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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)

October/November 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 Price of mobile telephone calls reduced by a third

In 2003 it was stated in the UK that a decision of the High Court would result in the price of mobile (cell) phone calls being reduced by one third. It was said that the price cuts would save consumers up to £700 million over three years. The reductions applied to all phone calls from one mobile phone to another and from landlines to mobile phones.

Three of the four UK mobile phone networks – Vodafone, T-mobile and Orange – had been fighting the imposition of the price cuts. They estimated that the decision would cost them between £1.5 billion and £2 billion and warned that the costs would be recovered by raising the price of the various styles of new phone handsets.

A spokesperson for one of these phone companies said 'People should not necessarily regard the decision of the court as a good thing. The court did not state that mobile phone companies are not entitled to cover their investment costs, only that we may not do so in the current manner. One result will be that cross-subsidies will disappear and the price of a new handset will go up considerably.'

The court's decision meant that companies had to reduce the 'termination charge', sometimes by as much as 50%. This is the charge when a call is made from one phone network to another. Phone companies were accused of charging significantly more for such calls than for calls within the same network without making this clear to consumers. A Consumer Association spokesman said 'perhaps the phone companies will understand that they cannot continue to exploit consumers with hidden charges. They must charge a fair price for all calls.'

One analyst suggested that the Court decision would mean that the progress of new technology would be held back and that the cost of text messages might also increase.

(a) What evidence is there in the article that the UK mobile phone companies operate in an imperfect market structure? [3]

(b) Explain the statement 'one result will be that cross-subsidies will disappear and the price of a new handset will go up considerably.' [4]

(c) The article says the decision of the High Court will cost the companies £1.5 billion to £2 billion. Explain how the phone companies might react in order to retain their profit levels. [4]

(d) Explain with the aid of a diagram how the existence of termination charges would affect consumer surplus. [3]

(e) Does the information lead you to agree with the spokesperson when he said that consumers should not necessarily regard the decision as a good thing? [6]

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Section B

Answer **two** questions from this section.

2 The French government stated that it was keen to achieve economic efficiency through policies that encouraged a free market. Despite this, in 2003, it bought 30% of a private French industrial group, which was facing bankruptcy. The company is one of France's major engineering groups and employs over 110 000 people.

(a) Explain what is meant by efficient resource allocation in a free market. [10]

(b) Would you agree that in some circumstances it is best to accept decisions such as that of the French government and abandon the search for economic efficiency through the free market? [15]

3 In some countries the power of trade unions has been restricted and the government has passed legislation fixing the minimum level of wage rates.

(a) Explain how trade unions can be incorporated into the economic analysis of wage determination. [12]

(b) Discuss the possible effects that trade unions might have on the economy of a country. [13]

4 **(a)** With the help of diagrams distinguish between normal profit and abnormal profit. [10]

(b) Discuss whether firms always want to maximise profits and are able to do so in the way suggested by economic theory. [15]

5 How far do you agree that low interest rates and low inflation are the most important aims of government policy in maximising economic welfare? [25]

6 With the approval of the Malaysian government, the Swedish company IKEA, the world's largest retailer of home furnishings, has invested $106 million in Malaysia in the past three years. It now plans to open another large store in the country, employing 450 people, with expected sales of approximately $50 million in the first year.

(a) Use multiplier analysis to explain what effect this investment might have on the Malaysian national income. [10]

(b) Discuss whether the activities of multi-national companies are always beneficial. [15]

7 'There are so many difficulties in measuring living standards that we can never be sure that people in one country are better off than those in another country.' Comment upon this statement. [25]

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Copyright Acknowledgements:

Question 1 Julia Finch & Jill Treanor © GUARDIAN 28/06/2003
Question 6 © International Herald Tribune, 15/08/2003 (Paraphrased from original article)

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