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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 2009**

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 Private Sector Money and Development

The amount of money that workers employed in foreign countries send home is worth US$200 billion a year and, therefore, the potential benefits of this to developing countries are huge. In some countries the amount of money sent home by those working abroad is very significant when compared with official development aid. For example, in Bangladesh and Kenya, recent figures were:

	Kenya 2004	Bangladesh 2005
Money sent home by workers	US$464 m	US$2.2 bn
Money given in aid	US$625 m	US$1.4 bn

Even small amounts of money sent by individuals can have an impact on development. The primary education of many children is paid for by money sent home by relatives working abroad. Some governments actively encourage workers to send money home. India has offered non-resident Indians special investment opportunities, perhaps influenced by the example of China where investment from Chinese living abroad has been a big factor in the development of the economy. The same story is true for Ghana and Nigeria, which are developing 'remittance partnerships' with the UK to make it easier and cheaper for people from those countries working in the UK to send money home.

Further, the money could be worth even more if it is directed not just within the family but into community projects. In Mexico, local governments are matching any private money from abroad invested in community development with their own funds.

However, money is not the simple solution to poverty. The director of an economic research centre rejects the idea that income is the most significant contributor to well-being. Instead, in the research centre, attention is being turned to measures that seem to have little to do with economists' traditional indicators about production and consumption. When asked to rank what was important to them, poorer people said religion, relationships and inner peace were more important than income.

(a) Explain whether the money sent to Kenya by Kenyans working in the UK would be included in Kenya's GDP. [2]

(b) Analyse why many people from developing countries might go to work in developed countries. [5]

(c) How far does the article support the view that economic development is largely the result of private actions rather than government policy? [5]

(d) Discuss the suggestion that 'traditional indicators about production and consumption' are of little use as measures of welfare. [8]

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Section B

Answer **two** questions from this section.

2 In many cities worldwide, newspaper publishers compete with each other. Some types of newspapers are sold, but publishers also produce others that are distributed free of charge. Many people and companies pay to advertise in the free newspapers.

(a) Explain the different ways that economists classify profits and consider whether it is possible to make a profit from a newspaper that is distributed free. [12]

(b) Discuss how a firm might compete in a market. [13]

3 Discuss what might cause inequalities in wage rates in an economy. [25]

4 Airbus, a large aircraft manufacturing company, announced in 2007 that its goal was to increase its $475 million research budget by 25% in order to try to develop a more environmentally friendly aircraft that had lower fuel consumption.

(a) Explain why Airbus is likely to be in an imperfect rather than a perfect market structure. [10]

(b) Economics textbooks sometimes criticise firms in imperfect competition as being against the public interest. What does this mean, and how far does the Airbus announcement prove the textbooks wrong? [15]

5 In 2006 it was reported that a country's unemployment rate had remained steady and that its central bank, through its interest rate policy, had prevented an increase in inflation despite a sharp rise in oil prices.

(a) Explain what might cause unemployment. [12]

(b) Discuss how interest rate policy might prevent a rise in inflation. [13]

6 In 2007 a report stated 'classrooms with teachers, clinics with nurses, clean water and working toilets are the key to ending global poverty. Only governments are in a position to provide these services on the scale required'.

Discuss whether governments should abandon their traditional macroeconomic aims in favour of the alternatives in the above statement. [25]

7 A World Bank report in 2007 commented on the continuing need for major spending worldwide on infrastructure on everything from roads and railways to water and electricity generation.

(a) Explain the effect on national income when there is an increase in spending on infrastructure. [10]

(b) Discuss whether an efficient allocation of resources can be obtained only if large-scale investment is undertaken by the public sector rather than the private sector. [15]

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Question 5 © The Guardian, p.21, 6 September, 2006
Question 7 © Wall Street Journal, p.3, 15-17 June, 2007

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