

**GCE A level**

1134/01

**ECONOMICS – EC4**

A.M. TUESDAY, 11 June 2013

2 hours

1134  
010001**ADDITIONAL MATERIALS**

In addition to this examination paper, you will need a 12 page answer book.

**INSTRUCTIONS TO CANDIDATES**

Use black ink or black ball-point pen.

Answer **one** question from Section A.

You are advised to spend no more than 1 hour and 15 minutes on Section A.

Answer **one** question from Section B.

**INFORMATION FOR CANDIDATES**

The number of marks is given in brackets at the end of each question or part-question. Section A has 40 marks and Section B has 20 marks.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing (Section B).

You are reminded that the essay questions in Section B are synoptic and so will test understanding of the connections between the different elements of the subject.

**SECTION A**

*Answer one question from this section.*

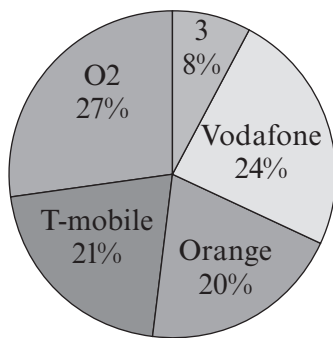
1. Study the information below and then answer the questions that follow.

**Orange customers turn purple as cost of calls rockets**

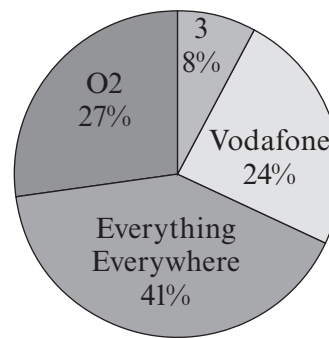
Watchdog Ofcom urges complaints to be lodged after average price of calls jumps 32% since Orange merger with T-Mobile to form Everything Everywhere, a move that reduced competition by cutting the number of independent mobile phone networks from five to four.

**UK Mobile Network market share 2010**

Before Orange & T-Mobile merger



After Orange & T-Mobile merger



*Source: TelecomsMarketResearch.com*

Orange customers, according to research by uSwitch, the price comparison website, are paying 75% more since March 2010.

The government’s telecoms regulator Ofcom responded to the growing rebellion from Orange contract customers over a 4.34% January price rise by urging angry consumers to lodge a formal complaint. A spokesperson said “Ofcom is monitoring the situation and will consider taking action if appropriate.”

Orange defended the increase, saying it was in line with the current inflation rate of 5.4%. But research by uSwitch shows that mobile phone networks have already contributed to rising costs. Since March 2010, the average per-minute charge for a voice call has risen from 23.4p for pre-pay customers to 31p.

Since the merger of Orange and T-Mobile into Everything Everywhere in 2010, reduced competition has combined with a number of other factors to push prices up for the poorest customers, who tend to opt for pre-pay contracts. Network operators have been charging pre-pay customers more to get back income lost by regulator-enforced cuts to so-called “mobile termination rates”, the charge for calling a mobile phone from a landline or another mobile.

Ofcom has promised to join other European regulators in gradually slashing termination rates by up to 80% by 2015, saving consumers and businesses some £800m a year. Ofcom argued that operators’ charges were far higher than the costs of providing the connection. But operators have openly said that they would respond by charging more for other calls, reducing handset

subsidies or cutting investment in their networks. Higher pre-pay tariffs are also being used to push customers into long-term contracts, which attract much higher average monthly spending and provide a more predictable income.

UK mobile phone operators would welcome mergers in the sector, said lawyer Chris Watson, of CMS McKenna, adding that firms saw the current levels of competition as “ruinous” because of how low they had to keep prices to win customers. There are 30% more mobile phones than people in the UK, with many people having more than one phone and often easily able to hop between one network and another. The “churn rate” – the number of customers switching to a different supplier – is over 30% for mobile phone networks, far higher than for most consumer products.

Everything Everywhere has cut 550 jobs as its new boss, Olaf Swantee, has tried to reduce costs. The merger between T-Mobile and Orange, which created the largest mobile group in the UK and which operates the mobile phones of 28 million Britons, has already seen 1,200 staff depart in an earlier round of cost-cutting as the newly created business targeted duplication in its workforce.

Since the merger Everything Everywhere has cut costs by £203 million and plans to make further cuts. Customer numbers fell by 390,000 to 27.5 million compared with the same period last year. Revenue per customer actually fell, from a monthly average of £19.20 to £18.70. In the same period Vodafone, has reported 5.1% growth in the UK.

Everything Everywhere has a larger network coverage than rivals, O2, Vodafone and 3. It has 713 retail stores and 20 outlets in HMV stores. At the time of the merger, the company said that it would reduce the number of stores but eight months on, it has decided to open several dozen more stores and add 50 new HMV outlets. As phones become more complicated, the company needs an increased local presence in order to help customers with their new gadgets.

Everything Everywhere is also looking at increasing the 173 Wi-Fi hotspots that T-Mobile already owns – in airports and railway stations as well as on the Heathrow Express, West Coast mainline and London to Brighton route – as the merged company looks to benefit from the scale of its business and increase the range of services available to its customers. T-Mobile, unlike rivals Orange, O2 and Vodafone, has never had a residential broadband service but plans to introduce one.

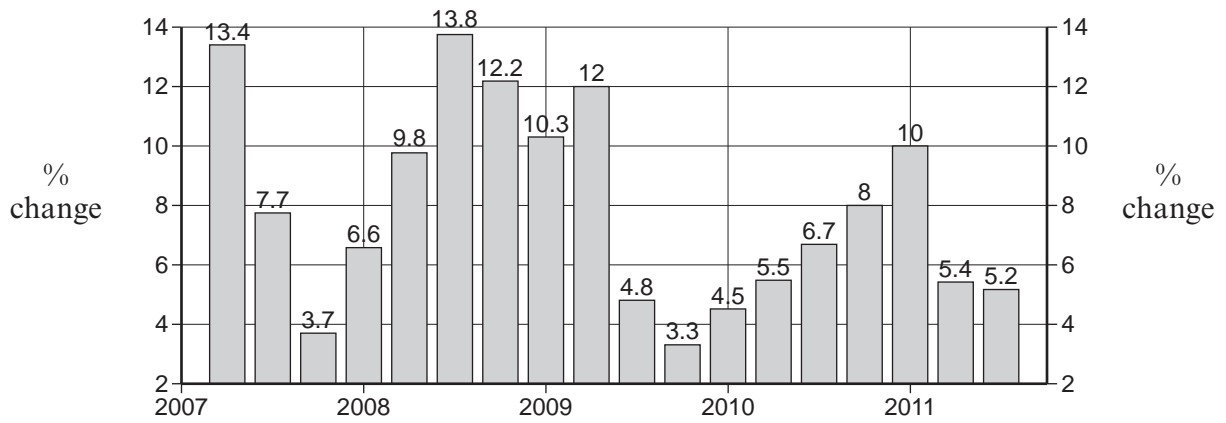
- (a) With reference to the data, explain possible reasons for the changes in Orange’s charges since March 2010. [8]
- (b) Explain what the data suggests about the market structure of mobile phone networks in the UK. [8]
- (c) Discuss whether customers of Orange and T-Mobile were likely to benefit from the proposed merger. [12]
- (d) To what extent is it desirable to regulate the market for mobile phone services? [12]

2. Study the information below and then answer the questions that follow.

### Ghana the fastest growing economy in the world

#### GHANA GDP ANNUAL GROWTH RATE

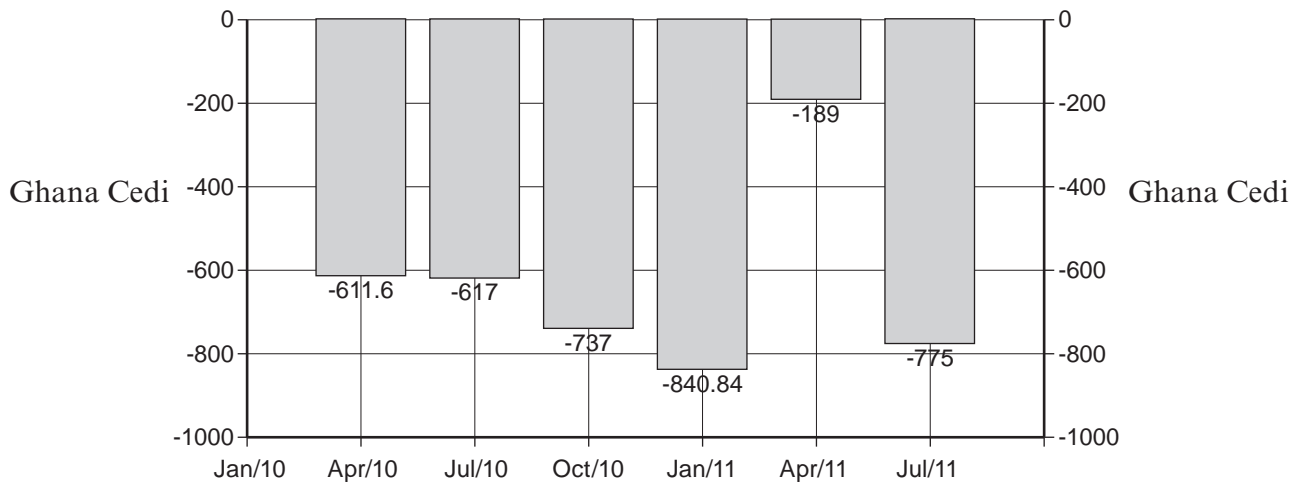
Percentage Change in Gross Domestic Product



Source: www.tradingeconomics.com / Ghana statistical service

#### GHANA BALANCE OF TRADE

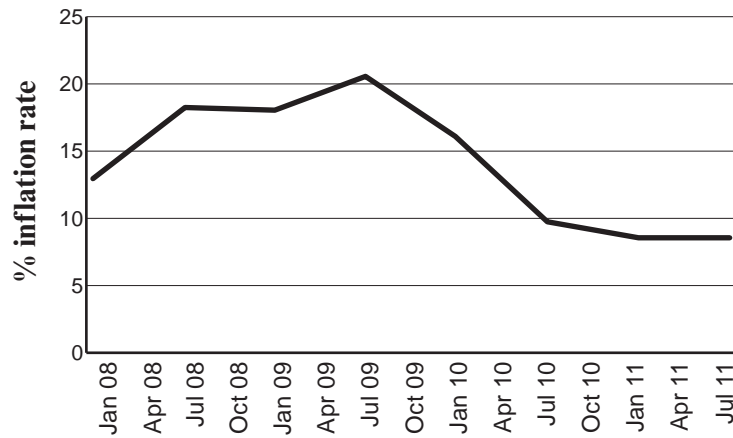
Balance of Trade (million Cedi\*)



Source: www.tradingeconomics.com / Bank of Ghana

\*Ghana's currency is known as the Cedi.

### Ghana annualised inflation rate



Source: Ghana Statistics

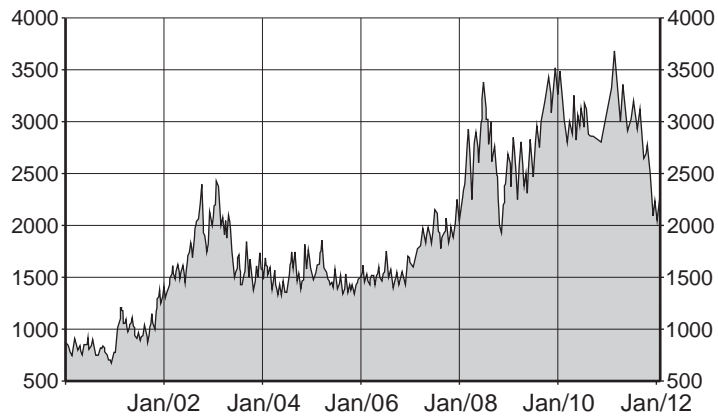
### World gold price (\$US per ounce)

US\$ per ounce



### World cocoa price (\$US per tonne)

US\$ per tonne



Source: www.tradingeconomics.com

Indicator	2000	2010
Human Development Index	0.451	0.541
Life expectancy at birth (years)	67	69
Mortality rate, under-5 (per 1,000)	87	58
Clean water source (% of rural population with access)	58	74
Agriculture (% of GDP)	39	30
Industry (% of GDP)	28	19
Services (% of GDP)	33	51
Internet users (per 100 people)	0.2	8.6
Terms of trade index (2000 = 100)	100	176
Debt repayment as % of exports of goods, services and income	15.8	3.4

5 Ghana has been identified by the International Monetary Fund (IMF) as the fastest-growing economy in the world. Standards of living have increased significantly since 2000. It enjoys one of the strongest democracies in Sub-Saharan Africa and is well-endowed with natural resources. Gold and cocoa production are major sources of foreign exchange earnings. Oil production at Ghana's offshore Jubilee field began in mid-December, 2010, and is expected to boost economic growth. Estimated oil reserves have jumped to almost 700 million barrels.

10 Improvement of the abilities and skills of the country's labour force is seen as a particular priority in making the country more competitive in international markets, and in reducing the rising unemployment rate. Ghana's literacy rate is 72% for men and 58% for women. It has a primary school enrolment system for all children and one of the highest school enrolment rates in Africa. The government plans further investment in education and training in order to maximise Ghana's economic potential as its growing service sector develops and foreign investors pump capital into the economy.

15 The benefits to farmers of increases in global cocoa prices, which doubled between 2007 and 2011, significantly encouraged growth in production. Ghana is one of the largest producers of cocoa in the world. On the downside the expansion of cocoa output has come largely from increased use of land for cocoa farming. Ghana has suffered huge losses of its forest resources through deforestation over the years, with forest being lost to cocoa farms. Its rainforest has been reduced by nearly 90%. In 2011 continued high export receipts and oil-related private sector investment stimulated aggregate demand. In real terms, both household consumption and investment in 2010 increased by 9.6% and 11% respectively. Consumption and investment were expected to grow by similar rates in 2012.

25 Ghana's trade deficit increased in 2010. Import growth in 2010 (36% compared with 2009) was mainly driven by higher imports of capital goods and processed industrial supplies. Export earnings were boosted by a 36% and 19% increase in the value of cocoa and gold exports respectively. Imports increased by 43% during the same period; up 47% for capital goods and 57% for consumption goods. Foreign direct investment increased by 25%.

30 In early 2010 President John Atta Mills announced that reducing the high inflation rate, the trade deficit and government budget deficit would be his priorities. Sound macro-economic management along with high prices for gold and cocoa helped to sustain GDP growth in 2010. The government started fulfilling its budget promise to repay its debts to domestic lenders in the first half of 2011.

35 Ghana's economic outlook for 2011 and beyond is favourable. Growth prospects remain high, stimulated by high international commodity prices. Real GDP growth will be over 14% in 2011. Inflation will remain in single figures. The government claims considerable success in managing the Ghanaian economy.

*Adapted from The World Bank, CIA World Factbook 2011*

- (a) Explain what evidence there is to suggest that “standards of living have increased significantly since 2000” in Ghana (line 2). [8]
- (b) Explain why investment in education and training was seen as important for the economy of Ghana. [8]
- (c) To what extent is the government's claim of “considerable success in managing the Ghanaian economy” (lines 35-36) justified? [12]
- (d) Discuss whether being “well-endowed with natural resources” (lines 3-4) is beneficial to Ghana's economy. [12]

**SECTION B**

*Answer one question from this section.*

3. “It is essential for the government to cut public spending and raise taxes to reduce the public sector deficit.” Discuss. [20]
4. In early 2012 UK unemployment rose to 2.8 million, 8.4% of the workforce. Discuss the view that reduction of unemployment should be the government’s main priority. [20]
5. To what extent are free market policies the best way for developing countries to raise their living standards? [20]