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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS **9708/04**

Paper 4 Data Response and Essay (Supplement)

May/June 2005

2 hours 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.

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Section A

Answer this question.

1 The following extract is adapted from an article that appeared in 2003.

Diversification in Botswana

The Botswana government wishes to use the wealth that the country obtains from diamonds to diversify its economy. Botswana is the world's largest producer of diamonds, which accounted for 77% of the country's export earnings and 45% of GDP in 2002.

The diamond industry is controlled by one company, Debswana, which is a partnership between De Beers (a private sector company) and the Botswana government. Each owns 50% of Debswana but De Beers keeps 75% of the profits.

Botswana has various incentives for investors. The corporate tax rate is one of the lowest in Africa at 15% and profits can easily be sent back to the home country because there are no exchange controls. Wage rates are relatively low and the workforce is the most educated in Africa. Botswana is also perfectly located to become a financial hub for the 200 million people in the 14 African countries in the Southern African Development Community.

However, there are problems for investors. Usable water is in short supply and transport costs are high. Labour is also in short supply because the population is only 1.7 million and life expectancy is only 39.

Despite its problems, Botswana remains an example of prosperity in conflict-ridden Africa. US President George W Bush said 'Botswana has demonstrated sure, sound economic administration and a commitment to free market principles.'

(a) Identify **two** advantages of Botswana for foreign investors. [2]

(b) What evidence is there in the article that Botswana is a developing country? [4]

(c) What type of market structure exists in the Botswana diamond industry? Use the article to explain your answer. [3]

(d) President Bush said 'Botswana has demonstrated a commitment to free market principles'. What did he mean, and does the article support this view? [5]

(e) Discuss the advantages to a developing economy if it becomes more diversified. [6]

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Section B

Answer **two** questions from this section.

2 Economic theory often produces a definite outcome but in reality events are much less certain.

(a) Explain the economic theory of wage determination in perfect competition. [12]

(b) Discuss whether this theory is useful in explaining how wages are determined in reality. [13]

3 In 2002 there was a dangerous virus in China which caused many deaths. By July 2003 China had eliminated the virus and, as a result, there was a revival in tourism and consumer spending. Retail sales rose at the fastest pace for six months.

(a) Explain the effect of a rise in consumer spending on China's national income. [12]

(b) Why might a government wish to promote an increase in tourism? [13]

4 In August 2003 the US dollar rose in value against the euro as reports showed that Europe's economy failed to grow and Germany even fell into a recession.

(a) Explain what the above statement means. [12]

(b) Discuss what policies the German government might use to combat the recession. [13]

5 Gillette, the world's largest razor maker, announced in August 2003 that its annual profits had risen by 15%. In the same period, its sales increased by 11% as there was increased demand for its Sensor3 and Mach3Turbo razors and a reduction in the price of Duracell batteries, which Gillette produces. However, Gillette faces strong competition from Energizer Holdings, which sells batteries and Schick razors. Energizer introduced a new four-blade razor in September 2002 and increased its advertising and product promotion. Gillette lost US market share and announced it planned to increase expenditure on marketing.

Explain how firms are said to behave in oligopolistic markets and discuss how far this is supported by the above statement. [25]

6 Discuss the assertion that the market system is not able to allocate resources efficiently. [25]

7 **(a)** Explain **two** methods of calculating gross domestic product used in national income statistics. [10]

(b) How useful are national income statistics for indicating changes in living standards? [15]

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Question 5 © International Herald Tribune, 6 August 2003.

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