www.XtremePapers.com

CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/04**

Paper 4 Data Response and Essay (Supplement)

May/June 2003

2 hour 15 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 on both sides of the paper.
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 Question 1 and any **two** questions from Section B.
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.

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

This document consists of **3** printed pages and **1** blank page.

© CIE 2003
UNIVERSITY of CAMBRIDGE
Local Examinations Syndicate
[Turn over

Section A

Answer this question.

1

Banks have to merge to reap economies of scale.

The Deputy Prime Minister of Singapore said 'To be strong, banks need to be big; to become large enough Singapore banks will have to merge.' He argued that Singapore's banks need to be large to compete with foreign banks, especially as they are a core part of Singapore's economy. 'The industry is characterised by economies of scale. Small banks do not have the resources to compete either in quality of service or in returns to shareholders, and their costs are higher.'

The Deputy Prime Minister pointed out that the largest international bank had an estimated 100 million customers but the largest of Singapore's five banks had just five million customers. Switzerland, which had a GDP and population about twice that of Singapore, had only two big banks after merger. The Netherlands had just three banks, while even Australia had only four.

Even though a merger among Singapore's five banks would still create a small entity by international standards, there would be advantages. However, the Deputy Prime Minister assured Parliament that a merged bank would not be allowed to use its market power to engage in monopolistic or anti-competitive practices. Any such bank 'would still have to provide affordable banking to low-income Singaporeans.'

(a) (i) The Deputy Prime Minister stated that 'banking is characterised by economies of scale'. Define the term 'economy of scale'. [2]

(ii) Give **two** examples of economies of scale that might occur in banking. [2]

(iii) Identify **two** other general reasons, apart from economies of scale, which the Deputy Prime Minister gave for a merger. [2]

(b) Identify and explain the possible disadvantage of a merger which was discussed in Parliament. [3]

(c) (i) The banking industry in both the Netherlands and Australia could be described as oligopolistic. What evidence in the article supports this view? [2]

(ii) What else would characterise an oligopolistic market? [4]

(d) How convincing is the argument in favour of the banking merger presented by the Deputy Prime Minister? [5]

Section B

Answer **two** questions from this section.

2 It was reported in June 2001 that Vietnam was 'on the verge of liberalising state control of the arts by allowing privately run museums'.

(a) Explain the sources of market failure. [12]

(b) In the light of the existence of market failure, discuss whether the operation of museums can be left to the private sector. [13]

3 Between 1995 and 2000 there was a change in work patterns in Mauritius. Fewer people worked in agriculture and fisheries as the country diversified away from its staple crop, sugar, and more worked in restaurants and hotels as the tourist industry increased. However, in 2000 the government stated that the economy still suffered from an inadequately trained workforce with a lack of skills.

How far can the economic theory of wages explain the implications of this situation for the wages of an agricultural labourer **and** a hotel manager? [25]

4 There are often reports in the press that company profits have not risen as much as in previous years. As a result the company receives adverse criticism.

(a) Explain what a company might do if it wished to try to increase its profits. [13]

(b) Discuss what alternative objectives a company might have apart from profit maximisation. [12]

5 One tenth of the world's population live in developing countries. Many of those live on less than US$2 day, and the average life expectancy is less than 50 years.

(a) Explain what other indicators might be used, apart from those above, to classify a country as developing rather than developed. [10]

(b) Describe the policies that might be used by the government of a developing country to remedy the situation described above, and assess how easy it would be to implement those policies. [15]

6 **(a)** Use the multiplier process to explain the effect of an increase in investment by firms on output and prices in an economy. [13]

(b) Discuss the ways in which a government might influence private investment in order to try to ensure sufficient economic growth in a country. [12]

7 Most governments aim for full employment and stable prices. Which of those two aims should your government seek to achieve in the coming year and how might this choice affect the other aim? [25]

BLANK PAGE

Copyright Acknowledgements:

Question 1. © *The Straits Times*

Cambridge International Examinations has made every effort to trace copyright holders, but if we have inadvertently overlooked any, we will be pleased to make the necessary arrangements at the first opportunity.