

**ECONOMICS
HIGHER LEVEL
PAPER 3**

Friday 21 May 2004 (morning)

2 hours

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer one question.
- Use diagrams and real-world examples where appropriate..

SECTION A

Answer **one** question from this section.

Either

Question 1

Read the passage below and answer all the parts of the question that follow.

PASSION, PRIDE AND PROFIT

- ❶ Football (or soccer) remains the most widely played and followed sport in the world. Sports administrators like to debate which event draws the bigger audiences, the World Cup or the Olympics. In truth, nobody knows how many people watch either event on television.
- ❷ Any event that can attract the attention of billions of people would surely earn huge amounts of money. Certainly there is an ever-increasing amount of money going into the game. The television rights for the 2002 and 2006 World Cups were sold for \$1.7 billion, an eight fold increase on the deal covering the previous three championships. The football industry worldwide is worth about \$216 billion.
- ❸ The big money in international football is concentrated in the elite European clubs, but some of them are suffering serious losses. The English Premier League is widely regarded as admirably businesslike, yet almost all English Premier League clubs will lose money this year.
- ❹ Some of Europe's difficulties can be explained by technological and commercial change. When pay-TV arrived, the demand by viewers for coverage of football games caused the price of rights to televise games to increase.
- ❺ The past decade has seen a relentless rise in the amount of money flowing into the game from television, bigger crowds, sponsorship and a much more professional approach to merchandising. The average turnover of the English Premier League clubs has gone up 500 % in the past decade. However, salaries – the major cost for all football clubs – have gone up 700 %, so despite their soaring revenues, fewer and fewer English Premier League clubs are making a **profit**.
- ❻ Jose Angel Sanchez, the head of marketing at the Spanish club Real Madrid, says “Telecoms and **globalization** are consolidating the global football market. Eventually, you may just get six global brand leaders. People will support a local side and one of the world's big six clubs.”
- ❼ French football star Zidane attracted the biggest transfer fee in football history, when Real Madrid paid \$64.5 million to secure his services; his post-tax pay is thought to be over \$150 000 a week. Mr Sanchez said “we are providing content, like a film studio – and having a team with Zidane in it is like having a movie with Tom Cruise.”
- ❽ Football is becoming a global game and there are worries that this is eroding national differences. Most of the leading Latin American stars now play in Europe, where they have picked up European ideas and tactics; at the same time the Europeans have learned from the Latins. Latin American football was about technique and talent, and European football was about organization, speed and fighting spirit. But with television and player transfers, all these trends are coming together.

[Source: adapted from *The Economist*, 1 June 2002]

- (a) Explain what is meant by the following terms which are in bold in the text:
- (i) profit [2 marks]
 - (ii) globalization. [2 marks]
- (b) Using the passage and your understanding of market structures, describe the type of market that best represents the future shape of world football described in *paragraph 6*. Give reasons for your answer. [3 marks]
- (c) Explain the likely consequences of the imposition of a salary cap (price ceiling) on the market for football players. Use a diagram in your answer. [5 marks]
- (d) Discuss, with reference to the text and your knowledge of markets, the reasons why clubs are prepared to pay high prices for star football players. [6 marks]
- (e) “Telecoms and globalization are consolidating the global football market” (*paragraph 6*).
- Using the text and your knowledge of economic theory, examine the effects of the globalization of the football market. [7 marks]

Or

Question 2

Study the items below and answer all the parts of the question that follow.

BITTER COFFEE

Item 1

“The price slump has created some winners. Transnational companies and global coffee cafés* (such as “Starbucks”) are making record profits as the price of their main raw material slumps. Over the past three years the export price of coffee as a proportion of the retail price has fallen.”

[Source: adapted from “*Bitter Coffee*”, Oxfam, 2001]

Item 2

“What has happened to the price of coffee is a disaster. Years back, when coffee prices were good, we could afford to send our children to school. Now we are taking our children out of school because we cannot afford the fees. How can we send our children when we cannot afford to feed them well?”

[Source: a coffee grower in Tanzania, in “*Bitter Coffee*”, Oxfam, 2001]

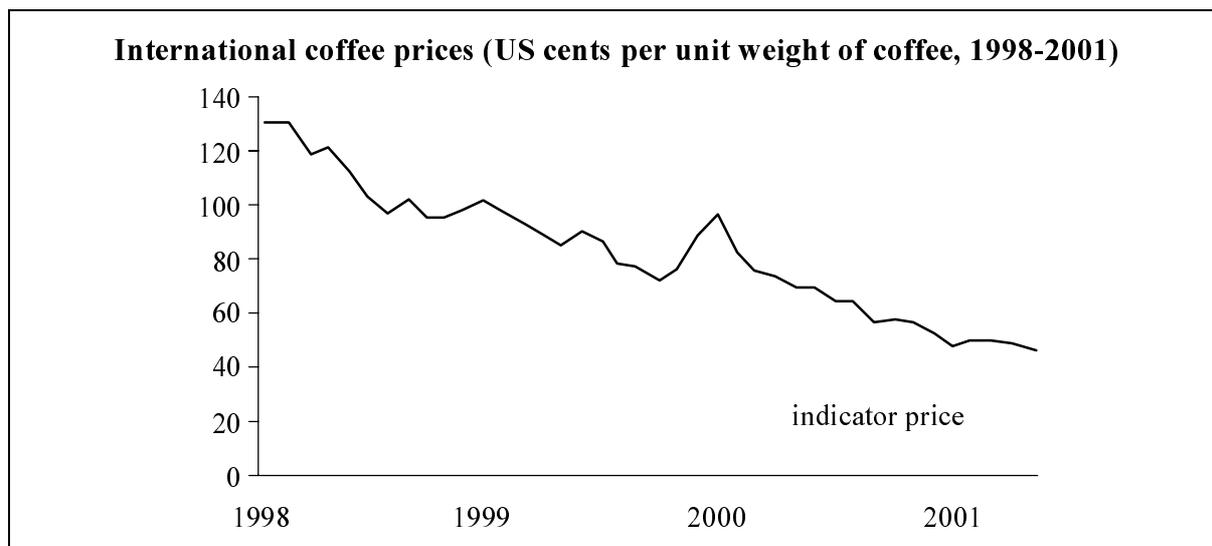
Item 3

“Developed countries often have no tariffs on coffee beans, but impose tariffs on processed coffee products to keep out these higher value products that return more income to job-starved poor countries.”

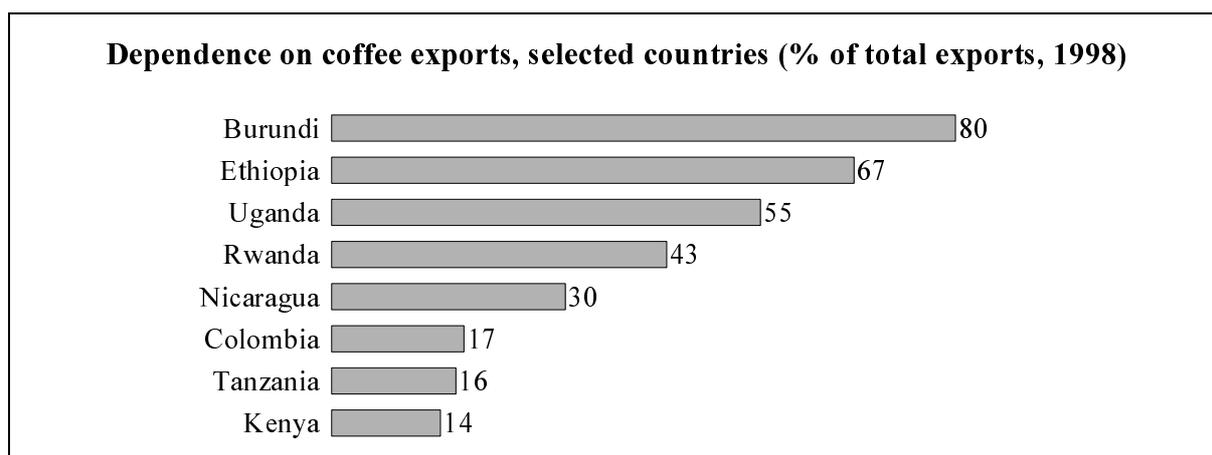
[Source: adapted from *The Guardian*, 5 August 2002]

* global coffee cafés – worldwide chains of cafés selling coffee

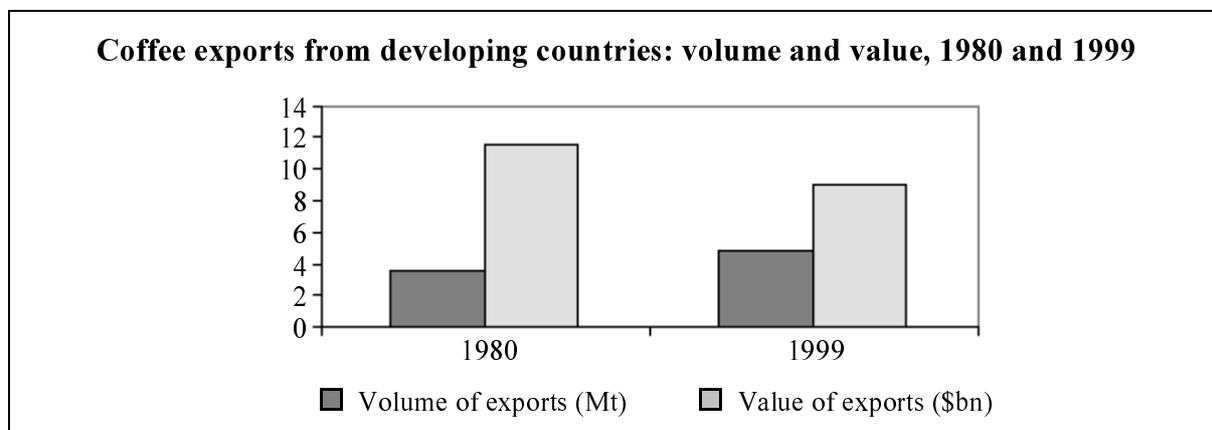
Item 4



Item 5



Item 6



[Source: adapted from www.oxfam.org.uk, *How the poor are Paying for the slump in Coffee Prices*, (2002)]

- (a) With reference to **Item 4**, explain what has happened to the price of coffee between 1998 and 2001. *[2 marks]*
- (b) Explain the effects of the changes you have identified in (a) above on
- (i) a coffee grower *[2 marks]*
 - (ii) global coffee cafés. *[2 marks]*
- (c) With reference to **Item 6**, identify the changes in both the value and volume of exports of coffee between 1980 and 1999. *[2 marks]*
- (d) Suggest possible reasons for the changes you have identified in (c) above. *[4 marks]*
- (e) With reference to **Item 3**, explain how the use of tariffs on higher value processed coffee products by developed countries can limit the growth of jobs in coffee producing countries. *[6 marks]*
- (f) Use the data and your knowledge of economics to evaluate the impact of the change in the world market for coffee on the economic growth and development of coffee growing economies. *[7 marks]*

SECTION B

Answer **one** question from this section.

Question 3

Discuss the economic arguments for and against imposing substantially higher levels of taxation on the sale of alcohol.

[25 marks]

Question 4

(a) In what ways do firms operating in different market structures compete?

[10 marks]

(b) Discuss the view that the more competition there is within each industry the better.

[15 marks]

Question 5

“Unemployment remains persistently high in a majority of countries throughout the world.”

(a) Explain the economic problems that high unemployment may cause for a country.

[10 marks]

(b) Discuss the reasons why governments find the goal of full employment difficult to achieve.

[15 marks]

Question 6

(a) Explain how economists might measure the extent to which living standards vary between countries.

[10 marks]

(b) Evaluate the ways in which more developed countries might help the less developed countries to raise living standards.

[15 marks]