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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 2010**

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

8481617467

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Section A
Answer **Question 1**.
Section B
Answer any **two** questions.

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Section A

Answer this question.

1 **The Success of Supermarkets**

In some countries supermarkets dominate food shopping. In the UK 75% of the food bought for home use comes from supermarkets. A third of that comes from one supermarket, Tesco. Tesco makes billions of pounds profit, one third of which goes to the government in taxes. It employs 110 000 people in the UK and many more in developing countries.

In the past, UK shoppers queued to buy expensive food from many small shops with limited choice and restricted opening times. Now, in supermarkets, they have the benefit of a wide choice, reasonable prices, international dishes, organic produce, fair trade items, clear labels of the contents of the products and, because of intense competition between the supermarkets, some open 24 hours.

However, the media complain that supermarkets are not competitive but monopolies. They say their profits are too high, they have caused small shops to close and forced suppliers in developing countries to accept low prices and to pay low wages.

It must be remembered that supermarkets grew because they gave the customer what they wanted and aimed at certain types of shoppers. One supermarket, which started as a small shop, insisted on selling only high quality products while another offered customers low prices.

Supermarkets also adapted to changing market trends. One began to supply products with its own brand name which were sold more cheaply because there were no advertising costs. A further brilliant idea in expanding their business was the introduction of a store loyalty card. Shoppers with a loyalty card are given discounts which encourages them to continue to shop in the same supermarket.

The most successful supermarkets expanded their businesses by buying large sites to build huge stores. (They are criticised for such building, especially if it destroys parts of the countryside or environment.) They expanded into non-food products to fill these stores, making it possible for consumers to buy many household items from clothes to kitchen utensils to electrical goods in the same shop. Supermarkets have also recently introduced on-line shopping and home deliveries.

Many small shops have closed. There are bound to be casualties in retailing. How can the blame for that be the fault of the supermarket? Their size should not be a concern. It is, after all, the consumer who decides where to shop and what to buy.

(a) How has the type of market structure in food retailing in the UK changed? [3]

(b) To what extent does the article support the view that the consumer is sovereign in food retailing? [4]

(c) Explain what the various objectives of a firm might be. [5]

(d) Do you agree with the conclusion of the article that the size of a firm should not be a source of concern? [8]

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Section B

Answer **two** questions.

2 In 2009 there were huge fires in Australia which destroyed much property and countryside. The government promised to allocate a large amount of money and resources to help with the restoration of the area.

(a) With the help of diagrams explain what is meant by efficiency in the use of resources. [12]

(b) Discuss the economic implications of the government's approach to the situation. [13]

3 **(a)** Explain what is meant by internal economies of scale, and analyse the link between economies of scale and a firm's long run average cost curve. [12]

(b) Discuss whether there is a relationship between the marginal cost curve of the firm and the supply curve of the industry to which it belongs. [13]

4 Recently, employers in some countries have employed foreign workers instead of local workers. The local workers argue that they should have priority over foreign workers and also that more products should be produced at home rather than being imported.

(a) Explain, with the help of a marginal revenue productivity diagram, why an employer might prefer to switch to foreign workers. [12]

(b) Discuss whether it would be beneficial for a country to give priority to its local workers. [13]

5 National income statistics are used to calculate a country's GDP. The table shows the GDP for five countries for 2008.

Country	GDP $m
USA	14 580 000
India	3 319 000
Singapore	244 000
Mauritius	14 060
Swaziland	5 626

Discuss how far the table might be used to determine whether one country has higher living standards than another. [25]

6 Explain what is meant by an equilibrium level of national income and discuss why this equilibrium might change in a developing country. [25]

7 Economic analysis states that the aims of the government include economic growth and economic efficiency.

(a) Explain how achieving economic growth might conflict with other government macroeconomic aims. [12]

(b) Is economic efficiency better achieved by the market mechanism rather than by government microeconomic policy? [13]

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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays (Supplement) **October/November 2010**

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/43**

Paper 4 Data Response and Essays (Supplement) **October/November 2010**

2 hours 15 minutes

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Section A

Answer this question.

1 The Quality of Food and Consumer Choice

New discoveries about the link between diet and health have led to increased demand for higher-quality foods. Government policies on labelling also influence how the markets for food develop. Labelling increases consumers' knowledge, which affects their purchasing patterns. Food producers have responded to these changes by drawing attention to the health aspects of their products.

On the demand side of the market, consumers choose food in order to obtain utility, part of which comes from their belief in the value of food to maintain or improve their health. The healthier the food, the more benefit to the consumer. However, as with demand in general, consumers will reduce the amount they are willing to pay for each additional unit of a food.

On the supply side of the market, producers provide higher-quality food if it is profitable to do so or if they are required to do so. Often, to increase quality needs extra research, which is costly. In general the marginal cost of providing an increase in food quality is likely to be represented by an upward-sloping curve. Producers may cover these extra costs by product differentiation.

All this assumes that both buyers and sellers are fully informed about the nature of the product and that market price reflects all the costs borne and benefits enjoyed by society. However, it should be remembered that

- sellers are better informed about quality than consumers,
- consumers may have misunderstandings about the risks of different foods and
- information about food quality may have the characteristics of a public good.

(a) The article says that consumers will reduce the amount they are willing to pay for each additional unit of a product. Why do they do this? [4]

(b) Explain what is meant by product differentiation and how it might benefit producers. [3]

(c) Two food products are offered for sale. The producers of one carry out research to make it safer and increase its price to pay for the research. The producers of the other try to keep their share of the market by lowering its price.

Show the effects of these changes using a budget line diagram. [4]

(d) The article says that producers have responded to changes in demand and now draw attention to the health aspects of their food products

Does the evidence indicate that the market will always achieve the best allocation of resources in food production? [9]

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Section B

Answer **two** questions.

2 **(a)** Explain the significance of the distinction between fixed and variable cost for the pricing and output decisions of a firm. [12]

(b) Discuss whether the pricing and output decisions of a firm are determined solely by an estimate of revenue and cost. [13]

3 It is suggested that there are so many benefits from large-scale production that all firms should be encouraged to grow in size and there should be no government restriction on such growth. Do you agree with this opinion? [25]

4 Do you agree that the higher wages paid in some occupations occur just because some trade unions have a stronger bargaining position than others? [25]

5 **(a)** Explain what you consider to be **three** economic issues in the country in which you live and analyse which is the most significant. [12]

(b) Discuss what measures might be recommended to try to deal with the most significant issue. [13]

6 Hurricanes can occur in some parts of the world. Major flooding is caused, crops are ruined and the wind destroys homes and factories. People's standard of living is severely affected. Some blame climate change for unusual weather conditions.

(a) Explain how a country might measure its standard of living. [12]

(b) Discuss how far a country's standard of living is determined by factors beyond its control. [13]

7 **(a)** Some African countries are richer in natural resources in the form of minerals and land than some developed countries. Why then are these same African countries referred to as developing countries? [12]

(b) Use the concept of the multiplier to discuss how an increase in investment in a developed country might affect both the developed country and developing countries. [13]

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