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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays (Supplement) **October/November 2009**

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

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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.

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Section A

Answer this question.

1 **Counting the Cost**

India has transformed itself from a primarily agricultural economy into a major industrial one in less than 60 years. Some argue that industrialisation results in increased wealth and a better standard of living. Certain areas of India are better suited to this industrialisation than others. The state of Orissa is one.

Orissa is a state of contrasts – 48 % of its people live below the poverty line; it is the most heavily indebted Indian state; its literacy level is below the national average; the level of infectious disease is high and malnutrition is alarming; it is subject to natural disasters such as floods. But it has unrivalled natural resources including one of Asia's largest deposits of coal, large areas of forest and extensive mineral reserves. These attract big industrial companies. A new steel plant has been established which will produce six million tonnes of steel a year.

In Orissa, a balance has to be achieved between potential profits and benefits from industrialisation and its cost to the people and the environment. The steel company is recruiting from local engineering colleges and is able to offer employment and new opportunities. People have increased incomes. Farm workers earn less than half what the factory pays its workers. One worker said 'I used to work on the land and was at the mercy of the weather. Now I do not have to pray for rain. The company also employs my sons and we are much better off'.

However, the factory is not labour-intensive and is unlikely to employ the huge numbers of people seeking work. Also, mining and infrastructure development destroyed some of the forest. Industrial production results in soil erosion and pollutes the air with the dark smoke from factory chimneys which causes acid rain. The rivers have also become contaminated with toxic waste which is posing a threat to wildlife, such as elephants, tigers and deer, as well as to local people. The industrialisation meant that some people lost their homes and had to be resettled elsewhere. The new houses had safe water provision and drainage, unlike some of the original homes, but people complained about the poor way the houses were built. In 2007, 13 were killed during a protest about the lack of compensation for the loss of their homes.

(a) What is meant by industrialisation? [2]

(b) Why might some argue that the economic costs of the exploitation of the natural resources in Orissa are too high? [5]

(c) Comment on whether the development of the steel plant is likely to have been a benefit for the workers in Orissa. [5]

(d) It is said that the standard of living in Orissa continues to be very low. Discuss whether the evidence you have been given is sufficient to support this view. [8]

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Section B

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

2 There has been much discussion recently about the effect of climate change and the efficient use of economic resources. Discuss whether the efficient allocation of resources can be achieved only if governments are involved in the process. [25]

3 BG is a rapidly growing energy company with operations in 25 countries engaged in the exploration, production and distribution of natural gas and oil. This requires complex chains of physical infrastructure, major investment funds and detailed commercial agreements with different countries.

(a) Explain why economies of scale might be significant in an industry such as gas supply. [12]

(b) Discuss whether companies that supply energy are likely to operate in contestable markets. [13]

4 Workers in the public sector are sometimes paid less than workers in the private sector.

Discuss why wage rates differ. [25]

5 Some Japanese economists have argued that higher interest rates would, unusually, improve Japan's economic growth.

(a) Explain why it might be said that this link between interest rates and economic growth is unusual. [12]

(b) Discuss whether economic growth is good for an economy. [13]

6 'There is no point in calculating figures for GNP. They are never an accurate estimate of welfare, and people are more concerned about crime, pollution and health than GNP.'

Do you agree with this argument? [25]

7 **(a)** Explain what distinguishes a developing country from a developed country. [12]

(b) When a country achieves 'developed' status does this mean that it has solved all its economic problems? [13]

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Question 1 *Developments*, p.25, Issue 38, Department for International Development, 2007

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General Certificate of Education
Advanced Subsidiary Level and Advanced Level

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Section A

Answer this question.

1 Resources wasted on bottled water

In developed countries drinking bottled water has become fashionable; the practice of carrying a small bottle of water is very common. However, it costs much more than water from a tap but often cannot be distinguished from such tap water. Some brands contain the same chemicals as tap water which people think they have paid to avoid.

There is now a campaign to stop selling bottled water in restaurants and supply only tap water. A spokesman said 'in the UK, in 2006, 3 billion litres of bottled water were sold. They were advertised as 'pure as a mountain stream' or 'cleansed for 2 million years beneath a Siberian glacier'. Buying such water is a vanity. It is flown around the world to the UK from Norway, France, Japan and Fiji. It is bottled in glass that is mostly thrown away and is very heavy to transport, or in plastic that never decomposes. From a restaurant's point of view selling water is almost free money. The profit mark-up is higher than on wine. The New York Ritz-Carlton hotel even has a water list alongside the wine list.

A UK government minister said 'it is morally unacceptable to spend millions of pounds on imported bottled water when we have pure cheap drinking water and when one of the crises facing other countries is the supply of water'.

By contrast, in developing countries there is often no tap water. 40% of the world's population lack basic sanitation and 1 billion people do not have safe drinking water.

It would, therefore, be better for everyone and a better use of resources if the developed world stopped spending money on bottled water, drank the safe tap water instead and used the money to improve water supplies in developing countries.

Environmentalists believe that the packaging, transportation and disposal of bottled water products creates unnecessary carbon dioxide emissions. It has been proposed that the government should introduce taxes to pay for the damage to the environment, either directly on the sale of each bottle of water or on the disposal of the plastic bottle.

A spokesperson for the bottled water industry said that critics were forgetting that the industry generated income and that an estimated 20 000 jobs depended on the sales of bottled water. In 2007, annual sales in the UK were worth £2 billion.

(a) (i) Briefly explain how a rational consumer's equilibrium may be achieved using marginal utility theory. [4]

(ii) Use the article to consider whether consumers who purchase bottled water are acting rationally and maximising their satisfaction. [4]

(b) Analyse the effects that restricting the sales of bottled water might have on the UK economy. [5]

(c) Discuss whether the information provided is sufficiently factual and complete to justify government regulation of the bottled water industry. [7]

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Section B

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

2 In 2007 BHP Billiton, a large mining group, made a bid to take over Rio Tinto, the world's third largest mining group. Such a takeover would create the largest producer of copper and aluminium in the world.

(a) Explain whether increasing its scale of production will always reduce a company's costs. [12]

(b) BHP Billiton and Rio Tinto have monopoly powers and are mining a natural resource. Discuss why the governments of the countries in which these companies operate might become concerned about this. [13]

3 By 2007, the telecommunications business had become dominated by fewer organisations. One of them, Cable and Wireless, announced there would be 3000 job losses. Another, Tiscali, announced 800 job losses and BT, the UK telecoms giant, announced a £450m major investment and restructuring resulting in thousands of job cuts.

Analyse whether the above is what marginal revenue product theory predicts will happen when a labour market becomes less competitive and large investment takes place. [25]

4 **(a)** Explain what is meant by the transactions, precautionary and speculative demands for money. [10]

(b) An employee moves to another job because it pays more. However, the old job was paid weekly and the new job is paid monthly. At the same time interest rates are increased. Discuss how these changes would affect the employee's transactions, precautionary and speculative demands for money. [15]

5 **(a)** Explain whether low GDP is a good indicator that a country has a low standard of living. [12]

(b) Discuss whether the main aim of a government should be to have a policy on population growth if it wishes to increase the standard of living in its country. [13]

6 **(a)** In some countries there has been fear of economic recession in recent years. Explain the main characteristics of an economic recession. [10]

(b) Discuss the policies that might be used to bring an economic recession to an end. [15]

7 The economy of South Africa is growing faster than its potential growth rate. The Governor of the central bank of South Africa said 'This is why we have inflation. We need to deal with inflation as it does not lead to job creation. Interest rates are the only tool available to control inflation'.

Do you agree with the Governor's opinion on inflation? [25]

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