



Section A

Answer **this** question.

1. The power of Gazprom

Demand for natural gas is increasing throughout the world. Gazprom is the world's largest gas company and the largest company in Russia. In 2008 it had more than 80% share of the sales of gas in its domestic market and more than a quarter of sales in the European market.

Gazprom wants to grow even further and has set itself the objective of becoming the world's largest company by 2013, overtaking large companies such as General Electric and Wal-Mart. Some economists question whether European consumers will benefit if Gazprom gains a monopoly share of the European market.

In 2007 Gazprom earned a profit of US\$21.6 billion. In 2008 its profit had increased by 11%. Despite this rise, the company reduced its dividend by 86% at the start of 2009 to just 37 kopecks (approximately US 2 cents) per share. The company had large debts of US\$33 billion. Gazprom was also planning to spend US\$32 billion in 2009 building pipelines through the Baltic and to new gas reserves in remote Arctic regions even though demand for gas was forecast to decline over the next four years.

In its search for a greater share of the market, Gazprom recruits some of the best engineers and buys capital equipment from a variety of countries.

- (a) Draw a demand and supply diagram to show the effect of an increase in demand for gas on the world market for gas. [4]
- (b) Using information from the extract, explain why Gazprom's share price may have fallen in 2009. [4]
- (c) Give two reasons why a firm may borrow. [2]
- (d) What effect might Gazprom's spending on building new pipelines have on the company's profits in the short term and long term? [4]
- (e) Explain the different goals that Gazprom might have. [6]
- (f) Comment on how close Gazprom was to being a monopoly in 2008. [4]
- (g) Discuss the information you would need in order to assess whether a monopoly is benefiting consumers [6]

Section B

Answer any **three** questions from this section.

2. All countries face the economic problem and so choices have to be made.
- (a) Explain what is meant by the 'economic problem'. [2]
 - (b) Describe the two main features of the factor of production, 'enterprise'. [4]
 - (c) Using a production possibility curve diagram, analyse the effect of the destruction of some of its resources on an economy. [6]
 - (d) Discuss whether a decision by a government, with limited financial resources, to increase expenditure on education by 25% over a three-year period, is likely to be an appropriate decision. [8]
3. Despite more cars being sold, world demand for bicycles is increasing. It has been estimated that the world price elasticity of demand for bicycles is -0.18 but this does vary between countries.
- (a) Define 'demand'. [2]
 - (b) Explain four likely causes of an increase in demand for bicycles. [4]
 - (c) Explain what is meant by price elasticity of demand. [6]
 - (d) Analyse why the demand for a product may be more price elastic in one country than in another country. [8]
4. Money performs an important role in an economy.
- (a) Define what is meant by specialization. [2]
 - (b) Describe two functions of a stock exchange. [4]
 - (c) Analyse the role that commercial banks can perform in an economy. [6]
 - (d) Explain why it is better for individuals to use money rather than barter. [8]

- 5.
- (a) Explain the economic problem of scarcity. [2]
 - (b) Distinguish between internal and external economies of scale. [4]
 - (c) Explain how firms can grow in size. [6]
 - (d) Discuss whether all small firms will eventually become large firms. [8]
6. Sole proprietors and partnerships play an important role in Pakistan. They can often be regarded as a feature of perfect competition, especially sole proprietors.
- (a) Describe the principle of profit maximisation. [2]
 - (b) Distinguish between a sole proprietor and a partnership. [4]
 - (c) Describe the characteristics of perfect competition. [6]
 - (d) Analyse why a firm might decide to change from labour intensive production to capital intensive production. [8]
- 7.
- (a) Explain, using examples, what is meant by the factor of production called land. [2]
 - (b) Define fixed cost and variable cost, giving one example of each. [4]
 - (c) Explain how resources are allocated in a market system. [6]
 - (d) Describe the advantages of a market system. [8]