UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/43**

Paper 4 Data Response and Essays (Supplement) **October/November 2012**

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

6389822912

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 **4** printed pages.

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Section A

Answer this question.

1 **The virtual economy is set to make billions**

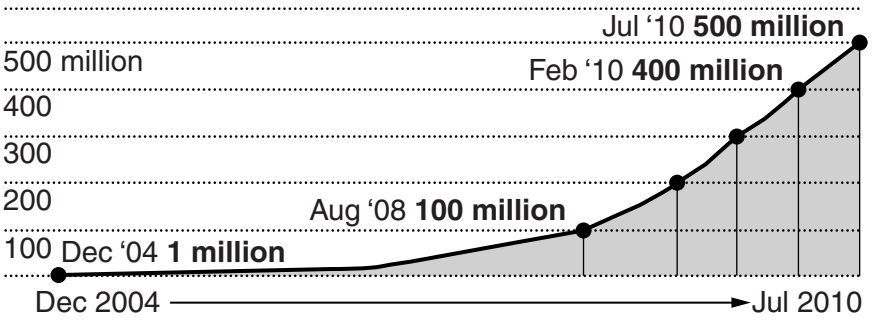
There has been a rapid growth in companies that sell 'virtual goods' on the Internet. The goods do not exist, they are only pictures on a screen used to play computer games. One game for example puts the consumer in the position of a farmer. Items for the farm, such as farm animals, crops and farm buildings, can be purchased. However, the farm buildings and the crops and animals are not real. They are only computer graphics on the consumer's home computer.

One firm has spent US$10m in the last ten years promoting these games. Its director said 'In the last two years we have seen the revenue of firms in this industry go from nothing to tens and hundreds of millions of dollars.'

The director of another firm said 'We have two different revenue sources. The first is the sale of the virtual goods for the games, the second is the revenue from other firms who wish to advertise within the game.'

Some items are acquired by consumers because they accumulate points by completing an activity within the game, such as harvesting a crop. Other items can be purchased to speed up the game. Part of the motive, said one consumer who spends about US$10 a month on virtual goods, is to impress your friends and let them see all the virtual goods you have won or bought. It has now become a popular thing to do. Central to the increased popularity of the games is the fact that the virtual goods can be purchased through social networking sites such as Facebook and MySpace.

Fig. 1: Facebook's Membership



Proof of the attraction of this market is the fact that the social networking sites are negotiating with the virtual goods firms to get a percentage of the revenue every time a consumer purchases a virtual tractor or crop.

The promoters of the virtual goods say it enables consumers to buy products without the rush and crowds of shops. They are easy to buy and that is why people are prepared to buy products that do not exist.

The firms claim that tens of millions of people buy the virtual products. In December 2009 one of the firms sold part of its business to another firm for US$113 million, whilst another was valued at US$400 million.

The director of one virtual goods firm said 'the industry is one of the most exciting developments of 2009, it is in the early stages of growth but it is growing fast.'

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(a) Identify two reasons given why people purchase virtual goods. [2]

(b) **(i)** What indicators may be used to determine whether a firm is large or small? [4]

(ii) Is the evidence given enough for you to determine whether the firms that sell virtual goods are large or small? [4]

(c) The article says that customer numbers are increasing rapidly. What is likely to happen to the total fixed costs and total variable costs of the virtual goods company as this occurs? [4]

(d) From the evidence given, discuss whether it is wise for a firm to spend money advertising products that do not exist through sites such as Facebook on the internet. [6]

Section B

Answer **two** questions.

2 'The achievement of equilibrium in a market rests solely on the ability to measure marginal utility. This is not possible and, therefore, equilibrium in a market can never be achieved.' Discuss this argument. [25]

3 **(a)** With the help of diagrams, analyse how a firm can experience both diminishing returns and economies of scale. [12]

(b) 'Monopolies create a deadweight loss. They should always be discouraged.'

Discuss this opinion. [13]

4 The economic analysis of wage determination states that all wages rates in different occupations will in the long run become the same and equal to the average product of labour.

Discuss this statement. [25]

5 In 2010 a number of governments were concerned that they had large budget deficits. A group of economists recommended that the deficit should be reduced by public spending cuts rather than tax increases.

(a) Explain what is meant by a budget deficit and why a large deficit might be a source of concern. [12]

(b) Discuss the similarities and differences of using spending cuts or tax increases as a means of solving budget deficits. [13]

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6 **(a)** Explain the causes of unemployment and consider which cause is the most significant for a country with which you are familiar. [12]

(b) The main guide to the economic development of a country is the proportion of its working population engaged in the tertiary sector. Discuss whether this statement is true. [13]

7 The table below shows figures for GDP for two countries in 2000 and 2010.

Country	GDP 2000 $US billions	GDP 2010 $US billions
USA	9825	13271
India	469	929

Discuss whether the above figures are sufficient to conclude that the standard of living in the USA is higher than the standard of living in India. [25]

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Figure 1 © Facebook.com.

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