UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ECONOMICS **0455/33**

Paper 3 Analysis and Critical Evaluation **May/June 2011**

1 hour 30 minutes

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READ THESE INSTRUCTIONS FIRST

This Insert contains extracts for Questions 1 and 2.

Anything written on this Insert will not be marked.

DC (SJF) 43243

UNIVERSITY of CAMBRIDGE International Examinations

Extract for Question 1

Is China's economic growth sustainable?

China has grown rapidly since 1978 with an average annual economic growth rate of 10%. However, doubts are now being expressed about whether this high rate of economic growth will continue. This is because whilst China's ability to produce goods and services is still rising, the growth in demand for its products is slowing. China is heavily dependent on exports for its growth. Its domestic demand tends to rise relatively slowly.

The savings ratio (the proportion of disposable income saved) in China is 40%. The Chinese save such a high proportion of their disposable income for a number of reasons. These reasons include to pay for their children's education and, due to the current lack of state provision, to pay for health care and to support themselves during retirement. In recent years, the rise in unemployment may also have caused some individuals to save more as a precaution in case they lose their job.

China's unemployment is a mixture of three types – cyclical, structural and frictional. In 2008, for instance, four million workers lost their jobs as foreign demand for electrical appliances, toys and textiles decreased. With fewer workers employed than possible, Gross Domestic Product was below its potential level and some tax revenue was lost.

Changes in unemployment can also have an impact on the country's inflation rate. (See Table 1 which covers an earlier period when unemployment was falling.)

Table 1: China's unemployment and inflation rates in percentages (%)

Year	Unemployment rate (%)	Inflation rate (%)
2004	10.1	1.2
2005	9.8	1.6
2006	9.0	1.8
2007	4.2	2.0

Extract for Question 2

Japan's population problem

A high population growth can create problems for an economy but so can a significant population decline. Japan's population is falling. It has been estimated that its population will reduce from 128 million in 2008 to 96 million by 2050.

Japan's population is declining because, whilst its death rate is falling, its birth rate is falling at a greater rate. This means that Japan is experiencing both a declining and an ageing population. The country's fertility rate fell below the replacement rate of 2.1 in the early 1970s. (The replacement rate is the number needed to keep Japan's population stable.) In 2008, Japan's fertility rate was only 1.3 and its birth rate was only 9.0. At the same time, the Japanese are living longer. Life expectancy was 82 in 2008 and 25% of the population was aged over 65. Life expectancy is predicted to rise to 98 by 2050 and the proportion aged over 65 is expected to increase to 40%.

The effects of an ageing labour force on productivity are debatable. Some people argue that older workers are less productive than younger workers as they are physically less strong, more likely to take time off work due to sickness and be less able to learn new skills. Others, however, claim that older workers have more experience, are more reliable and that employers benefit from having a mixture of older and younger workers.

With people living longer, more money is being spent on health care and there is also an increase in demand for residential care (homes that look after the elderly). More older people are becoming dependent on a smaller labour force and it has been estimated that Japan will have less than two workers for every retired person by 2050.

The Japanese Government is considering ways of reducing the burden of an ageing population. It is discouraging people from retiring early and is also considering raising the retirement age. A higher retirement age would reduce government spending on state pensions, whilst raising tax revenue. In addition, the government has tried to increase the proportion of married women who work and to increase the birth rate. It has introduced financial support for families with young children and has expanded childcare facilities.

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