployment.

The current accounts of the balance of payments of the BRICs also differ. Figure 1 shows how these have changed between 2007 and 2010.

Figure 1: The current accounts of the balance of payments of the BRICs 2007–2010



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