CAMBRIDGE INTERNATIONAL EXAMINATIONS

General Certificate of Education Advanced Level

ECONOMICS 9708/4

PAPER 4 Data Response and Essays (Extension)

MAY/JUNE SESSION 2002

2 hours 15 minutes

Additional materials:
Answer paper

TIME 2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer paper/ answer booklet.

Answer Question 1 and any **two** questions from Section B.

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [ ] at the end of each question or part question.

You may answer with reference to your own economy or other economies that you have studied where relevant to the question.

This question paper consists of 4 printed pages.

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Section A

Answer this question.

Question 1

An economic report on Belgium

The following information was taken from a bank report on Belgium dated August 2000.

Stronger activity, rising oil and commodity prices and a weak currency have brought accelerating inflation. Cost and demand pressures, however, should be restrained as the effects of higher oil prices fade and wage increases are limited by legislation.

Belgium is one of the most open economies in Europe. As a percentage of national income, exports and imports of goods are about three times the European average of 25%. Exports have been prominent in the increased economic growth in the last year. Trade and current accounts have remained in surplus and increased growth in output has led to an improvement in public finances, which may result in the budget deficit being eliminated this year.

In July 2000 annual inflation rose to 2.8% from under 1% in July the previous year, but (given the availability of spare capacity and the restraint imposed on wages by new legislation) labour costs have been prevented from increasing. Job creation in the public sector has assisted the growth in employment, which should result in a further growth in consumption as personal disposable incomes rise.

Table 1 Key Variables

	average			forecasts		
	1993-97	1998	1999	2000	2001	2002
growth in real GDP (%)	1.7	2.7	2.5	3.7	3.5	3.0
inflation (%)	2.1	1.0	1.1	2.5	2.2	2.3

Table 2 Composition of GDP

	1980	1990	1999
exports as % of GDP	62	71	76
composition of GDP by sector (%)			
agriculture	2	2	1
industry	36	30	28
services	62	68	71

(a) Is the information on inflation in the text supported by the figures in the tables? [3]

(b) Identify the evidence in the article that might be used to give support to the passing of legislation to limit wage increases. [3]

(c) **(i)** Describe the changes in the composition of GDP by sector between 1980 and 1999. [2]

(ii) Discuss whether these changes might be typical of a developed economy. [6]

(d) Use the article to discuss the advantages and disadvantages to Belgium of having one of 'the most open economies in Europe'. [6]

Section B is on page 4.

Section B

Answer any **two** questions.

2 'The demand for goods and services is often influenced by advertising or involves choices based on impulse. This means that the economic theory of demand is irrelevant.'

Discuss whether you agree with this argument. [25]

3 'Huge scale is at the heart of everything the giant US retail company Wal-Mart does. Its biggest stores are ten times the size of an average UK store.'

(a) Explain the advantages that a retail organisation might derive from large size. [12]

(b) Discuss whether the development of large companies is always a benefit to a society. [13]

4 **(a)** Explain the differences between the likely structure of employment in a developing economy and that of a developed economy. [12]

(b) Apart from employment, discuss what economic changes are likely in a developing economy if it experiences economic growth. [13]

5 **(a)** Explain how wage rates are determined in a perfectly competitive market. [10]

(b) Discuss why wage rates might be different in practice from those in a perfectly competitive market. [15]

6 **(a)** Explain what determines the level of investment in an economy. [10]

(b) In August 2000 the Dutch government was concerned that increases in aggregate demand were putting too much pressure on the economy.

Discuss how effective fiscal policy alone might be in reducing this pressure. [15]

7 'Economic analysis is preoccupied with efficiency.'

(a) Explain what economists mean by the term 'efficiency'. [10]

(b) Discuss how governments might use the concept of efficiency in deciding economic policy. [15]

Copyright Acknowledgements:

Question 1. Text and Table: Barclays Bank Country Report: Belgium. Barclays Bank August 2000.
Question 3. Extract: *The Godfather of U.S. supermarkets makes a special offer the UK shoppers can't refuse.* The Independent, 21 July 2000.

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