



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 2009

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.

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.



2

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]

3

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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