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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 2008**

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

* 0 6 9 7 4 0 7 6 1 8 *

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 **Poverty and Economic Growth**

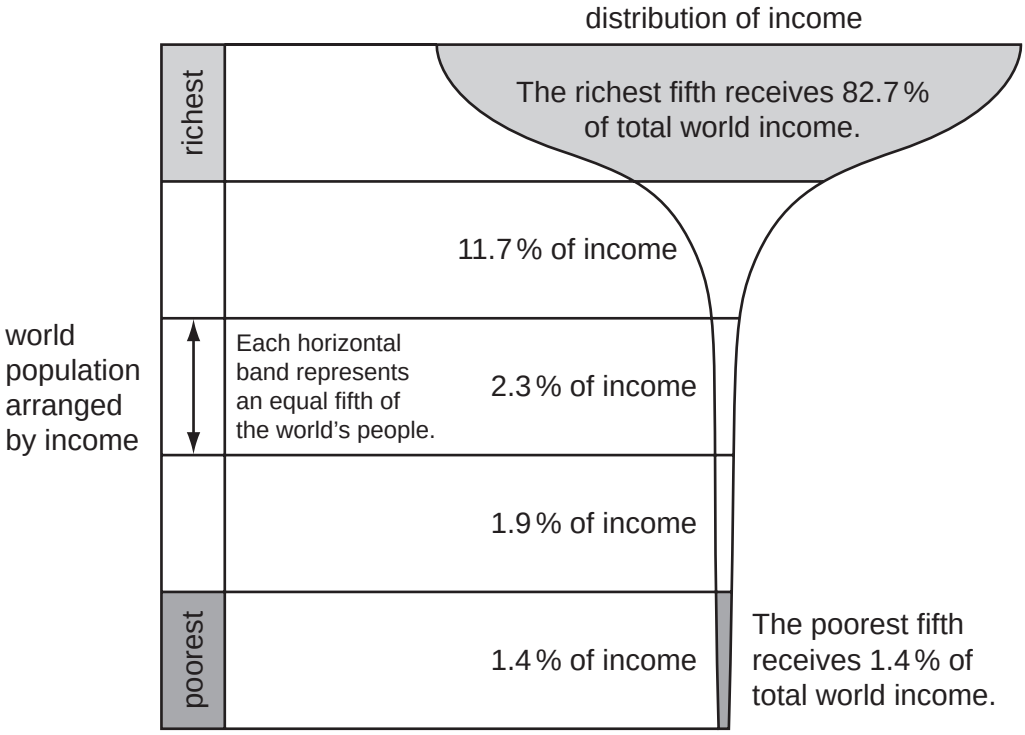
At a time when there has been rapid economic growth in some parts of the world, there are many countries in Africa in which severe poverty and infectious diseases are still widespread.

In dealing with the poverty in developing countries much is written about the need for aid from the rich developed countries. The high profile given to aid hides the fact that financial, human and other resources are continuously taken from developing countries by these wealthy nations which are seeking their own economic growth.

Economic growth in the last 50 years has occurred at the same time as a widening gap both between rich and poor people in a country and between rich and poor countries. Economic growth and development should be reconsidered to include a more even progress in areas such as basic living conditions, access to health care and education.

Despite the economic growth, almost half the world's population still lives in poverty on less than US$2 a day. This reveals a weakness in the argument that economic growth is the solution to poverty.

Fig. 1 Global income distribution



(a) Explain briefly what is meant by economic growth. [3]

(b) Explain the possible link between developed and developing countries in achieving growth. [5]

(c) Analyse whether Fig. 1 supports the statement that 'almost half of the world's population still lives in poverty on less than US$2 a day'. [5]

(d) The extract concludes with the statement that 'there is a weakness in the argument that economic growth is a solution to poverty'. Discuss whether this is a correct conclusion from the evidence given. [7]

Section B

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

2 Economic analysis of resource allocation assumes consumers are rational. Where advertising exists, this analysis is of little value. Do you agree with this argument? [25]

3 **(a)** Explain how a knowledge of its long-run average costs might be useful to a profit-maximising firm. [10]

(b) Discuss whether firms always want, and are able, to maximise profits as suggested by economic theory. [15]

4 In India the post is delivered partly by private courier firms and partly by the government-owned India Post. The government is keen to increase its share of the market.

(a) Explain why a government might wish to increase its control over private firms. [10]

(b) Discuss whether an increase in government control necessarily improves efficiency in an organisation. [15]

5 The economic theory of wages assumes first that there is a perfect market and secondly that the market will reach a stable equilibrium. It therefore has little relevance to a commercial world full of change and uncertainty.

Discuss whether you agree with this opinion. [25]

6 In some countries the rate of unemployment has remained low for several years.

(a) Explain what causes unemployment. [12]

(b) Discuss whether the reduction of unemployment should always be the main aim of government policy. [13]

7 **(a)** Explain the factors influencing the level of investment in an economy. [10]

(b) Discuss the extent to which national income is determined by private investment. [15]

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