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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 2006

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

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

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

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Section A

Answer this question.

1 United Nations' Development Programme Report

A report stated that the average GDP per capita in Namibia in 2001 was US$7120, and the country was 124th out of 175 countries in the Human Development Index of the United Nations. While some countries had experienced a boom in the 1990s, 50 nations, half of them in Africa, were worse off in 2001 than in 1990, with more people going hungry and life expectancy falling. In those countries, prices of crucial exports had fallen, foreign aid had declined and the number of people with HIV/AIDS had increased. The same report also stated that in Africa 40% of the people live on less than $1 a day. This was contrasted with the amount of subsidy given to European farmers, who received $43 a day for each cow they owned.

The values of the Human Development Index for selected African countries were:

Botswana	0.614
Ghana	0.567
Malawi	0.387
Mozambique	0.356
Namibia	0.627
South Africa	0.684
Zambia	0.368
Zimbabwe	0.496

The average value of the index for sub-Saharan Africa was 0.468.

In contrast, the top five countries in the index were:

Norway	0.944
Iceland	0.942
Sweden	0.941
Australia	0.939
Netherlands	0.938

The world average was 0.722.

(a) Explain what is meant by 'GDP per capita'. [2]

(b) **(i)** Identify the reasons given in the extract for the worsening conditions in African countries. [4]

(ii) Discuss how far the situation in Africa in the 1990s might have been the result of what was happening in other countries. [4]

(c) Describe the economic features that might exist when a country 'experiences a boom'. [4]

(d) If you were asked to comment on the relative standards of living in Europe and Africa how far would the information given be of use to you? [6]

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Section B

Answer **two** questions from this section.

2 'Governments, unlike the private sector, can create some of the necessary conditions for the efficient allocation of resources. It is, therefore, best if there is as much government involvement in the economy as possible.' Discuss whether you agree with this opinion. [25]

3 The gain in happiness when someone gets an extra dollar is much smaller when the person is rich than if they are poor. So money transferred from rich to poor raises total happiness and governments should seek to make such transfers.

(a) Explain what is meant by the Law of Diminishing Marginal Utility and consider whether the statement above is a correct application of it. [12]

(b) Discuss what policies a government might use in order to decrease poverty in its country. [13]

4 Large organisations face no competition. There is, therefore, no choice. Small competitive businesses are a better means of providing for consumers' needs.

Do you agree with this argument? [25]

5 Sometimes the development of a project in an urban area is encouraged by a government. At other times the priority is to support rural areas.

(a) Explain what benefits might be obtained by encouraging investment in rural areas. [12]

(b) Discuss whether it might be better to conserve, rather than exploit, the resources of a country. [13]

6 **(a)** Explain how changes in interest rates might influence investment. [10]

(b) 'If investment increases it will cause an increase in output. If output increases it will cause an increase in investment'. Discuss whether both these statements can be true. [15]

7 **(a)** Explain whether there is a link between the marginal revenue product of labour and the wage rate in an occupation. [10]

(b) The price of a firm's product is above the average total cost. Discuss whether the firm should stop production if its price falls. [15]

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Question 2 © *RSA Journal*; July 2004.

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