Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays (Supplement) **May/June 2014**

2 hours 15 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

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.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **4** printed pages and **1** insert.

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Section A

Answer this question.

1 **Telecommunications in India**

In India, until the late 1990s the Government held a monopoly on all types of telecommunication (telecom). The industry had a small-sized market. In the twenty-first century the industry switched to private sector ownership. The telecom industry then experienced rapid growth, less restrictive regulations, greater technological developments, reduced costs of equipment and competition. Telecom became one of the major contributors to India's economic growth and one of the fastest-growing industries in India.

When it was in the public sector, the telecom industry recorded only a marginal increase in customers – on average 1.92% a year. After privatisation and the relaxation of regulations, the annual increase reached 36.9% in 2009. By 2009 India was second in the world only to China in terms of wireless network customers.

The industry emerged as crucial to India's economic growth because of its multiplier effect and the fact that it is beneficial to other industries. The contribution of the industry to India's GDP has more than doubled to 2.83% in 2007 from 1.0% in 1992.

Much of this growth was caused by a large increase in cell (mobile) phone customers which grew at a rapid rate from 10 million in 2002 to 392 million in 2009. There is a direct correlation between the growth in cell phone customers and the growth in GDP per capita in developing countries, which tend to have a high percentage of the population living in rural areas.

The Indian telecom industry now has intense competition and continuous price wars from a growing number of telecom service providers.

The government has been applying suitable fiscal and promotional policies to boost domestic demand to help Indian firms.

Fig. 1 The significance of the Telecom Industry to India

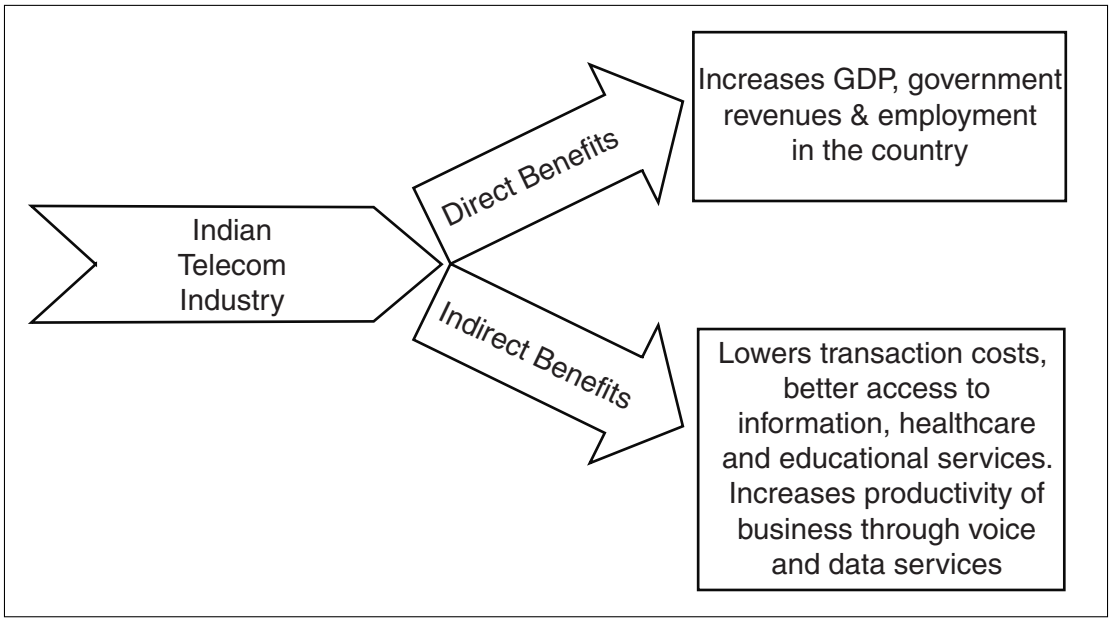


Table 1: The significance of the Telecom Industry to India

	2004–5	2005–6	2006–7
GDP at factor cost (2007 prices) Indian Rupees billion	28 439	32 006	37 175
Total Telecom Revenue Indian Rupees billion	716	867	1053
Contribution of Telecom to India's GDP	2.52%	2.71%	2.83%

Source: http://www.dnb.co.in

(a) Table 1 shows GDP at factor cost. What is the difference between GDP at factor cost and GDP at market prices? [2]

(b) **(i)** The extract says that India's telecom industry was crucial to growth because of its multiplier effect. With the help of a numerical example explain what economists mean by 'the multiplier effect'. [5]

(ii) Use the information to explain how India's telecom industry had a beneficial effect on the Indian economy. [5]

(c) Consider how far the success of India's telecom industry has been because of the change from public sector monopoly to private sector competition. [8]

Section B

Answer **two** questions.

2 'The analysis of marginal utility as an explanation of consumer equilibrium can only be related to the purchase of one good, cannot be used if incomes increase, and is not applicable if advertising causes a change in tastes. It is, in practice, not a useful guide to consumer behaviour'.

Assess this opinion. [25]

3 'The profitability of firms is a measure of their efficiency. The higher the profit, the greater the efficiency. High profits should, therefore, be encouraged.'

Do you support this argument? [25]

4 **(a)** Some top executives and some sports people are paid very high salaries. It is argued that this is inevitable as people are paid the market rate for the job. Use economic analysis to support this opinion. [12]

(b) It is argued that the wage determination in imperfect markets leads to exploitation. It is therefore necessary and beneficial if the government intervenes in the determination of wage rates. Discuss whether there is any truth in this argument. [13]

5 It was reported in 2012 that consumers should not be encouraged to save more and reduce their debts. Increased saving would result in a Keynesian 'paradox of thrift' which would not help economic growth. Instead consumers should spend money on new purchases.

(*Source: The Times. 2011*)

(a) Explain and comment on what is meant by 'the paradox of thrift'. [12]

(b) Discuss what is meant by economic growth and consider whether spending money on new purchases would necessarily help economic growth. [13]

6 **(a)** Explain the possible causes of unemployment and explain which is responsible for most of the unemployment in your country. [12]

(b) 'When a government wishes to lower unemployment its only method of reducing it is by the use of fiscal policies'.

Do you agree with this opinion? [13]

7 **(a)** Too much labour but not enough capital. Is this the most significant difference between a developing and a developed economy? [12]

(b) Discuss whether GDP is a reliable measure of the difference in living standards between developing and developed economies. [13]

Copyright Acknowledgements:

Question 1 http://www.dnb.co.in/IndianTelecomIndustry/OverviewTI.asp accessed 12.03.12
Question 5 The Times. Times Modern 20.10.11 p5

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