

International General Certificate of Secondary Education
UNIVERSITY OF CAMBRIDGE LOCAL EXAMINATIONS SYNDICATE
ECONOMICS **0455/6**
PAPER 6 Alternative to Coursework
MAY/JUNE SESSION 2000 1 hour 30 minutes

Additional materials:
Answer paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer paper/ answer booklet.

Answer **all** questions.

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

INFORMATION FOR CANDIDATES

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

This question paper consists of 3 printed pages and 1 blank page.

Question 1**Spanish Tourism**

The following passage is adapted from an article that appeared in 1997, before the introduction of the European Single Currency (Euro).

Hotels along Spain's coasts are very full. The holiday trade is heading for another record with at least 42 million foreign tourists expected in 1998. Tourism, domestic and foreign, provides about a tenth of Spain's GDP. Spain now earns more from foreign holiday makers than any other country in Europe. Only the USA earns more.

Since package tourism began in the 1950s Spain has relied on being a relatively cheap destination. Of all the visitors to Spain last year, 60% came from Germany, France and the UK. The recent strength of the pound sterling has made an impact and there has been an increase in business from the UK.

Spanish tourist companies are worried, though, that if the exchange rate changes then tourists coming to the country will no longer benefit from a price advantage based on the relatively cheap Spanish currency. This change in exchange rates is likely to occur if Spain decides to join a monetary union and uses a common currency with other European countries. This may well mean higher costs and it will also mean greater competition from countries that are not in the monetary union and are able to have more competitive exchange rates.

(South Africa Business Times 27.8.97)

- (a) How far does the article suggest that tourism is a very significant part of Spain's economy? [3]
- (b) What is suggested as being the advantage Spain has in the tourist market which causes the demand to be high? [1]
- (c) (i) Explain the reason given in the article for the increase in business from the UK. [4]
(ii) Explain why the article says that the Spanish tourist authorities were worried about Spain having a common currency with other European countries. [4]
- (d) You have been asked to make a report on the advantages to the Spanish economy of the increase in tourism. What sort of information would you need to include in your report to show how an increase in tourism might have benefited the people of Spain? [8]

Question 2**Competition in Natural Gas Supply**

In 1997 competition was introduced into the supply of natural gas in the UK and the existing single gas company was split into separate companies. In its review of 1997, one of those companies stated that:

‘Since 1994 we have spent around £500 million on new computer systems and staff skills as part of the introduction of the fully competitive gas market.

The company has a separate business activity involved in exploration and production. The exploration programme involved 33 wells in 9 countries – 19 found gas or oil. Part of the company is now active in 13 countries, including the construction of a gas generation power plant in the Philippines, pipeline investments in Bolivia and Brazil, and the building of a large natural gas plant in Trinidad.’

- (a) The article states that £500 million was spent between 1994 and 1997. Define each of the factors of production and consider on which factors the company appears to have spent the £500 million. [6]
- (b) Explain why this company might be described as a multi-national, and suggest how the activities of the company might have affected the UK balance of payments. [6]
- (c) The gas industry has now become competitive. What would you need to investigate if you were asked to consider whether a competitive market is preferable to a single monopoly market? [8]

