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ECONOMICS

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Paper 3 Analysis and Critical Evaluation

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1 hour 30 minutes

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READ THESE INSTRUCTIONS FIRST

This Insert contains extracts for Questions 1 and 2.

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Extract for Question 1

Poverty

Significant differences in wages can be a major cause of the gap between rich and poor. One measure of wage difference is called the gender gap. This is the difference between the average pay of male workers and the average pay of female workers. In 2009, there was a relatively large difference in the gender gap in different countries. For instance, it was +33% in Japan, +23% in the United States, +13% in Egypt, +11% in France and –3% in Costa Rica.

Whilst the gap between rich and poor can cause a number of problems including social division, a lack of basic necessities can cause serious poverty. Governments have several motives behind trying to reduce poverty. These include the concern to raise life expectancy and to increase labour productivity. There is a range of policies a government can use to try to reduce poverty. These include making it easier for multi-national companies to set up in the country and increasing government spending.

To introduce effective policies to reduce poverty requires an accurate measure of poverty. One of the most common measures of poverty is the number or proportion of people living on less than a certain income a day, for instance, US\$1.25. In 2010, a new measure of poverty was developed, called the Multidimensional Poverty Index (MPI). This regards a household to be living in poverty if it is poor in terms of the ten indicators it uses. These indicators include malnourishment, children not finishing primary school, lack of clean water and lack of electricity. Poverty rates as measured by the MPI can differ from those measured by income, as shown in Table 1.

Table 1: Percentage (%) of population living in poverty

Country	% of population living in poverty on the MPI measure	% of population living in poverty on the income under US\$1.25 a day measure
Sierra Leone	80	55
Tanzania	64	90
Nigeria	62	63
India	58	42
Pakistan	55	22
Vietnam	15	20
Uzbekistan	2	42

Extract for Question 2**Market changes**

In 2009, the number of people staying in hotels in Dubai fell. Having calculated the price elasticity of demand for hotel accommodation at $(-)$ 1.5, hotel owners reduced their prices at the start of 2010. Hotel owners are usually anxious to fill as many of their rooms as possible in order to raise their revenue and to spread their costs. These include the costs of insurance, wages, washing bed clothes, buying food and business rates.

Whilst Dubai hotels lowered their prices, Emirates Airline, which is based in Dubai, raised its airfares. The airline was spending more on advertising and was providing more flights. Some of the other airlines in the region were raising their airfares by more than Emirates Airline.

New airlines have been set up in recent years including Air Arabia and Flydubai. It is, however, not always easy for new airlines to enter the market as there is a shortage of landing slots (times to land) at the major airports. Some air passengers are reluctant to switch to new airlines and not all are aware of the differences in prices charged. There are some large airlines which have a relatively large share of the market. The larger airlines are firms based in the United States (US). In 2010, Delta Airlines carried 105 million passengers. In the same year, United Airlines and Continental Airlines, both US firms, were planning to merge and become the world's largest airline carrying 110 million passengers a year. Executives from both firms said that the merger would benefit air passengers.

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