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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS **9708/04**

Paper 4 Data Response and Essays (Supplement) **May/June 2008**

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

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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.

Section A
Answer **Question 1**.
Section B
Answer any **two** questions.

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 **The North Sea oil industry**

The UK drills for oil in the North Sea. In 1999, production was at 4.5 million barrels a day. However, as the oil in the easily accessible oil fields was used up, production fell steadily from 1999 until it reached 3.3 million barrels a day in 2005.

Nevertheless, in 2006, many in the oil industry did not consider it to be in decline. Indeed, some of the industry's problems were associated with an expanding industry, not a declining one. The managers complained, for example, about the shortage of skilled labour and the high rents of the oil rigs. Investment increased by 30% in 2006 and it was hoped that production would rise in 2007.

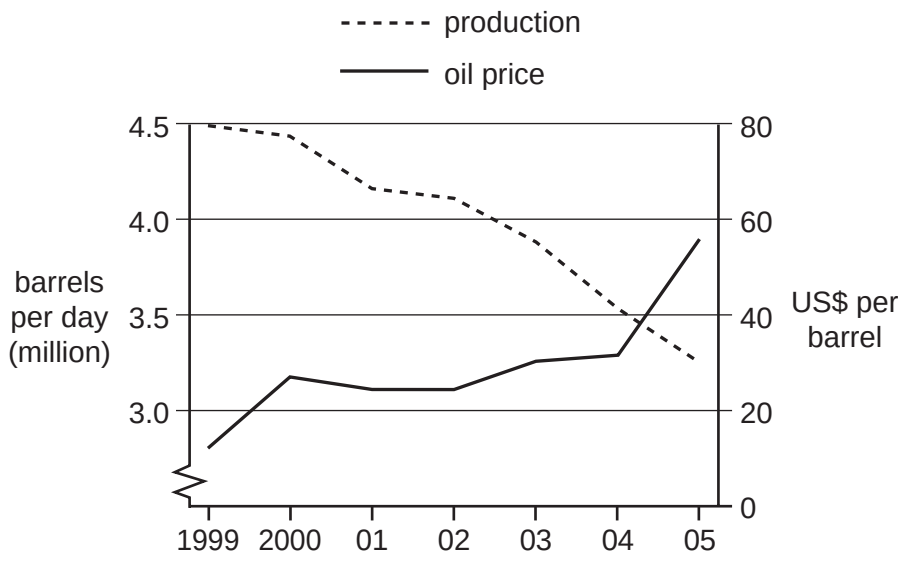
The UK government was keen to keep production high as the industry supported 250 000 jobs and had a large impact on the trade balance of the UK. One way to keep production high is to explore for new oil fields. Another way is to use every drop of oil from the existing oil fields. Sometimes a large company leaves an oil field which still has substantial amounts of oil because although it is technically possible to extract the oil, it is not profitable to do so. However, a smaller company is often able to drill profitably for the oil when it is unprofitable for a large company.

In view of this, the UK government encouraged smaller and more enterprising firms. In 2005, 152 licences to drill were given to 99 companies. These new licences gave companies exclusive rights to develop the more inaccessible oil fields for six years rather than four years as before. Furthermore, the government also changed the rules on access to pipelines – which are often owned by large companies – so that smaller companies could get their oil to the market more easily.

The Chancellor of the Exchequer (Minister of Finance) also made changes. In 2002, he raised the tax on oil company profits to 40% from the usual company rate of 30%, and raised it again in 2005 to 50%. The justification given was that the oil companies made huge profits.

The industry is more dependent than ever on large expensive technological advances and innovation. Most of the government's reforms recognised this.

Fig. 1 North Sea oil industry: production and price



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(a) How might the North Sea oil industry have an impact on the national income of the UK? [4]

(b) From the information given, consider whether the North Sea oil industry appears to be declining or expanding. [6]

(c) What evidence is there that might explain why the North Sea oil industry is still prepared to increase investment? [4]

(d) Discuss whether the increase in the number of small firms drilling for oil contradicts the usual economic explanation of the existence of small firms. [6]

Section B

Answer **two** questions from this section.

2 The government in Namibia stated that electricity prices should cover cost and should also be based on the principle of allocative efficiency.

Discuss whether this approach to pricing can be supported in theory. [25]

3 In some countries the power of trade unions has decreased. In other countries, trade unions have organised major strikes resulting in employees refusing to work.

(a) Is the existence of a trade union likely to be the main factor that affects the supply of labour? [10]

(b) Discuss how the theory of wage determination through market forces might need to be altered when trade unions exist in an industry. [15]

4 Large firms necessarily become monopolistic. Monopolies adopt practices that are undesirable. Therefore, large firms should be regulated by governments.

Discuss whether there is any truth in this argument. [25]

5 The solution to unsatisfactory economic development and growth is to focus on economic theory, scientific advances, new technology and market forces.

(a) Explain what is meant by economic development. [10]

(b) Discuss whether you agree with this statement. [15]

6 **(a)** It is feared that if the government increases taxes the level of national income will fall. Explain whether this is necessarily true. [10]

(b) Discuss whether a fall in the level of national income is a good indicator that there has also been a decline in the standard of living in the country. [15]

7 **(a)** For what purposes do people demand money? [10]

(b) Discuss the effect of an increase in the supply of money on interest rates and national income. [15]

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