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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 2007**

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 Tourism and the local workers

Here are two accounts of the tourist industry in Africa.

Article 1

The Gambia, on the west coast of Africa, is ranked 160th out of 173 on the United Nations Human Development Index. Over half the population live on less than one US dollar a day and survive on subsistence agriculture and cannot compete with subsidised American farmers.

However, things are changing as The Gambia expands its tourist sector, which is now a significant part of the national economy, accounting for 7.8 % of GDP. It employs 5000 directly and creates work for 6000 others. Large European tour operators play a vital role in marketing, assuring quality, and providing flights and accommodation. Tourism has the major advantage that developed countries cannot place tariff barriers on tourist exports. Tourists spend on average US$40 to US$50 a day on meals, souvenirs, crafts and tours. One third is spent in the informal sector, where income is not recorded, providing a livelihood for taxi drivers, craft workers and local guides.

However, there are disadvantages. Tourism is highly seasonal, and tour operators negotiate low prices which keep profit margins low – so low, in fact, that many hotels have closed because they could not cover costs.

Article 2

A union official in Tanzania said that the tourism sector is expanding in Tanzania but the return to the country's economy is low and the benefit to the workers is about 0.5 % of the total industry's income. In the hotels the lowest wages are around US$50 a month, from which tax and rent have to be deducted. Someone who has been working 5 years or more receives no extra pay or promotion. Contracts are short-term lasting for a year.

Hotel operators oppose workers joining trade unions. Most tour operators come from outside Tanzania. Only 10 % of each US dollar earned by the tourist industry remains in the country, and most of that goes to the management not the workers. Top managers are usually foreign workers paid two or three times as much as a Tanzanian manager.

(a) What evidence is there that The Gambia is a developing country? [4]

(b) What does Article 1 mean when it says that tourism created work for 6000 others? [3]

(c) Article 2 mentions the low pay of hotel workers. Why might many hotel workers receive low pay? [5]

(d) Does the evidence provided enable you to conclude that tourism merely exploits resources and is of little benefit? [8]

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Section B

Answer any **two** questions from this section.

2 'We do not ask consumers what they want. They don't know. We decide what they will need and will want.' Akio Morita, founder of the Sony electronics company.

(a) Explain how, according to utility theory, consumers allocate their expenditure between different products as prices change. [12]

(b) Discuss whether markets are dominated more by the producer or by the consumer. [13]

3 In 2005 London Energy stated that as a company it invested millions of pounds in improving efficiency to reduce costs. However, as world energy prices had increased significantly, it had been forced to increase the price it charged the customer.

(a) Explain how an increase in expensive investment by a company might result in a reduction in costs. [12]

(b) London Energy has ceased to be a monopoly supplier in its region. Analyse how price and output might change as a market structure becomes more competitive. [13]

4 The World Bank has given a loan to support the Ugandan government's road development programme. Improved roads into economically productive rural areas will have a major impact on the country's economy.

(a) Explain why projects such as road building are often undertaken by the government, rather than by the private sector. [10]

(b) Use economic analysis to discuss why there will be a major impact on the economy from the road development programme. [15]

5 The Chairman of a national bank stated 'It is important to rely on a range of qualitative and quantitative data to assess the economic health of the nation.'

Explain what data might be employed in this assessment and discuss how useful it is likely to be. [25]

6 **(a)** Explain why there might be rapid economic growth in a country. [10]

(b) Discuss whether it is best to use all factors of production as fully as possible. [15]

7 Analyse why the aims of government policy might conflict with each other and discuss which of the aims ought to be given priority. [25]

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Copyright Acknowledgements:

Question 1 Harold Goodwin; *Development Magazine*, Issue 27, 2004.

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