UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS **9708/04**

Paper 4 Data Response and Essays (Supplement)

October/November 2004

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 on both sides of the paper.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer Question 1 and any **two** questions from Section B.
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.

You may answer with reference to your own economy or other economies that you have studied where relevant to the question.

This document consists of **3** printed pages and **1** blank page.

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Section A

Answer this question.

1 Airlines gamble on no-frills pricing.

European airlines including British Airways (BA), KLM and Lufthansa have done what almost no American full-service airline has been willing to do. They have altered their fare structure to keep customers from switching to low-cost competitors. Despite the airline's massive losses of $348 million on flights within Europe, BA has reduced some fares by almost 80%.

Many of the giant European airlines have very high costs that limit how aggressively they can compete with smaller airlines, but BA has recognised the threat that low-cost competitors pose. The low-price competitors carried 16 million passengers in 2001 – a 26% increase from a year earlier – and it is expected that this will increase further and that they will carry a quarter of European passengers by 2010. Despite the price cuts, the cheapest seats on BA are still more expensive than those of the no-frills competitors on the same routes. The low-cost competitors do not necessarily require pre-booking of seats, use smaller, cheaper airports, do not provide special lounges for frequent flyers and do not offer free drinks and food. BA does offer these services and some passengers state that they prefer the facilities that BA offers. BA also has to pay expensive landing charges at the airports it uses.

Analysts wonder whether BA can sustain its new fare structure in view of continuing high costs. It has not renegotiated wages or work rules with its unions. However, it has reduced its fleet size and cut 10 000 jobs. One analyst said that the fare changes were necessary. 'The market has spoken. Those who adjust to the market will profit; those who don't will continue to lose money.'

(a) What evidence is there in the article to explain why BA's costs are higher than its competitors? [3]

(b) The article says that 'the cheapest seats on BA are still more expensive than those of no-frills competitors on the same route'. Explain when price discrimination can occur and discuss whether this is an example of price discrimination. [6]

(c) All airlines publish their fares so each has knowledge of the prices charged by competitors. Does this mean that the market for airline seats is perfectly competitive? [4]

(d) Explain what is meant in the context of the article by the phrase 'the market has spoken'. [3]

(e) Is there sufficient evidence in the article to suggest that recent changes in BA's policy might lead to an increase in profits? [4]

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Section B

Answer any **two** questions.

2 Discuss whether economic efficiency as described in text books is likely to be able to be achieved in practice. [25]

3 **(a)** Explain what factors might determine the level of investment in an economy. [12]

(b) Analyse what effects an increase in investment might have on an economy. [13]

4 In 2002 an electrical goods company in the UK that uses mass production techniques made many people redundant. It said that there had been meetings with the trade union but that it was moving its production to Eastern Europe and would transport the products from there.

(a) Explain the economic considerations that might have led the company to make this decision. [12]

(b) How far does this decision indicate that trade unions have very little influence over wages and employment? [13]

5 Many countries are concerned to promote economic growth.

(a) Describe the **other** major objectives of a government's macro-economic policy. [12]

(b) Discuss whether an emphasis on economic growth is always beneficial. [13]

6 **(a)** What are the characteristics of a developing economy? [12]

(b) How useful is the GDP as a measure of the standard of living in a country? [13]

7 In each of the countries Ghana, Nigeria and Zimbabwe internet services are provided by only a few large companies.

(a) Consider who might benefit when a market consists of only a few large companies. [12]

(b) Discuss why in some markets firms remain small while in others the market is dominated by large companies. [13]

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Question 1 *New York Times*

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