Centre No.						Paper Reference							Surname	Initial(s)
Candidate No.						4	3	5	0	/	0	3	Signature	

Paper Reference(s)

4350/03

London Examinations IGCSE

Economics

Paper 3

Common to both tiers

Wednesday 17 June 2009 – Afternoon

Time: 1 hour plus reading time of 10 minutes

Examiner's use only		

Team Leader's use only		

Question Number	Leave Blank
1	
2	
3	
4	
5	
Total	

Materials required for examination	Items included with question papers
Calculator	Nil

Instructions to Candidates

In the boxes above, write your centre number, candidate number, your surname, initials and signature.
Check that you have the correct question paper.
Answer ALL the questions. Write your answers in the spaces provided in this question paper.
The sources which you have studied when preparing for this examination are printed at the end of this examination paper. You have 10 minutes to read the questions and think about how to use the sources to answer them. You must NOT bring your own copy of the sources or any notes you have made into the examination.

Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. **(2)**.
There are 5 questions in this question paper. The total mark for this paper is 40.
There are 12 pages in this question paper. Any blank pages are indicated.
Calculators may be used.

Advice to Candidates

Write your answers neatly and in good English.

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You have been asked to write a report on whether or not your government should be concerned about inflation.

At the end of the paper are six sources of information on the subject of inflation. The report has been divided in the paper into a series of tasks. Use the information, together with your knowledge and understanding of economics, to answer questions 1–5.

- You should use economic concepts and terms.
- You should use diagrams, graphs or tables where you think they are appropriate. (Use the extra sheet provided if necessary.)
- You should refer to the sources in your report, but do not spend time copying large amounts from the sources.

Answer all the questions

1. (a) With reference to Source A and using an example, explain what is meant by inflation.

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(2)

(b) Using Source A, compare the rate of inflation in Ghana and India.

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(4)

Q1

(Total 6 marks)

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2. Using Sources B, C and D, explain how demand pressures can cause inflation in developing countries.

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Q2

(Total 6 marks)

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3. (a) On the diagram below, draw and label supply and demand curves to show how an increase in the rate of interest could lead to a fall in the price of houses and other expensive items.

P

Q

(5)

(b) With reference to the sources and your diagram, examine **two** possible effects of a rise in interest rates on the demand for goods and services in a country of your choice.

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(6)

Q3

(Total 11 marks)

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4. To what extent would very low inflation be good for a country of your choice? Use the sources in explaining the reasons for your answer.

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Q4

(Total 8 marks)

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5. Discuss the policies a country of your choice could use to try to control inflation.

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Q5

(Total 9 marks)

TOTAL FOR PAPER: 40 MARKS

END

H 3 3 9 9 1 0 6 1 2

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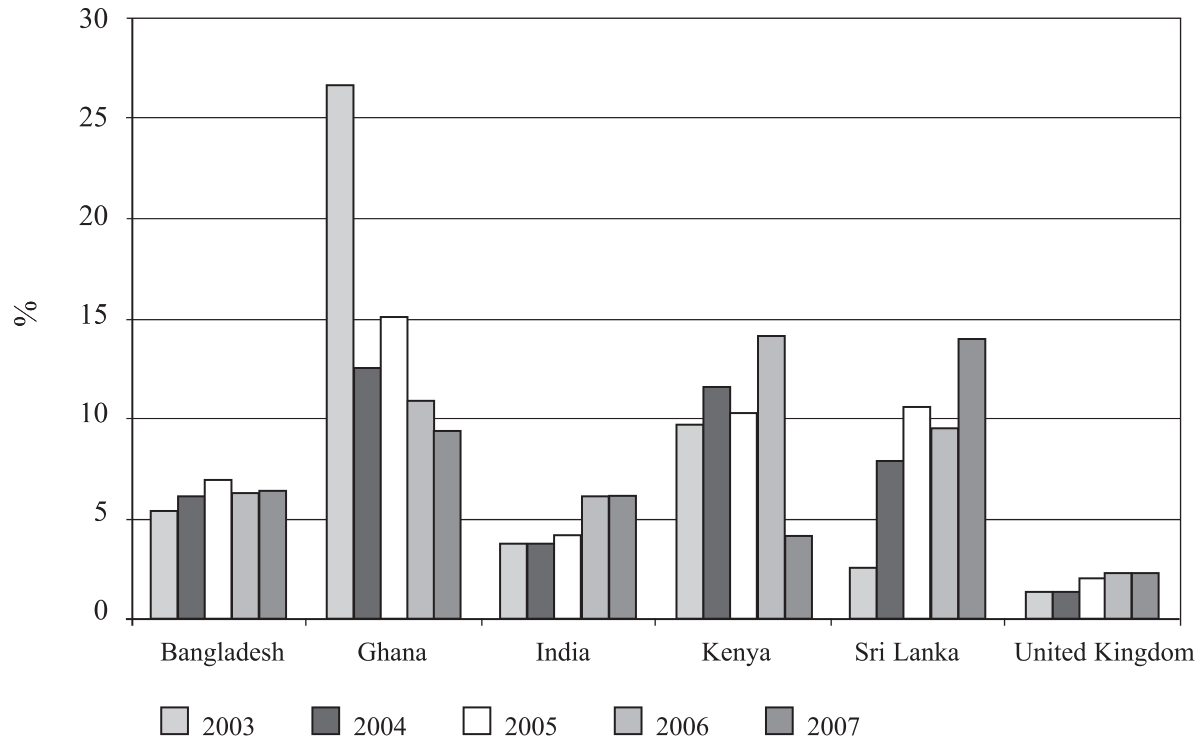
SOURCES

Source A



Source: www.imf.org

Source B

Inflation creeping back

Between 2003–2007 oil prices have risen by 158 per cent, while the price of wheat has soared 126 per cent. Increasing industrialisation in China, India and elsewhere has created employment and increased incomes. Spending this income increases demand, e.g. for housing, food and oil. Rising wages also increase costs.

Even in countries dependent on the export of low-priced goods, manufacturers are faced with the need to raise prices because of the increase in raw material costs. This is likely to lead to cost-push inflation and then a fall in economic growth. In addition, falling economic growth in developed countries could lead to a decrease in demand for imports from developing countries, reducing their employment and living standards. Central Banks and Governments are now faced with the problem of controlling inflation, while, at the same time, wanting to maintain economic growth.

Source: www.iht.com

Leave blank

Source C

Sources of inflation in developing countries

- Demand pressures: caused by demand exceeding actual output.
- Excess money supply: caused by government issuing excess money to fund expenditure exceeding revenue.
- Supply shocks: e.g. caused by drought, conflict and shortages.
- Inertia: the changes necessary for economic growth with low inflation are not brought about quickly enough.

www.imf.org, February 2007

Source D

China's inflation

Inflation in China reached a 10-year high of 6.5% in August 2007. This inflation was caused by:

- higher global commodity prices – imported inflation.
- excess demand in export industries – demand-pull inflation.
- increased money supply caused by China's trade surplus.

China is dealing with this inflation by relying solely on tighter domestic monetary policy. It has raised interest rates and made borrowing more difficult to reduce domestic demand for goods and services.

What it should do is to raise the value of its exchange rate. This would make exports more expensive and imports cheaper. As a result the trade surplus would fall and less money would enter the economy.

Source: (Copyright 2007 Thomas Palley) www.atimes.com, 22 September 2007

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Source E

How do interest rates affect inflation?

- An increase in interest rates will make saving more attractive and borrowing less so. This will tend to reduce current spending by both consumers and firms.
- Higher interest rates are particularly likely to reduce the demand and price of houses and other expensive items.
- A rise in interest rates relative to those in other countries may result in an increase in the amount of funds flowing into the country. This would result in an appreciation of the exchange rate against other currencies. This makes imports cheaper.

Source: www.bankofengland.co.uk/education/targettwopointzero

Source F

Moderate inflation is good

Very low levels of inflation are not necessarily good. Inflation may have good aspects often ignored by writers:

- If you borrow money to buy property, then inflation can mean that the rise in the value of the property will exceed the cost of paying for it.
- Keeping food prices too low can drive farmers out of business, forcing prices up in the future.
- Inflation may create profits for business which can be used for further investment and growth.
- If the demand for a country's exports is price inelastic, then inflation will probably bring about a current account surplus, since trade partners still import goods from the country though goods are more expensive.

Source: various

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