

CIE Economics A-level

Paper 4

Past Paper Pack

2008-2014



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Level

**ECONOMICS**

**9708/04**

Paper 4 Data Response and Essay (Supplement)

**October/November 2008**

**2 hours 15 minutes**

Additional Materials: Answer Booklet/Paper



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**Section A**

Answer **Question 1**.

**Section B**

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## Section A

Answer this question.

1

### Poverty and Economic Growth

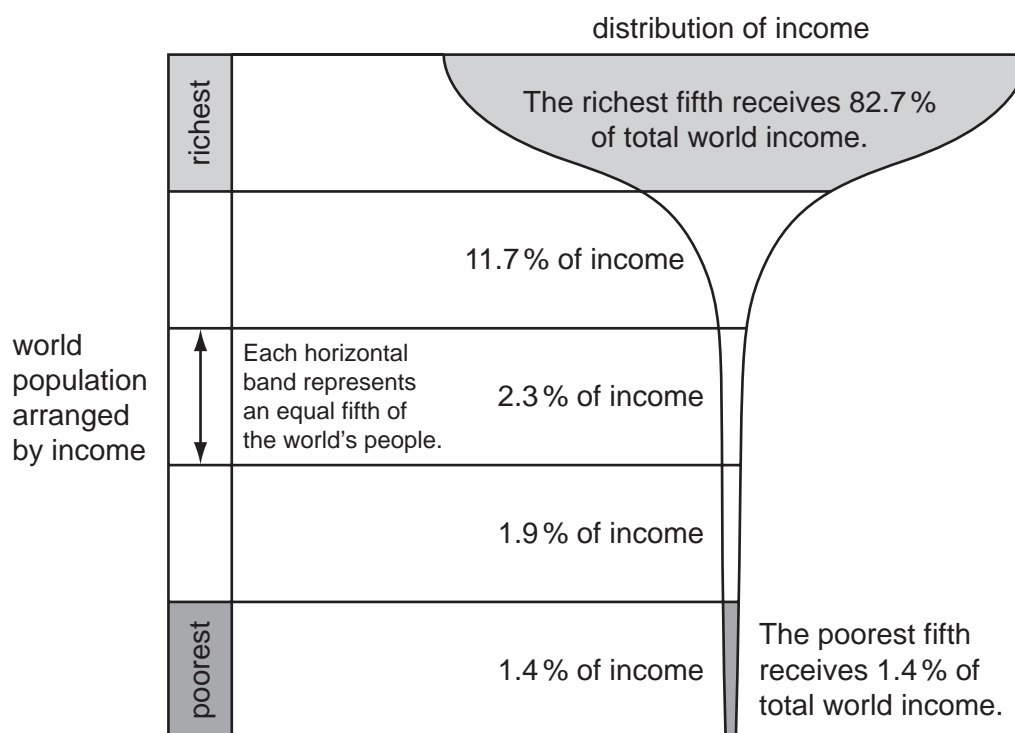
At a time when there has been rapid economic growth in some parts of the world, there are many countries in Africa in which severe poverty and infectious diseases are still widespread.

In dealing with the poverty in developing countries much is written about the need for aid from the rich developed countries. The high profile given to aid hides the fact that financial, human and other resources are continuously taken from developing countries by these wealthy nations which are seeking their own economic growth.

Economic growth in the last 50 years has occurred at the same time as a widening gap both between rich and poor people in a country and between rich and poor countries. Economic growth and development should be reconsidered to include a more even progress in areas such as basic living conditions, access to health care and education.

Despite the economic growth, almost half the world's population still lives in poverty on less than US\$2 a day. This reveals a weakness in the argument that economic growth is the solution to poverty.

**Fig. 1 Global income distribution**



## 3

- (a) Explain briefly what is meant by economic growth. [3]
- (b) Explain the possible link between developed and developing countries in achieving growth. [5]
- (c) Analyse whether Fig. 1 supports the statement that 'almost half of the world's population still lives in poverty on less than US\$2 a day'. [5]
- (d) The extract concludes with the statement that 'there is a weakness in the argument that economic growth is a solution to poverty'. Discuss whether this is a correct conclusion from the evidence given. [7]

## Section B

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

- 2 Economic analysis of resource allocation assumes consumers are rational. Where advertising exists, this analysis is of little value. Do you agree with this argument? [25]
- 3 (a) Explain how a knowledge of its long-run average costs might be useful to a profit-maximising firm. [10]
- (b) Discuss whether firms always want, and are able, to maximise profits as suggested by economic theory. [15]
- 4 In India the post is delivered partly by private courier firms and partly by the government-owned India Post. The government is keen to increase its share of the market.
  - (a) Explain why a government might wish to increase its control over private firms. [10]
  - (b) Discuss whether an increase in government control necessarily improves efficiency in an organisation. [15]
- 5 The economic theory of wages assumes first that there is a perfect market and secondly that the market will reach a stable equilibrium. It therefore has little relevance to a commercial world full of change and uncertainty.
 

Discuss whether you agree with this opinion. [25]
- 6 In some countries the rate of unemployment has remained low for several years.
  - (a) Explain what causes unemployment. [12]
  - (b) Discuss whether the reduction of unemployment should always be the main aim of government policy. [13]
- 7 (a) Explain the factors influencing the level of investment in an economy. [10]
- (b) Discuss the extent to which national income is determined by private investment. [15]

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Question 1      © Solly Benatar; <http://medicine.plosjournals.org/perlserv/?request=get-document&doi=10%2E137%2Fjournal%2Epmed%E0020400>

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### Counting the Cost

India has transformed itself from a primarily agricultural economy into a major industrial one in less than 60 years. Some argue that industrialisation results in increased wealth and a better standard of living. Certain areas of India are better suited to this industrialisation than others. The state of Orissa is one.

Orissa is a state of contrasts – 48 % of its people live below the poverty line; it is the most heavily indebted Indian state; its literacy level is below the national average; the level of infectious disease is high and malnutrition is alarming; it is subject to natural disasters such as floods. But it has unrivalled natural resources including one of Asia's largest deposits of coal, large areas of forest and extensive mineral reserves. These attract big industrial companies. A new steel plant has been established which will produce six million tonnes of steel a year.

In Orissa, a balance has to be achieved between potential profits and benefits from industrialisation and its cost to the people and the environment. The steel company is recruiting from local engineering colleges and is able to offer employment and new opportunities. People have increased incomes. Farm workers earn less than half what the factory pays its workers. One worker said 'I used to work on the land and was at the mercy of the weather. Now I do not have to pray for rain. The company also employs my sons and we are much better off'.

However, the factory is not labour-intensive and is unlikely to employ the huge numbers of people seeking work. Also, mining and infrastructure development destroyed some of the forest. Industrial production results in soil erosion and pollutes the air with the dark smoke from factory chimneys which causes acid rain. The rivers have also become contaminated with toxic waste which is posing a threat to wildlife, such as elephants, tigers and deer, as well as to local people. The industrialisation meant that some people lost their homes and had to be resettled elsewhere. The new houses had safe water provision and drainage, unlike some of the original homes, but people complained about the poor way the houses were built. In 2007, 13 were killed during a protest about the lack of compensation for the loss of their homes.

- (a) What is meant by industrialisation? [2]
- (b) Why might some argue that the economic costs of the exploitation of the natural resources in Orissa are too high? [5]
- (c) Comment on whether the development of the steel plant is likely to have been a benefit for the workers in Orissa. [5]
- (d) It is said that the standard of living in Orissa continues to be very low. Discuss whether the evidence you have been given is sufficient to support this view. [8]

### Section B

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

- 2** There has been much discussion recently about the effect of climate change and the efficient use of economic resources. Discuss whether the efficient allocation of resources can be achieved only if governments are involved in the process. [25]
- 3** BG is a rapidly growing energy company with operations in 25 countries engaged in the exploration, production and distribution of natural gas and oil. This requires complex chains of physical infrastructure, major investment funds and detailed commercial agreements with different countries.
- (a) Explain why economies of scale might be significant in an industry such as gas supply. [12]
- (b) Discuss whether companies that supply energy are likely to operate in contestable markets. [13]
- 4** Workers in the public sector are sometimes paid less than workers in the private sector. Discuss why wage rates differ. [25]
- 5** Some Japanese economists have argued that higher interest rates would, unusually, improve Japan's economic growth.
- (a) Explain why it might be said that this link between interest rates and economic growth is unusual. [12]
- (b) Discuss whether economic growth is good for an economy. [13]
- 6** 'There is no point in calculating figures for GNP. They are never an accurate estimate of welfare, and people are more concerned about crime, pollution and health than GNP.'
- Do you agree with this argument? [25]
- 7** (a) Explain what distinguishes a developing country from a developed country. [12]
- (b) When a country achieves 'developed' status does this mean that it has solved all its economic problems? [13]



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Question 1      *Developments*, p.25, Issue 38, Department for International Development, 2007

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9708/42

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## Section A

Answer this question.

1

### Resources wasted on bottled water

In developed countries drinking bottled water has become fashionable; the practice of carrying a small bottle of water is very common. However, it costs much more than water from a tap but often cannot be distinguished from such tap water. Some brands contain the same chemicals as tap water which people think they have paid to avoid.

There is now a campaign to stop selling bottled water in restaurants and supply only tap water. A spokesman said 'in the UK, in 2006, 3 billion litres of bottled water were sold. They were advertised as 'pure as a mountain stream' or 'cleansed for 2 million years beneath a Siberian glacier'. Buying such water is a vanity. It is flown around the world to the UK from Norway, France, Japan and Fiji. It is bottled in glass that is mostly thrown away and is very heavy to transport, or in plastic that never decomposes. From a restaurant's point of view selling water is almost free money. The profit mark-up is higher than on wine. The New York Ritz-Carlton hotel even has a water list alongside the wine list.

A UK government minister said 'it is morally unacceptable to spend millions of pounds on imported bottled water when we have pure cheap drinking water and when one of the crises facing other countries is the supply of water'.

By contrast, in developing countries there is often no tap water. 40% of the world's population lack basic sanitation and 1 billion people do not have safe drinking water.

It would, therefore, be better for everyone and a better use of resources if the developed world stopped spending money on bottled water, drank the safe tap water instead and used the money to improve water supplies in developing countries.

Environmentalists believe that the packaging, transportation and disposal of bottled water products creates unnecessary carbon dioxide emissions. It has been proposed that the government should introduce taxes to pay for the damage to the environment, either directly on the sale of each bottle of water or on the disposal of the plastic bottle.

A spokesperson for the bottled water industry said that critics were forgetting that the industry generated income and that an estimated 20 000 jobs depended on the sales of bottled water. In 2007, annual sales in the UK were worth £2 billion.

**(a) (i)** Briefly explain how a rational consumer's equilibrium may be achieved using marginal utility theory. [4]

**(ii)** Use the article to consider whether consumers who purchase bottled water are acting rationally and maximising their satisfaction. [4]

**(b)** Analyse the effects that restricting the sales of bottled water might have on the UK economy. [5]

**(c)** Discuss whether the information provided is sufficiently factual and complete to justify government regulation of the bottled water industry. [7]

### Section B

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

- 2 In 2007 BHP Billiton, a large mining group, made a bid to take over Rio Tinto, the world's third largest mining group. Such a takeover would create the largest producer of copper and aluminium in the world.
- (a) Explain whether increasing its scale of production will always reduce a company's costs. [12]
- (b) BHP Billiton and Rio Tinto have monopoly powers and are mining a natural resource. Discuss why the governments of the countries in which these companies operate might become concerned about this. [13]
- 3 By 2007, the telecommunications business had become dominated by fewer organisations. One of them, Cable and Wireless, announced there would be 3000 job losses. Another, Tiscali, announced 800 job losses and BT, the UK telecoms giant, announced a £450m major investment and restructuring resulting in thousands of job cuts.
- Analyse whether the above is what marginal revenue product theory predicts will happen when a labour market becomes less competitive and large investment takes place. [25]
- 4 (a) Explain what is meant by the transactions, precautionary and speculative demands for money. [10]
- (b) An employee moves to another job because it pays more. However, the old job was paid weekly and the new job is paid monthly. At the same time interest rates are increased. Discuss how these changes would affect the employee's transactions, precautionary and speculative demands for money. [15]
- 5 (a) Explain whether low GDP is a good indicator that a country has a low standard of living. [12]
- (b) Discuss whether the main aim of a government should be to have a policy on population growth if it wishes to increase the standard of living in its country. [13]
- 6 (a) In some countries there has been fear of economic recession in recent years. Explain the main characteristics of an economic recession. [10]
- (b) Discuss the policies that might be used to bring an economic recession to an end. [15]
- 7 The economy of South Africa is growing faster than its potential growth rate. The Governor of the central bank of South Africa said 'This is why we have inflation. We need to deal with inflation as it does not lead to job creation. Interest rates are the only tool available to control inflation'.
- Do you agree with the Governor's opinion on inflation? [25]

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## Section A

Answer this question.

1

### The Success of Supermarkets

In some countries supermarkets dominate food shopping. In the UK 75% of the food bought for home use comes from supermarkets. A third of that comes from one supermarket, Tesco. Tesco makes billions of pounds profit, one third of which goes to the government in taxes. It employs 110 000 people in the UK and many more in developing countries.

In the past, UK shoppers queued to buy expensive food from many small shops with limited choice and restricted opening times. Now, in supermarkets, they have the benefit of a wide choice, reasonable prices, international dishes, organic produce, fair trade items, clear labels of the contents of the products and, because of intense competition between the supermarkets, some open 24 hours.

However, the media complain that supermarkets are not competitive but monopolies. They say their profits are too high, they have caused small shops to close and forced suppliers in developing countries to accept low prices and to pay low wages.

It must be remembered that supermarkets grew because they gave the customer what they wanted and aimed at certain types of shoppers. One supermarket, which started as a small shop, insisted on selling only high quality products while another offered customers low prices.

Supermarkets also adapted to changing market trends. One began to supply products with its own brand name which were sold more cheaply because there were no advertising costs. A further brilliant idea in expanding their business was the introduction of a store loyalty card. Shoppers with a loyalty card are given discounts which encourages them to continue to shop in the same supermarket.

The most successful supermarkets expanded their businesses by buying large sites to build huge stores. (They are criticised for such building, especially if it destroys parts of the countryside or environment.) They expanded into non-food products to fill these stores, making it possible for consumers to buy many household items from clothes to kitchen utensils to electrical goods in the same shop. Supermarkets have also recently introduced on-line shopping and home deliveries.

Many small shops have closed. There are bound to be casualties in retailing. How can the blame for that be the fault of the supermarket? Their size should not be a concern. It is, after all, the consumer who decides where to shop and what to buy.

- (a) How has the type of market structure in food retailing in the UK changed? [3]
- (b) To what extent does the article support the view that the consumer is sovereign in food retailing? [4]
- (c) Explain what the various objectives of a firm might be. [5]
- (d) Do you agree with the conclusion of the article that the size of a firm should not be a source of concern? [8]

## Section B

Answer **two** questions.

- 2** In 2009 there were huge fires in Australia which destroyed much property and countryside. The government promised to allocate a large amount of money and resources to help with the restoration of the area.
- (a) With the help of diagrams explain what is meant by efficiency in the use of resources. [12]
- (b) Discuss the economic implications of the government's approach to the situation. [13]
- 3** (a) Explain what is meant by internal economies of scale, and analyse the link between economies of scale and a firm's long run average cost curve. [12]
- (b) Discuss whether there is a relationship between the marginal cost curve of the firm and the supply curve of the industry to which it belongs. [13]
- 4** Recently, employers in some countries have employed foreign workers instead of local workers. The local workers argue that they should have priority over foreign workers and also that more products should be produced at home rather than being imported.
- (a) Explain, with the help of a marginal revenue productivity diagram, why an employer might prefer to switch to foreign workers. [12]
- (b) Discuss whether it would be beneficial for a country to give priority to its local workers. [13]
- 5** National income statistics are used to calculate a country's GDP. The table shows the GDP for five countries for 2008.

Country	GDP \$m
USA	14 580 000
India	3 319 000
Singapore	244 000
Mauritius	14 060
Swaziland	5 626

Discuss how far the table might be used to determine whether one country has higher living standards than another. [25]

- 6** Explain what is meant by an equilibrium level of national income and discuss why this equilibrium might change in a developing country. [25]
- 7** Economic analysis states that the aims of the government include economic growth and economic efficiency.
- (a) Explain how achieving economic growth might conflict with other government macroeconomic aims. [12]
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### The Quality of Food and Consumer Choice

New discoveries about the link between diet and health have led to increased demand for higher-quality foods. Government policies on labelling also influence how the markets for food develop. Labelling increases consumers' knowledge, which affects their purchasing patterns. Food producers have responded to these changes by drawing attention to the health aspects of their products.

On the demand side of the market, consumers choose food in order to obtain utility, part of which comes from their belief in the value of food to maintain or improve their health. The healthier the food, the more benefit to the consumer. However, as with demand in general, consumers will reduce the amount they are willing to pay for each additional unit of a food.

On the supply side of the market, producers provide higher-quality food if it is profitable to do so or if they are required to do so. Often, to increase quality needs extra research, which is costly. In general the marginal cost of providing an increase in food quality is likely to be represented by an upward-sloping curve. Producers may cover these extra costs by product differentiation.

All this assumes that both buyers and sellers are fully informed about the nature of the product and that market price reflects all the costs borne and benefits enjoyed by society. However, it should be remembered that

- sellers are better informed about quality than consumers,
- consumers may have misunderstandings about the risks of different foods and
- information about food quality may have the characteristics of a public good.

- (a) The article says that consumers will reduce the amount they are willing to pay for each additional unit of a product. Why do they do this? [4]
- (b) Explain what is meant by product differentiation and how it might benefit producers. [3]
- (c) Two food products are offered for sale. The producers of one carry out research to make it safer and increase its price to pay for the research. The producers of the other try to keep their share of the market by lowering its price.

Show the effects of these changes using a budget line diagram. [4]

- (d) The article says that producers have responded to changes in demand and now draw attention to the health aspects of their food products

Does the evidence indicate that the market will always achieve the best allocation of resources in food production? [9]

## Section B

Answer **two** questions.

- 2 (a) Explain the significance of the distinction between fixed and variable cost for the pricing and output decisions of a firm. [12]
- (b) Discuss whether the pricing and output decisions of a firm are determined solely by an estimate of revenue and cost. [13]
- 3 It is suggested that there are so many benefits from large-scale production that all firms should be encouraged to grow in size and there should be no government restriction on such growth. Do you agree with this opinion? [25]
- 4 Do you agree that the higher wages paid in some occupations occur just because some trade unions have a stronger bargaining position than others? [25]
- 5 (a) Explain what you consider to be **three** economic issues in the country in which you live and analyse which is the most significant. [12]
- (b) Discuss what measures might be recommended to try to deal with the most significant issue. [13]
- 6 Hurricanes can occur in some parts of the world. Major flooding is caused, crops are ruined and the wind destroys homes and factories. People's standard of living is severely affected. Some blame climate change for unusual weather conditions.
- (a) Explain how a country might measure its standard of living. [12]
- (b) Discuss how far a country's standard of living is determined by factors beyond its control. [13]
- 7 (a) Some African countries are richer in natural resources in the form of minerals and land than some developed countries. Why then are these same African countries referred to as developing countries? [12]
- (b) Use the concept of the multiplier to discuss how an increase in investment in a developed country might affect both the developed country and developing countries. [13]



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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
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## ECONOMICS

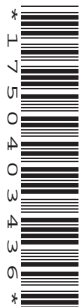
9708/41

Paper 4 Data Response and Essays (Supplement)

October/November 2011

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper



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#### Section A

Answer **Question 1**.

#### Section B

Answer any **two** questions.

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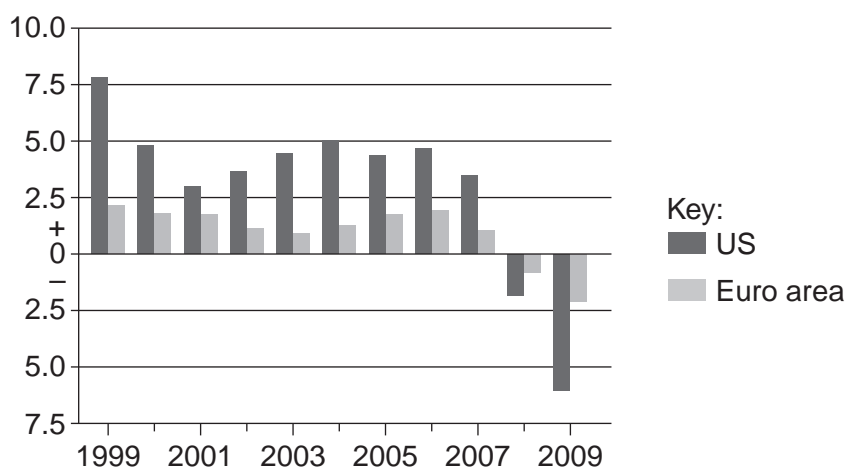
1

### Unemployment and Spending

In 2009 a recession occurred in America and Europe where unemployment rose. As well as seeing their incomes fall as employers cut wages and jobs, households also saw the value of their homes and savings shrink dramatically. This led to a swift reaction from consumers who reduced spending and increased savings, and planned to live within their income.

The change in consumer spending habits, as shown in Fig. 1, in both America and the European countries in the Euro area, caught retailers and manufacturers by surprise. In response companies tried to increase revenues by using advertising and sales promotions, often without success.

**Fig. 1: Annual % change in volume of retail sales**



Sources: US Census Bureau; Eurostat

There was a trend towards buying environmentally-friendly products and healthy foods although consumers became less willing to buy them at the higher prices at which they were normally sold. Producers launched lower-priced products to avoid losing customers.

Interestingly, while sales of luxuries such as long-haul holidays declined, consumers looked for something less expensive to make them feel good. Purchases of cosmetic items, such as skincare products and fragrances, increased in the recession. Paying by cash, instead of by credit card, gained popularity. 80% of consumers surveyed said they preferred to pay by cash rather than by credit card.

Consumers also began to place more trust in recommendations, searching for information on products in reviews on websites, rather than buying by brand name alone. The recession has made consumers more likely to demand value for money.

## 3

- (a) In which year in the US did retail sales stop increasing? [1]
- (b) Compare the trend in sales between the US and the Euro area between 1999 and 2001. [3]
- (c) Draw a budget line diagram and explain how it might be used to illustrate
- (i) lowering the price of a product and
  - (ii) a fall in income. [4]
- (d) Briefly explain the equi-marginal principle of utility and consider whether it still applies if consumers pay more by cash and less by credit card. [4]
- (e) Unemployment is often said to be a disadvantage for all businesses. Assess whether the article provides evidence to support this opinion. [8]

## Section B

Answer **two** questions.

- 2 The removal of imperfections in the market leads to an increase in efficiency in the allocation of resources. Discuss whether you agree with this view. [25]
  
- 3 (a) Explain what is meant by normal and abnormal profit and when such profits might occur. [12]  
 (b) Discuss what economic theory suggests are the characteristics and possible behaviour of firms in an oligopolistic market. [13]
  
- 4 Assess the opinion that the difference in the supply of labour is the only reason explaining the difference in wage rates between occupations. [25]
  
- 5 (a) Two economic indicators are Gross Domestic Product (GDP) at market prices and Net National Income (NNI) at factor cost. Explain what is meant by an economic indicator and the differences between the two indicators mentioned. [12]  
 (b) Discuss whether GDP is the best indicator which can be used to compare the standard of living in a developing country with that in a developed country. [13]
  
- 6 (a) Explain the main macroeconomic aims a government might have and analyse which would be the most important for your country. [12]  
 (b) Discuss whether it is possible to aim for all the main macroeconomic objectives without causing conflicting outcomes. [13]
  
- 7 It is reported that some countries are concerned about the expected increase in the proportion of older people beyond working age and also about the rise in the number of immigrants.  
 (a) Explain how these expected changes might have an impact on the private and public expenditure in such countries. [12]  
 (b) Evaluate the policies a government might use to influence the distribution of income in an economy. [13]

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Question 1 Consumer Psychology; [www.economist.com/displaystory.dfm?story\\_id=13415207](http://www.economist.com/displaystory.dfm?story_id=13415207) accessed on 31/08/09 19.30; *The Guardian* 29/08/09 p.3

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## ECONOMICS

**9708/42**

## Paper 4 Data Response and Essays (Supplement)

October/November 2011

**2 hours 15 minutes**

Additional Materials: Answer Booklet/Paper

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## Section A

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## Section B

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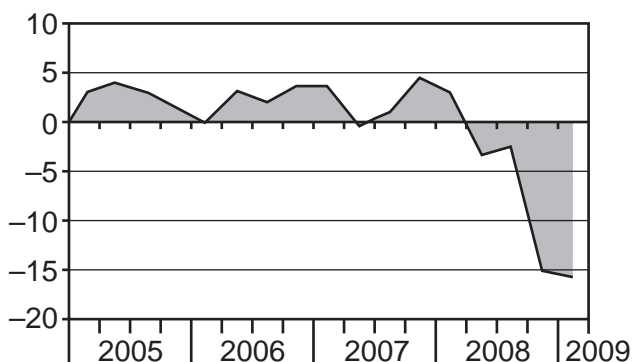
1

## A comparison of the Japanese and UK economies

By the start of 2009, Japan's economy had suffered its worse contraction for over 50 years. The world's second-largest economy saw a fall of 15.2% in Gross Domestic Product (GDP) between 2008 and 2009. Japan's economy is dependent on exports, which fell by a record 26% in the last quarter of 2008, forcing companies to cut production as they had much spare capacity. Business investment declined by 10.4% during 2008. Weaker domestic consumer demand was also a cause in the fall of GDP in 2008 but this declined by only 1.1%, much less than business investment demand. However, by March 2009 industrial production started to increase and there were hopes that the economy would start to grow again.

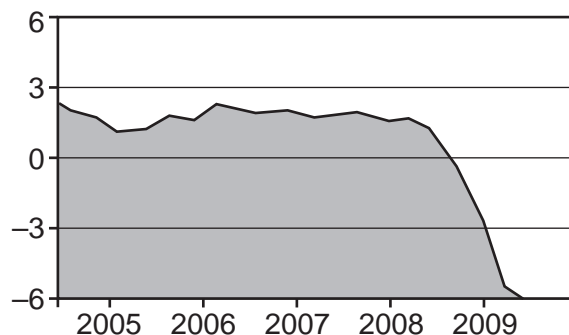
In the UK, between 2008 and 2009, GDP fell by 5.7%. It was thought that it would take some time to reverse the recession. Export orders continued to decline sharply and this, an industry leader said, 'is a particular concern as we are not seeing much of a boom in exports from the weakness of sterling'. Also, manufacturers had cut costs, reduced the number of people employed and experienced reduced profits. However, they still had excess stocks and it was not thought likely that investment would increase quickly. Consumer spending declined as consumers were unsure of the future. With rising unemployment, likely tax increases and a lack of credit facilities from the banks, the decrease in spending was hardly surprising. The inability of consumers to obtain credit caused a decline in house building, which had further negative effects on employment in the construction industry.

**Fig. 1: Annual % change in Japan's GDP**



Source: Japan Cabinet Office

**Fig. 2: Annual % change in UK's GDP**



Source: Thomson Datastream

- (a) Why is GDP an important economic indicator? [3]
- (b) Use Figures 1 and 2 to compare the change in the GDP of the UK and Japan between 2005 and 2009. [4]
- (c) The article states the sharp decline in export orders 'is a particular concern as we are not seeing much of a boom in exports from the weakness of sterling.'  
Analyse what this means. [5]
- (d) Discuss whether the evidence suggests that the changes in GDP in Japan and the UK were caused by similar events. [8]

## Section B

Answer **two** questions.

- 2 (a) Explain the link between a consumer's expenditure and the equi-marginal principle of utility. [12]
- (b) Analyse what is meant by economic efficiency and assess whether efficiency is always achieved in a market. [13]
- 3 (a) Consider whether small firms should be encouraged in an economy. [12]
- (b) Economic theory states that large firms have lower average costs than small firms. Discuss whether this statement is necessarily true. [13]
- 4 The market is the fairest means of wage determination. To what extent do you support this opinion? [25]
- 5 (a) Explain what is meant by government macroeconomic policies and government microeconomic policies. Illustrate your answer with **two** types of policy from each. [12]
- (b) Consider how government economic policies might be used to help a country out of a recession. [13]
- 6 (a) For what purposes do people demand money? [12]
- (b) Assess, using the concept of liquidity preference, the possible links between an increase in the supply of money, the rate of interest and investment. [13]
- 7 Some economies are said to be developing while others are developed. Explain the difference between the two and discuss whether the problems of a developing economy would be solved if it achieves developed status. [25]



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**ECONOMICS**

**9708/43**

Paper 4 Data Response and Essays (Supplement)

**October/November 2011**

**2 hours 15 minutes**

Additional Materials: Answer Booklet/Paper

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**Section A**

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## Section A

Answer this question.

1

### Farmers, consumers and climate change

Some people have become concerned about the amount of poisonous gases and carbon emissions being produced. They say it will lead to a change in climate which will have an economic effect.

When buying products, consumers sometimes ask 'what country has it come from?' They are concerned about the long-term economic effects of the exploitation of resources. Some argue that carbon emissions caused by transport should be reduced. They think people should buy local products, even though they may be more expensive, and not buy those which have been sent long distances.

The situation is not as straightforward as they suggest. Research by one university shows, for example, that carbon emissions produced by growing flowers in the powerful Kenyan sun and flying them to the UK can be less than one-fifth of the carbon emissions from producing and transporting flowers from Holland. Holland is much nearer to the UK, but uses greenhouses that need to be lit and heated.

Transport does have an environmental and social cost but most of that cost comes from domestic road travel. Air-freight to the UK from Africa accounts for less than 0.1% of UK carbon emissions, and the £1m a day that UK shoppers spend on food from Africa is vital to ease the poverty of millions of Africans.

It is said that the world's poorest people in developing countries, least responsible for climate change, are most under threat. In Bangladesh, excess rains and floods mean that farmers can no longer grow their crops. One family said that for the past seven years crops failed because of the floods and they could not buy clothes or food, or pay for education.

In many African countries small farms are the largest private sector activity. They provide jobs and enable growth of rural businesses. Agriculture accounts for about 30% of Gross Domestic Product (GDP) in sub-Saharan Africa, at least 40% of its exports and up to 80% of employment. Agricultural production is subject to unpredictable weather, which creates economic uncertainty. A more stable farm economy could overcome that uncertainty by creating jobs and associated small-scale manufacturing such as food processing.

An African farmer said 'the idea of supporting African farming has been forgotten in favour of reducing the carbon emissions of the developed world by abandoning the trade with developing countries on which local people have come to depend. It is made worse by the fact that the local people do not eat the crops that are grown for export, so the food cannot be sold locally.'

- (a) Explain what is meant by a developing country. [4]
- (b) Explain why some suggest that consumers in a developed country should buy local products and not products from developing countries. [2]
- (c) Marginal utility theory explains how a rational consumer behaves. Briefly explain this idea and consider whether buying a more expensive product contradicts this theory. [6]
- (d) Is there any evidence in the article to support the opinion that the poorest people in developing countries are most under threat from climate change? [8]

## 3

## Section B

Answer **two** questions.

- 2** 'There is little difference between perfect and imperfect markets. They all have profit maximisation as an aim, they all are subject to competition and they all exploit resources for the producers' benefit and not the consumers.'

To what extent do you agree with this statement? [25]

- 3** Car companies employ thousands of people and are an important part of the international trade of some countries. During the recession in 2009 some governments gave subsidies to consumers to encourage them to replace their old cars with new ones.

**(a)** Explain what effects an increase in consumer expenditure and an increase in government subsidies might have on national income. [12]

**(b)** Discuss whether diverting expenditure to the car industry might conflict with other macroeconomic government objectives. [13]

- 4** **(a)** In a perfectly competitive labour market, is the demand for a worker's services the main factor influencing the wage rate of that worker? [12]

**(b)** Analyse how the wage rate paid might change if labour and product markets move from being perfectly competitive to being imperfectly competitive. [13]

- 5** In 2009 the International Monetary Fund (IMF) said that 'it expected global economic growth to fall below zero making it the worst performance in most of our lifetimes.'

**(a)** Explain how economists measure a country's economic growth rate. [12]

**(b)** Assess the effectiveness of economic growth as an indicator of how a country's standard of living compares with other countries. [13]

- 6** **(a)** Explain the three reasons, according to the liquidity preference theory, why people demand money. [12]

**(b)** Use the liquidity preference theory to discuss the possible consequences of an increase in the supply of money. [15]

- 7** Economists talk about the need for resources to be used efficiently. Explain what they mean by this and discuss whether it is possible in practice to achieve such efficiency. [25]

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Question 1

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**ECONOMICS**

**9708/41**

Paper 4 Data Response and Essays (Supplement)

**October/November 2013**

**2 hours 15 minutes**

Additional Materials: Answer Booklet/Paper

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**Section A**

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**Section B**

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## Section A

Answer this question.

1

### Banks, supermarkets and oligopoly market power

Some banks have been accused of having a control over the market that enabled them to get away with poor service, confusing products and dishonest claims about free banking. However, the banks maintained that their size created economies of scale, the benefits of which were passed on to consumers in the form of lower prices. A report stated that the banks' claim was not correct. Any benefits went mainly to shareholders and not to consumers. The banking industry, it said, had many of the characteristics of an oligopolistic market. The report said that charges for services were often difficult to determine and that obstacles which prevented customers switching accounts to rival banks meant that the banking industry was not competitive. (*Source: The Independent*)

Another industry dominated by a few large firms is food retailing. Morrisons is such a firm with 420 stores. It is the fourth biggest supermarket in the UK with a 12.3% market share in 2011 (its three main rivals had market shares of 30.3%, 16.9% and 16.5% based on the value of total sales). Unlike its bigger competitors, Morrisons owns many of the factories from which it gets its food. This vertical integration gives it an advantage over rivals. In addition, some of the products it sells are made in its supermarkets. It started to produce its own products in order to save costs. The stores have, for example, their own bakeries and butchers. The supermarket has plans to introduce home deliveries, on-line ordering and take-away meals. Its aim is to grow further. It recognises that it would take years to match the market share of its bigger rivals but it wants to be a 'more dangerous' competitor. (*Source: The Sunday Telegraph*)

**Table 1: Sales and Market share of UK supermarkets and smaller shops**

Supermarket and shops	Value of Sales December 2009 to February 2010 £m	Market Share % of total Sales 2010	Value of Sales December 2010 to February 2011 £m	Market Share % of total Sales 2011	% Sales change Dec. 2009– Feb. 2010 compared to Dec. 2010– Feb. 2011
Tesco	7 102	30.4	7 352	30.3	3.5
Asda	3 973	17.0	4 095	16.9	3.1
Sainsbury's	3 799	16.3	3 998	16.5	5.2
Morrisons	2 865	12.3	2 992	12.3	4.4
All other food shops	5 630	24.0	5 851	24.0	3.9
Total	23 369	100.0	24 288	100.0	3.9

(Source: <http://www.kamcity.com>)

## 3

- (a) The supermarket claims that it benefits from integration. The banks maintain they have economies of scale. Distinguish between integration and economies of scale. [4]
- (b) Analyse how any increased integration might affect the costs of a supermarket. [4]
- (c) Comment on the performance of Morrisons between 2009–2011 compared with its larger competitors. [4]
- (d) Is there enough evidence in the information to conclude that banking and food retailing are oligopolistic markets? [8]

## Section B

Answer **two** questions.

- 2 Choice is an essential part of the analysis in economic texts.
  - (a) Explain how economic analysis suggests that consumers make a choice when buying products and how they react to price changes. [12]
  - (b) Discuss the possible choices a firm might face when deciding what business objective it should have. [13]
- 3 The economic theory of wages can explain wage determination in a perfect market. This, however, is of little use as all markets are imperfect and the theory has no relevance in such markets.  
Discuss whether you agree with this statement. [25]
- 4 In 2011, an economic advisor recommended that low interest rates in a country should continue because of the uncertainty about the ability of the economy to grow. (*Source: The Independent*)
  - (a) Explain the possible link between interest rates and the economic growth of an economy. [12]
  - (b) Discuss what other policies a government might use to encourage economic growth. [13]
- 5 'The many difficulties involved in measuring living standards mean that it is never possible to be certain that the people in one country are better off than those in another country.'  
How far do you agree with this comment? [25]

**Please turn over for rest of the questions.**



- 6 (a) Explain the possible causes of a rise in unemployment. [12]
- (b) In 2011, a government announced that it would reduce the number of people employed in the public sector and that pensions would be paid at age 65 rather than age 60.

Discuss how, according to the liquidity preference theory, a person's demand for money might be affected by the above announcement. [13]

- 7 The increase in air travel has led to the pressure to build larger or extra airports. Airports create jobs, provide the facilities for international trade and bring income to the country. They also can cause noise pollution and sometimes destroy areas of natural beauty.
- (a) Explain what is meant by efficiency in the use and the exploitation of resources. [12]
- (b) Discuss whether the creation of income through such projects as the building of airports should be left to the private sector. [13]

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## ECONOMICS

9708/42

Paper 4 Data Response and Essays (Supplement)

October/November 2013

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper



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## Section A

Answer this question.

1

### The objectives of firms

Unilever, a multinational global food manufacturer, with many branded products, has announced a partnership with Oxfam, the international relief agency, to help farmers in developing countries. Unilever welcomed the partnership and said that their objective was 'to double the size of our business while halving our environmental impact. We want to do this by maximising the positive social impact of our business. A major element of this is to promote better livelihoods by incorporating 500 000 small farms in developing countries and small-scale distributors into our supply chain. This way we hope to have a positive impact on the lives of people living in poverty.'

Historically, companies in the food and drink industry have tried to improve efficiency and minimise costs by reducing the number of international suppliers they use. However, Oxfam said that firms are now starting to consider new ethical business models about how they source their produce. There is a need to move away from a short-term focus on profit margins and consider long-term objectives.

In 2011 a drugs company, GlaxoSmithKline, (GSK), manufactured a new medicine which had a higher market price than a rival medicine from another company. The medicine was expensive to research and produce. The expected annual revenue for the company from the sale of the medicine was estimated to be around US\$314m; the annual cost of hospital treatment with the medicine for just one patient was around US\$23 000. A government negotiated a new type of deal with GSK. The company agreed that it would supply public sector hospitals with the medicine at the same price as its rival's product. It would also return some of the revenue it received from the hospitals if its product proved to be less successful than the rival product. The government said it was introducing a 'value-based pricing model'. A spokesperson for GSK said 'we are moving in the direction where price is determined by value and value is determined by evidence'.

*(Source: The Sunday Telegraph)*

- (a) In what type of market structure is Unilever likely to be operating? Explain your answer. [3]
- (b) Why might it be thought that there could be a conflict between Unilever's stated objective and its policy concerning its suppliers? [5]
- (c) GSK's new drug was expensive to research and develop. Why might a company conduct research and development (R&D) if it is so expensive? [4]
- (d) Discuss whether there is enough evidence in the information to conclude that the objective of Unilever and GSK is not that of profit maximisation. [8]

## Section B

Answer **two** questions.

- 2 (a) Use the theory of marginal utility to analyse how a consumer will normally buy more of a product at a lower price than at a higher price and explain how this theory can be used to derive a market demand curve. [12]
- (b) Economic texts examine market equilibrium. Discuss whether it is the consumer or the producer who determines the equilibrium market price and whether consumers have the same power in all types of market structure. [13]
- 3 (a) Analyse whether in a perfectly competitive labour market it is true that a profit maximising firm will employ labour only up to the point where the marginal revenue product of labour is at its maximum. [12]
- (b) Discuss whether the marginal revenue productivity theory of wages is useful in explaining wage determination in an imperfect market where there is a trade union. [13]
- 4 In the economic recession of 2011 many private sector firms were still able to announce that they were successful and had made substantial profits. Large bonuses were paid to directors and shareholders received large dividends.
- Discuss whether it is better for an economy if the allocation of resources is left entirely to the private sector operating through the market system. [25]
- 5 (a) Explain, using the concept of the multiplier, the possible link between a fall in interest rates and an increase in national income. [12]
- (b) Discuss whether the use of fiscal policy is the only effective means of stimulating economic growth. [13]
- 6 While the overall aim may be to improve the economy, governments find that their macroeconomic policies sometimes conflict with each other. Explain why some government economic policies may conflict with each other and discuss which should be given priority. [25]
- 7 A country has a high level of unemployment and a low level of GDP. Discuss whether this situation is a good indication that the country is a developing country. [25]

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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education  
Advanced Level

**ECONOMICS**

**9708/43**

Paper 4 Data Response and Essays (Supplement)

**October/November 2013**

**2 hours 15 minutes**

Additional Materials: Answer Booklet/Paper

**READ THESE INSTRUCTIONS FIRST**

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Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

You may use a soft pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid.

**Section A**

Answer **Question 1**.

**Section B**

Answer any **two** questions.

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

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.

This document consists of **4** printed pages.



## 2

## Section A

Answer this question.

1

### The effect of oil price rises

In 2011, there were big increases in oil prices which led to comparisons with a period in the 1970s when oil prices also rose steeply. In the 1970s, the macroeconomic policy used in the UK was to increase budget deficits. By contrast, in 2011, the macroeconomic policy was to try to reduce the budget deficit.

In the 1970s some thought the effect of oil price increases would be inflationary while others thought the effect would be deflationary. The following points were made.

In the 1970s

- consumers would have to spend more on oil but they would spend less on other things.
- consumers would not spend their savings.
- firms could pass on the increased cost of production, caused by higher oil prices, to consumers.
- oil prices were an important item used in the construction of the consumer price index.
- oil producers and suppliers would not necessarily spend their increased revenues.

Table 1 below shows the rate of inflation in the UK in the 1970s.

**Table 1: UK inflation rates in the 1970s**

Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Inflation rate %	6.40	9.40	7.10	9.20	16.00	24.20	16.50	15.80	8.30	13.40

(Source for Table 1: <http://www.whatsthecost.com>)

In 2011, oil prices increased again. The question then was whether the outcome would be the same as in the 1970s. Again some said there would be deflationary effects, while others predicted inflationary effects. In addition to the points that were made about the 1970s price increase, these further points connected with the economic context of 2011 were considered.

In 2011

- oil prices rose by 50% compared with 240% in the early 1970s.
- consumers faced potential unemployment in the private sector from low growth rates as economies tried to recover from a world banking crisis and recession.
- consumer spending on oil as a percentage of GDP was about 40% lower than its 1970s level.
- economies were less dependent on oil than in the 1970s.
- workers in the public sector were worried about possible unemployment as the public sector was reduced in size.
- reduced government spending had a downward effect on employment in all sectors.

(Source: *The Daily Telegraph*)

## 3

- (a) The information mentions that some thought the effect of oil price increases would be deflationary. Explain what economists mean by 'deflationary'. [2]
- (b) Refer to what actually happened to the rate of inflation in the UK as shown in Table 1:
  - (i) Explain which, if any, of the points made about the 1970s could have caused what is shown in Table 1. [4]
  - (ii) In the 1970s the UK government had a macroeconomic policy of increasing the budget deficit. Explain how this policy might have contributed to what is shown in Table 1. [6]
- (c) From the information given consider whether the effect of the rise in oil prices in 2011 was more likely or less likely to have been inflationary compared with the 1970s. [8]

## Section B

Answer **two** questions.

- 2 (a) Explain how, according to marginal utility theory, consumers reallocate their expenditure between different products as prices change. [12]
- (b) In reality perfect competition is seldom found, and firms use advertising to persuade consumers to buy their products.  
  
Discuss whether imperfect competition means that markets are controlled only by producers and the traditional idea that the consumer determines what happens in the market based upon utility theory is no longer valid. [13]
- 3 (a) Do you agree with the view that in a perfectly competitive labour market wages are higher in some occupations than others only because of the differences in the supply of labour? [12]
- (b) A country has a minimum wage rate fixed by law. Discuss whether this can be included in the economic analysis of the theory of wages in an imperfectly competitive labour market. [13]
- 4 Some companies claim that restrictive regulation by governments is the biggest threat to business growth. (*Source: The Independent*)
  - (a) Explain what is meant by:
    - (i) a deadweight loss, and
    - (ii) price discrimination. [12]
  - (b) Discuss which is more beneficial, firms that remain small or firms that grow in size. [13]
- 5 Governments of developing countries often argue that the economy has improved while they have been in power. Explain what economic indicators might be used to support their argument and discuss the usefulness of that data in illustrating an improvement in a developing economy. [25]



- 6 Some governments place great emphasis on the aims of economic growth and keeping the level of unemployment low. How far do you agree that these aims should be the most important of a government? [25]
- 7 It is said that the market does not allocate resources efficiently and that market failures occur. However, there need be no concern about market failure. All types of market failure can easily be overcome if the government intervened in the price system.

Discuss this argument. [25]

---

*Copyright Acknowledgements:*

Section A Question 1 © ADAPTED: Roger Bootle; *Comment: A continued high oil price will bring ups and downs ...*; Business Section; The Daily Telegraph;  
Section A Question 1 © ADAPTED: <http://www.whatsthecost.com/historic.cpi>; 27 July 2011.  
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**Cambridge International Examinations**  
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**ECONOMICS****9708/41**

Paper 4 Data Response and Essays (Supplement)

**October/November 2014****2 hours 15 minutes**

No Additional Materials are required.

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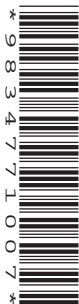
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**Section A**Answer **Question 1**.**Section B**Answer any **two** questions.

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

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## Section A

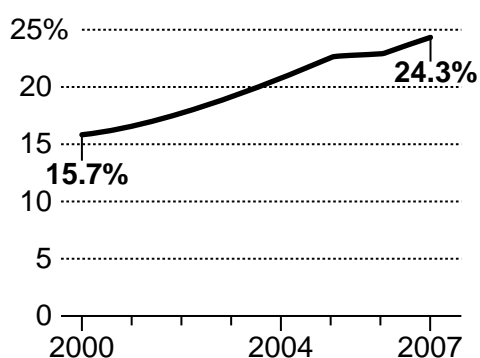
Answer this question.

## Employment in India

- 1 It is well known that many foreign countries have opened offices in India to take advantage of its low-cost labour force. Less well known is the extent to which Indian firms employ other firms within India to do their work. Compared with other economies most manufacturing firms in India are small when measured by the number of permanent workers. However, they increase their labour force by employing temporary workers from private employment agencies whenever they are needed.

Walk into any of India's new shopping malls and many of the shop workers, caretakers and security staff will be employed by companies other than those of the owners of the mall or the shops within it. These workers are paid as little as half what the permanent workers earn and normally receive few extra benefits, such as paid holidays. Although each state in India has its minimum wage, it applies only to the permanent workers, not to temporary workers.

**Fig. 1:**  
**Temporary workers as a percentage of all workers in India**



**Table 1:**  
**Percentage of all firms with fewer than ten permanent workers, in 2007**

China	4%
U.S.	11%
South Korea	13%
Poland	18%
Italy	26%
<b>India</b>	<b>89%</b>

Source: Indian Labour Bureau; OECD

This employment model is also described as unsatisfactory by managers. They say that they have to hire and train temporary workers who have no loyalty to the firm and that finding skilled temporary workers is difficult. They say it restricts the growth of the firm and does not create enough new jobs for the 12 million who enter the labour force each year.

Many economists assert that India's labour laws will continue to restrict growth in the number of jobs. This is not good for India's economy overall, although it does allow private employment agencies to profit from the supply of temporary workers.

Source: extract from New York Times, 2011

- (a) Identify **three** reasons why temporary workers in India are disadvantaged compared with permanent workers. [3]
- (b) Is the evidence given sufficient to support the statement that 'most manufacturing firms in India are small'? [4]
- (c) Distinguish between fixed cost and variable cost and consider how temporary workers and managers would be classified. [3]
- (d) Discuss whether the payment of low wages could be good for India's economy. [10]

## Section B

Answer **two** questions.

- 2 (a) Analyse whether there is a difference between:
- the way the effects of an increase in price can be represented using a budget line, and
  - the way the effects of an increase in price can be represented using a demand curve based on marginal utility theory. [12]
- (b) Discuss what is likely to happen to the equilibrium price and output if a perfectly competitive firm were to become a monopolist. [13]
- 3 In the recession of 2012, some European firms declared that their profits were not as high as in the previous year.
- (a) Explain how, in theory, a firm might try to increase its profits. [12]
- (b) Discuss what alternative objectives a firm might have apart from profit maximisation. [13]
- 4 (a) Employment is likely to decrease if wages fall.  
Employment is likely to decrease if wages rise.
- Consider whether these apparently contradictory statements are true in the analysis of the demand for and supply of labour. [12]
- (b) Discuss how wage rates might differ between a perfect and an imperfectly competitive market for labour. [13]
- 5 An economist stated 'you cannot encourage economic growth, and cut spending and increase taxes at the same time'.  
(Source: *The Times*. 2011)
- (a) Explain the costs and benefits of economic growth. [12]
- (b) Discuss whether economic analysis can be used to support the statement of the economist. [13]
- 6 Government economic policy should be directed to increasing the standard of living – employment, health, education and a sustainable environment. It should not concentrate on fixing prices, raising taxes and regulating bank lending.
- Discuss whether there is any truth in this statement. [25]
- 7 The transfer of some functions of the public sector to the private sector is the best way of ensuring efficiency. It is, therefore, worthwhile.
- Is this an argument with which you agree? [25]

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*Copyright Acknowledgements:*

Question 1 *Indian Labour Bureau; OECD*

*Extract from New York Times, published as a supplement in The Observer, 11.12.11*

Question 5 *The Times. Times Modern 20.10.11 p5*

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## **ECONOMICS**

**9708/42**

Paper 4 Data Response and Essays (Supplement)

**October/November 2014**

**2 hours 15 minutes**

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#### **Section A**

Answer **Question 1**.

#### **Section B**

Answer any **two** questions.

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## Section A

Answer this question.

1

## Integration and market supply

**Article 1.** Cisco is a telecommunications company that profited from the rapid growth of the Internet in the 1990s by producing a wide range of equipment that became vital for companies providing internet services. It is now a world leader in this area.

In 2012 Cisco announced its intention to acquire Lightwire Inc. another telecommunications company. Cisco said that the acquisition would result in the integration of two comparable businesses. It would allow it to meet customers' demands for smaller and more powerful equipment and at the same time customers' capital and operating costs could be reduced. Cisco said Lightwire's employees would become Cisco employees.

Source: <http://newsroom.cisco.com>

**Article 2.** In Australia two big supermarket chains control up to 80% of grocery sales. They wish to increase the percentage of products carrying their own supermarket label (own-brand) from the current 20% of stock to over 40%. Analysts say this aim implies that supermarkets will engage in integration by taking over their suppliers and they are concerned about the effect on the 225 000 workers who manufacture alternative brands. They are also concerned about the effects it will have on consumers, competition and on Australia's capabilities as a food exporting nation.

Many manufacturers rely on the two dominant supermarkets as a means of getting their products to consumers. The supermarkets have adopted an aggressive attitude towards the manufacturers, for example, by forcing them to accept lower profits for their products. It is argued that stronger supervision by Australia's Competition and Consumer Commission is required to monitor the supermarkets to ensure fairness and prevent a misuse of market power.

Some manufacturers, as well as making their own products, also supply the supermarket with its own-brand products which are usually cheaper for the consumer. This provides both volume and certainty of sales for the manufacturer in the short run. However, it means that the manufacturer is effectively competing with itself, risking its long-term competitiveness and cutting its own long-term profit margins. This is because the supermarkets are less likely to stock the manufacturers' brands once their own-brand is established.

Analysts draw attention to the possible serious results of this for research and innovation. With reduced long-term profitability, Australian manufacturers would not invest in research. Without innovation the food processing sector will decline and also without such a sector Australia's food exports will fall. Australia's long-term food security will be weakened as it becomes more dependent on food imports.

Source: <http://www.theage.com.au>

- (a) Distinguish between the type of integration likely to occur in Australian supermarkets and the integration intended by Cisco. [3]
- (b) What is likely to happen to employment if both examples of integration occur? [3]
- (c) The article concludes that Australia's long-term food security will be weakened. Analyse why this conclusion is made and discuss whether you support it. [4]
- (d) Does the evidence in the article suggest that integration is beneficial? [10]

## Section B

Answer **two** questions.

- 2 'The purchases a consumer makes are based upon marginal utility. It is this alone that determines market equilibrium in perfect competition. Supply has no relevance.'

Is this true? [25]

- 3 Discuss the similarities and differences between a firm's likely price and output policy in perfect competition and oligopoly. [25]

- 4 A huge company with a turnover of \$99.3 billion paid its chief executive \$10.9 million in 2011. At the same time it was reported that the company did not pay what was regarded as a living wage to all its employees.

(a) Use economic analysis to help explain why there can be wide differences in wage rates. [12]

(b) Discuss how this analysis could be adapted if a trade union intervened in the process of wage determination. [13]

- 5 (a) Identify **two** government macroeconomic aims and analyse how a boom will bring beneficial changes for consumers and producers. [12]

Lord Skidelsky, Keynes's biographer, stated that Keynes believed that 'to cut government spending was completely the wrong policy in a slump'. (Source: *The Times*.)

(b) Discuss why cutting government spending might be considered to be the wrong policy in a slump. [13]

- 6 (a) Use liquidity preference theory to explain why there is a demand for money. [12]

My higher income will make me happier. It will make other people unhappy.

(b) Discuss whether the main aim of government policy should be to achieve a more equal distribution of income. [13]

- 7 (a) How effective is the measurement of economic growth as an indicator of how a developing country's standard of living compares with other countries? [12]

(b) Discuss whether economic growth would necessarily lead to a more efficient use of resources in developing countries. [13]



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- Question 1     <http://newsroom.cisco.com/press-release-content?type=webcontent&articleId=675179>  
                  <http://www.theage.com.au/national/accc-to-target-top-supermarkets> accessed 25.03.12
- Question 5 (a)   *The Times. Times Modern 20.10.11 p5*

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**ECONOMICS****9708/43**

Paper 4 Data Response and Essays (Supplement)

**October/November 2014****2 hours 15 minutes**

No Additional Materials are required.

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This document consists of **4** printed pages and **1** insert.

## Section A

Answer this question.

### Tax rates and growth

- 1 It is suggested that lower tax rates will cause economic growth. If the marginal tax rate is cut and disposable income rises, labour has more incentive to work additional hours to increase their earnings, and entrepreneurs may invest in a new enterprise. The question is whether these incentive effects are large. If they are, they could cause a sustained increase in economic activity and growth. This idea is one of the key features of supply-side economic policy.

If, however, the incentive effects are small then the outcome would be quite different. Cutting taxes would raise output in the short run by putting money in people's pockets which would allow them to increase their spending. This would cause a temporary inflationary demand-side effect. If the effect is small, cutting taxes would not raise output on the supply side in the long run.

Since 1945, the top rate of income tax in the US has varied from more than 90% to less than 30%. There does not appear to be any consistent link between these tax rates and economic performance. Tax rates were lower in the 1960s than the 1970s, and economic growth was higher in the 1960s than the 1970s. However, tax rates were higher in the 1990s than the 2000s, and economic growth was higher in the 1990s than the 2000s.

Of course, many other factors affect economic growth so a lack of a consistent link between tax rates and economic growth does not prove that tax rate changes have little or no effect. A useful measure of the supply-side effects is what happens to hours worked as a result of the marginal tax rate change. Governments are also interested in the effects of tax changes because they wish to calculate the amount of revenue they could collect.

If people work longer when the tax rate is reduced, then their income will rise. Those who believe in supply-side economic policy say that this response to marginal tax rate changes is greater than one. This implies that changes in government revenue will have a similar effect to changes in a firm's revenue if it has a price elasticity of demand greater than one.

However, a review of several income groups after recent tax changes concluded that the best estimate of this response to tax rate changes ranges from 0.12 to 0.40 and is not greater than one. There is an alternative proposed to tax rate changes as a means of raising revenue which is to remove opportunities for tax avoidance.

*Source: International Herald Tribune, 2012*

- (a) Explain what is meant by economic growth. [2]
- (b) Explain why cutting tax rates is considered a supply-side policy. [3]
- (c) Analyse, with the aid of a diagram, how the supply of labour might change as the marginal rate of income tax falls. [4]
- (d) Explain, using the information above, what would happen to government revenue if tax rates were reduced, and the response to marginal tax rate changes is greater than one. [4]
- (e) Discuss whether the evidence from the data shows that economic growth is improved by tax reductions. [7]

## Section B

Answer **two** questions.

- 2** The link between marginal utility and price has a similar significance for the consumer as the link between marginal cost and price for the producer.

Consider whether this statement is an accurate reflection of the economic analysis of consumer and producer equilibrium. [25]

- 3 (a)** Cunard is a company that operates large passenger liners providing transatlantic crossings between the US and the UK. Larger cabins, or cabins with balconies are priced higher than the smaller cabins. Also for any cabin, passengers purchasing the voyage in the US pay a much lower price than passengers purchasing the voyage in the UK. Cunard insist that in order to make the purchase in the US the passenger must have a US address.

Explain whether these are examples of price discrimination and consider whether price discrimination can be justified. [12]

- (b)** Discuss whether firms operating in a market structure of monopolistic competition are less efficient than those operating in perfect competition. [13]

- 4 (a)** Explain what economists mean when they say that the labour market is imperfect rather than perfect. [12]

- (b)** Does the use of the term 'imperfect' mean that there is some failure in the labour market that should be corrected by government intervention? [13]

- 5** In 2012, after a period of low demand in an economy, private consumption and investment increased and there was economic growth. This was not entirely advantageous as the increase in economic growth can conflict with other government objectives.

Explain why an increase in private consumption and investment might have led to an increase in economic growth and consider whether you agree that this may conflict with other government objectives. [25]

- 6** It is suggested that the use of credit cards has resulted in huge debts as people spend far more than they earn.

- (a)** Explain whether the liquidity preference theory of the demand for money can be applied to the use of credit cards. [12]

- (b)** Use the liquidity preference theory to discuss the possible consequences of an increase in the supply of money. [13]

- 7 (a) The main characteristics of a developing country are a small service sector and a lack of international trade.

Do you agree with this statement?

[12]

- (b) It was reported that in the last quarter of 2012 a developing economy 'had performed well in terms of its GDP compared with other countries'. Explain what this statement means and discuss whether a comparison using GDP is a valid way of measuring economic performance between countries. [13]

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Question 1 *International Herald Tribune: 17-18 March 2012. P14, 16*

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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
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**ECONOMICS**

**9708/04**

Paper 4 Data Response and Essays (Supplement)

**May/June 2008**

**2 hours 15 minutes**

Additional Materials: Answer Booklet/Paper



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**Section A**

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**Section B**

Answer any **two** questions.

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## Section A

Answer this question.

1

### The North Sea oil industry

The UK drills for oil in the North Sea. In 1999, production was at 4.5 million barrels a day. However, as the oil in the easily accessible oil fields was used up, production fell steadily from 1999 until it reached 3.3 million barrels a day in 2005.

Nevertheless, in 2006, many in the oil industry did not consider it to be in decline. Indeed, some of the industry's problems were associated with an expanding industry, not a declining one. The managers complained, for example, about the shortage of skilled labour and the high rents of the oil rigs. Investment increased by 30% in 2006 and it was hoped that production would rise in 2007.

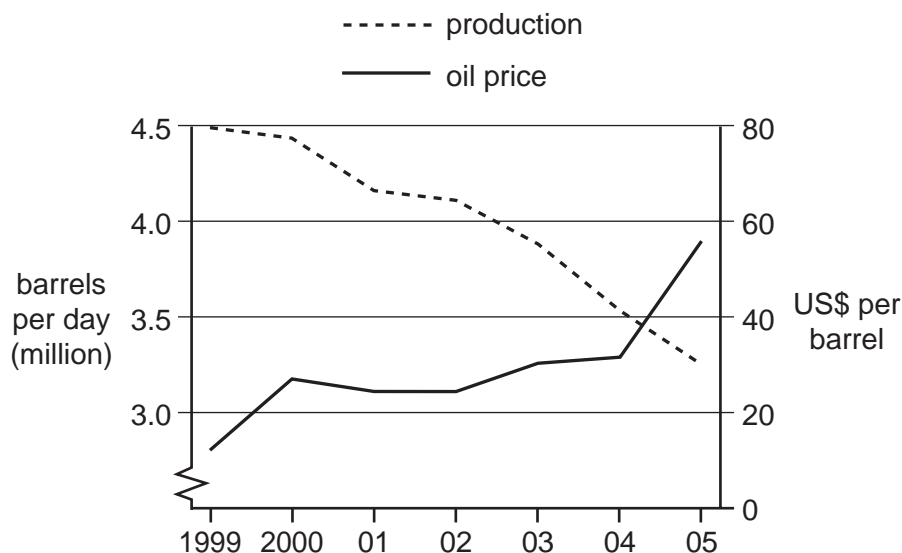
The UK government was keen to keep production high as the industry supported 250 000 jobs and had a large impact on the trade balance of the UK. One way to keep production high is to explore for new oil fields. Another way is to use every drop of oil from the existing oil fields. Sometimes a large company leaves an oil field which still has substantial amounts of oil because although it is technically possible to extract the oil, it is not profitable to do so. However, a smaller company is often able to drill profitably for the oil when it is unprofitable for a large company.

In view of this, the UK government encouraged smaller and more enterprising firms. In 2005, 152 licences to drill were given to 99 companies. These new licences gave companies exclusive rights to develop the more inaccessible oil fields for six years rather than four years as before. Furthermore, the government also changed the rules on access to pipelines – which are often owned by large companies – so that smaller companies could get their oil to the market more easily.

The Chancellor of the Exchequer (Minister of Finance) also made changes. In 2002, he raised the tax on oil company profits to 40% from the usual company rate of 30%, and raised it again in 2005 to 50%. The justification given was that the oil companies made huge profits.

The industry is more dependent than ever on large expensive technological advances and innovation. Most of the government's reforms recognised this.

**Fig. 1 North Sea oil industry: production and price**



## 3

- (a) How might the North Sea oil industry have an impact on the national income of the UK? [4]
- (b) From the information given, consider whether the North Sea oil industry appears to be declining or expanding. [6]
- (c) What evidence is there that might explain why the North Sea oil industry is still prepared to increase investment? [4]
- (d) Discuss whether the increase in the number of small firms drilling for oil contradicts the usual economic explanation of the existence of small firms. [6]

## Section B

Answer **two** questions from this section.

- 2 The government in Namibia stated that electricity prices should cover cost and should also be based on the principle of allocative efficiency.  
  
Discuss whether this approach to pricing can be supported in theory. [25]
- 3 In some countries the power of trade unions has decreased. In other countries, trade unions have organised major strikes resulting in employees refusing to work.  
  
(a) Is the existence of a trade union likely to be the main factor that affects the supply of labour? [10]  
  
(b) Discuss how the theory of wage determination through market forces might need to be altered when trade unions exist in an industry. [15]
- 4 Large firms necessarily become monopolistic. Monopolies adopt practices that are undesirable. Therefore, large firms should be regulated by governments.  
  
Discuss whether there is any truth in this argument. [25]
- 5 The solution to unsatisfactory economic development and growth is to focus on economic theory, scientific advances, new technology and market forces.  
  
(a) Explain what is meant by economic development. [10]  
  
(b) Discuss whether you agree with this statement. [15]
- 6 (a) It is feared that if the government increases taxes the level of national income will fall. Explain whether this is necessarily true. [10]  
  
(b) Discuss whether a fall in the level of national income is a good indicator that there has also been a decline in the standard of living in the country. [15]
- 7 (a) For what purposes do people demand money? [10]  
  
(b) Discuss the effect of an increase in the supply of money on interest rates and national income. [15]



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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Level

**ECONOMICS**

**9708/04**

Paper 4 Data Response and Essay (Supplement)

**May/June 2009**

**2 hours 15 minutes**

Additional Materials: Answer Booklet/Paper

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## Section A

Answer this question.

1

### Private Sector Money and Development

The amount of money that workers employed in foreign countries send home is worth US\$200 billion a year and, therefore, the potential benefits of this to developing countries are huge. In some countries the amount of money sent home by those working abroad is very significant when compared with official development aid. For example, in Bangladesh and Kenya, recent figures were:

	Kenya 2004	Bangladesh 2005
Money sent home by workers	US\$464 m	US\$2.2 bn
Money given in aid	US\$625 m	US\$1.4 bn

Even small amounts of money sent by individuals can have an impact on development. The primary education of many children is paid for by money sent home by relatives working abroad. Some governments actively encourage workers to send money home. India has offered non-resident Indians special investment opportunities, perhaps influenced by the example of China where investment from Chinese living abroad has been a big factor in the development of the economy. The same story is true for Ghana and Nigeria, which are developing 'remittance partnerships' with the UK to make it easier and cheaper for people from those countries working in the UK to send money home.

Further, the money could be worth even more if it is directed not just within the family but into community projects. In Mexico, local governments are matching any private money from abroad invested in community development with their own funds.

However, money is not the simple solution to poverty. The director of an economic research centre rejects the idea that income is the most significant contributor to well-being. Instead, in the research centre, attention is being turned to measures that seem to have little to do with economists' traditional indicators about production and consumption. When asked to rank what was important to them, poorer people said religion, relationships and inner peace were more important than income.

- (a) Explain whether the money sent to Kenya by Kenyans working in the UK would be included in Kenya's GDP. [2]
- (b) Analyse why many people from developing countries might go to work in developed countries. [5]
- (c) How far does the article support the view that economic development is largely the result of private actions rather than government policy? [5]
- (d) Discuss the suggestion that 'traditional indicators about production and consumption' are of little use as measures of welfare. [8]

## Section B

Answer **two** questions from this section.

- 2** In many cities worldwide, newspaper publishers compete with each other. Some types of newspapers are sold, but publishers also produce others that are distributed free of charge. Many people and companies pay to advertise in the free newspapers.
- (a) Explain the different ways that economists classify profits and consider whether it is possible to make a profit from a newspaper that is distributed free. [12]
- (b) Discuss how a firm might compete in a market. [13]
- 3** Discuss what might cause inequalities in wage rates in an economy. [25]
- 4** Airbus, a large aircraft manufacturing company, announced in 2007 that its goal was to increase its \$475 million research budget by 25 % in order to try to develop a more environmentally friendly aircraft that had lower fuel consumption.
- (a) Explain why Airbus is likely to be in an imperfect rather than a perfect market structure. [10]
- (b) Economics textbooks sometimes criticise firms in imperfect competition as being against the public interest. What does this mean, and how far does the Airbus announcement prove the textbooks wrong? [15]
- 5** In 2006 it was reported that a country's unemployment rate had remained steady and that its central bank, through its interest rate policy, had prevented an increase in inflation despite a sharp rise in oil prices.
- (a) Explain what might cause unemployment. [12]
- (b) Discuss how interest rate policy might prevent a rise in inflation. [13]
- 6** In 2007 a report stated 'classrooms with teachers, clinics with nurses, clean water and working toilets are the key to ending global poverty. Only governments are in a position to provide these services on the scale required'.
- Discuss whether governments should abandon their traditional macroeconomic aims in favour of the alternatives in the above statement. [25]
- 7** A World Bank report in 2007 commented on the continuing need for major spending worldwide on infrastructure on everything from roads and railways to water and electricity generation.
- (a) Explain the effect on national income when there is an increase in spending on infrastructure. [10]
- (b) Discuss whether an efficient allocation of resources can be obtained only if large-scale investment is undertaken by the public sector rather than the private sector. [15]

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**ECONOMICS**

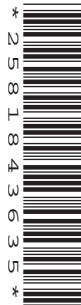
**9708/41**

Paper 4 Data Response and Essay (Supplement)

**May/June 2010**

**2 hours 15 minutes**

Additional Materials: Answer Booklet/Paper



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**Section A**

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**Section B**

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This document consists of **4** printed pages.



## Section A

Answer this question.

1

## Interest rates, inflation and growth

Between 1 July and 1 October 2007, the GDP of the US rose at an annual equivalent rate of 4.0%. This was faster than the forecast rate of 3.1%. The rise was caused by an increase in consumer spending and by rising exports.

By November 2007, however, there were increased signs of a housing market slump, a rise in oil prices and a fall in the value of the US dollar. These changes presented the Federal Reserve (the US central bank) with a problem about interest rates.

The Federal Reserve had already cut interest rates in October 2007 and it reduced the interest rate again in November in order to help defend the US economy against the worsening housing market.

Further interest rate cuts were thought unlikely, as there was anxiety over the rising price of oil, which by November 2007 had reached a record level. The Federal Reserve said 'recent increases in energy and commodity prices may result in further inflation'.

## A difficult balance: conflicting policy objectives

America's housing market is slumping ...

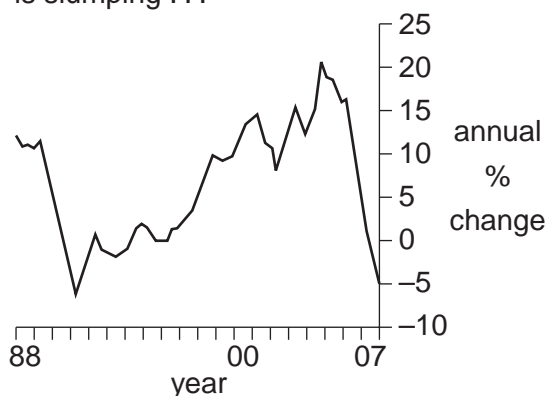


Fig. 1: House price index

... so the Federal Reserve acted to cut borrowing costs

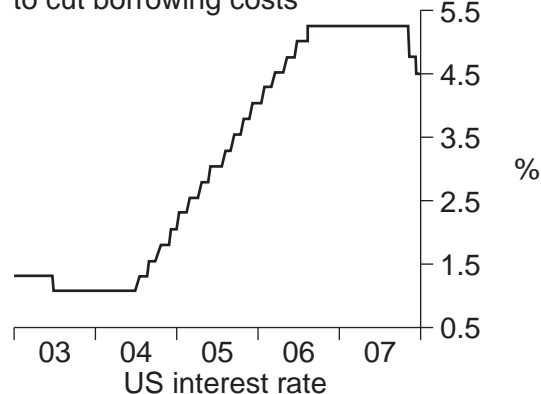


Fig. 2: US interest rate

but soaring oil prices pose an inflation threat ...

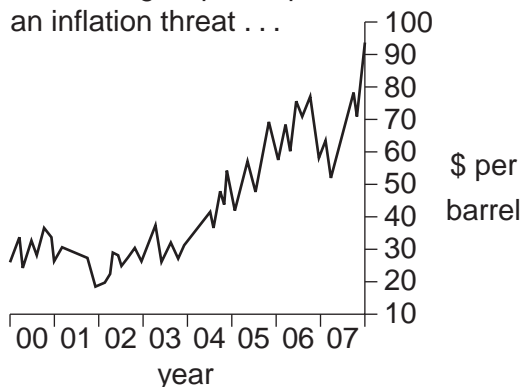


Fig. 3: US crude oil price

... and so does the falling dollar

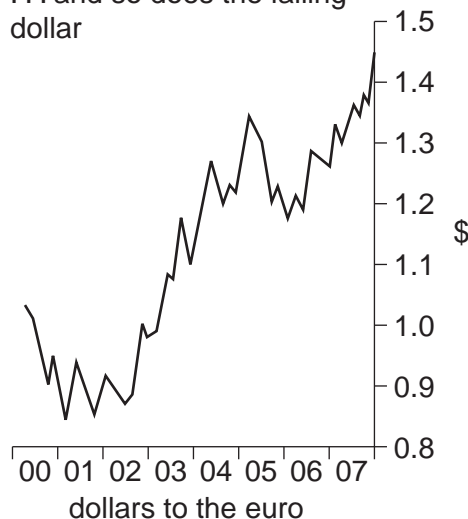


Fig. 4: Dollars to the Euro

## 3

- (a) Name **two** components of aggregate demand **not** mentioned in the first paragraph of the extract. [2]
- (b) Calculate the percentage increase in the GDP of the US between 1 July and 1 October 2007. [2]
- (c) Why does Fig. 4 refer to a 'falling dollar' when the trend of the line is upward? [2]
- (d) Discuss the likely effectiveness of a reduction in interest rates as a solution to a housing market slump. [6]
- (e) To what extent does the data support the view that the US economy was facing 'conflicting policy objectives'? [8]

## Section B

Answer **two** questions from this section.

- 2 (a) Explain what is meant by an efficient market equilibrium. [12]
- (b) Discuss how the market mechanism might fail in the allocation of resources. [13]
- 3 In 2007 the cost of a single ticket on London trains bought at the time of travel was £4. The same ticket bought in advance was £2.50 if used up to 19.00 hrs and £2 after 19.00 hrs. Children could travel free at any time, and those over 60 could travel free after 09.00 hrs.
  - (a) Explain what is meant by price discrimination and analyse what evidence there is of price discrimination in the above statement. [12]
  - (b) Discuss how the output and pricing policy adopted by a firm might differ depending on the market structure in which it operates. [13]
- 4 'The level of wage rates is not satisfactorily explained by economic theory because that theory concentrates on perfect competition while most labour markets are imperfect.'
- Discuss whether this claim is true. [25]
- 5 For some years governments of developed countries have been promoting Fair Trade, which means paying a fair price for primary products bought from African developing countries. Now the governments in developed countries, anxious to conserve resources, are complaining that the transport of products around the world increases pollution and should be limited. They support instead the purchase of goods produced at home. These are often more expensive to produce. African farmers may be left with products that their local people do not eat.
  - (a) Explain what might determine whether a country is classified as developed or developing. [12]
  - (b) Discuss whether the old and the new approaches to trade of the developed countries would help achieve the conservation of resources. [13]



- 6 (a) A firm undertakes a major investment. Analyse why in a closed economy without a government the increase in national income from this investment might be higher than in an open mixed economy. [12]
- (b) Discuss the policies that a government might use to influence the level of investment in an economy. [13]
- 7 Economic analysis adequately explains how a rational consumer determines a pattern of consumption from a given income in a perfect market with no advertising. It does not explain the more common case of what happens if income changes or if there is advertising. The theory is, therefore, of little merit.

Do you agree with these assertions? [25]

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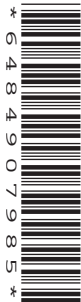
**9708/42**

Paper 4 Data Response and Essay (Supplement)

**May/June 2010**

**2 hours 15 minutes**

Additional Materials: Answer Booklet/Paper



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## Section A

Answer this question.

1

## Income, Spending and Prices in the US

Table 1 Some economic indicators for the US economy

	personal income	consumer spending	consumer prices
Nov 2008	fell 0.4%	fell 0.8%	fell 2.1%
Dec 2008	fell 0.2%	fell 1.0%	fell 1.0%
Jan 2009	rose 0.2%	rose 1.0%	rose 0.3%
Feb 2009	fell 0.2%	rose 0.2%	rose 0.4%

Consumer spending in the US fell by 0.8% in November 2008 and by a further 1% in December. December 2008 was the sixth consecutive month in which consumers cut back on their spending. Between October and December 2008 spending fell by a record 8.9%. Consumers were in a mood to increase their savings but not to go out and spend. Generally, that's a good thing, but not when everyone does it at the same time. By January 2009, the savings rate in the US had reached the highest it had been for 14 years. This increase in savings was caused by low consumer confidence and the fear of higher unemployment.

5

Declining consumer spending is a particularly troubling sign for the US economy, because spending accounts for more than two-thirds of GDP. GDP fell by 3.9% between October and December 2008, the sharpest decline in 26 years.

10

This decline in spending resulted in

- a proposed \$888 billion stimulus plan from the government, including about \$278 billion in tax cuts,
- companies reducing their workforce to cut costs because of falling revenue,
- the expectation that business investment, which accounts for about one-tenth of US GDP, would decline during 2009.

15

- (a) What evidence is there in the data that the economic situation in the US improved after December 2008? [3]
- (b) How far is there any consistent link in the data between
- (i) changes in personal income and consumer spending and
  - (ii) changes in overall prices and consumer spending? [5]
- (c) Explain why a fall in spending might be expected to lead to a fall in business investment. [4]
- (d) Do you agree that a rise in savings is generally 'a good thing, but not when everyone does it at the same time' (line 5)? [8]

## Section B

Answer **two** questions.

- 2** In 2007 the UK Competition Commission indicated that failure in the market mechanism would result in both winners and losers.
- (a) Explain why producers are usually the winners and consumers are usually the losers when the market fails. [12]
- (b) Discuss what the government might do when there are losers because the market mechanism has failed. [13]
- 3** In March 2009, the government of France agreed to pay 250 million Euros to the car manufacturer Renault, which employed 63 000 workers, on condition that it would not reduce the number of French jobs or factories. General Motors, a US car manufacturer which employed 600 000 workers, said that it needed \$2 million in government aid to avoid bankruptcy.
- (a) Describe the characteristics and likely pricing policy of the market structure in which a car manufacturer is likely to operate. [12]
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- 4** (a) Analyse whether an increase in the wage rate always leads to an increase in the number of hours worked by an individual. [10]
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- 5** Economic theory emphasises the idea of an equilibrium position. Discuss whether the idea of an equilibrium is a useful and practical way of explaining the behaviour of a consumer. [25]
- 6** (a) Explain the causes of unemployment. [12]
- (b) Explain what is meant by liquidity preference and discuss how it might be affected by an increase in unemployment. [13]
- 7** 'Developing countries have a low standard of living, yet many have much wealth in natural resources which multi-national companies would like to exploit.'
- Discuss which is the better way of increasing the standard of living: to allow multi-national companies to exploit all the natural resources, or for the government to increase expenditure on education and health. [25]

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**ECONOMICS**

**9708/43**

Paper 4 Data Response and Essay (Supplement)

**May/June 2010**

**2 hours 15 minutes**

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**ECONOMICS**

**9708/41**

Paper 4 Data Response and Essay (Supplement)

**May/June 2011**

**2 hours 15 minutes**

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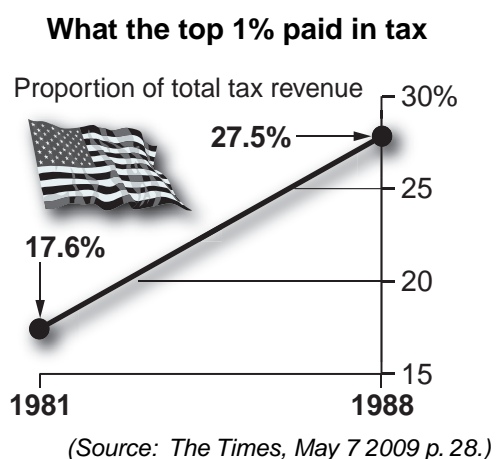
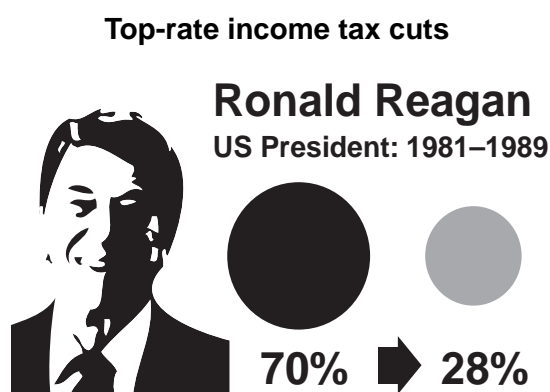
### High taxes do not help in a recession

In 2009, there was an economic recession in many countries. One aspect of the recession was that unemployment rose. Governments paid large subsidies to a number of industries to try to stop the rise in unemployment. This increased the governments' debt and affected its other expenditure.

In an attempt to recover part of the extra expenditure, some governments had a policy of increased income tax rates on people who had high salaries.

However, critics of this policy argue that higher tax rates do not work. They say that the proportion of revenue received from top taxpayers falls and does not rise as taxes increase and the higher taxes cause damaging effects on the economy. It is better they say to decrease taxes. The decrease in taxes brings the government more revenue, not less revenue. Their opinion is supported by evidence from the past as is seen in the effect on tax receipts of changing tax rates in the US as shown in Fig. 1.

**FIG. 1 CUTTING TAXES RAISES REVENUE**



It is suggested that this opposite policy of reducing tax rates is better. Lower tax rates actually boost both the economy and tax revenues. For example, Russia, Latvia and Estonia reduced their highest tax rate and replaced a complicated system of taxes with a single income tax rate of 10%. They enjoyed a huge economic boost as a result.

Another aspect of the recession was that businesses found it difficult to borrow money from the commercial banks. In order to try and make borrowing easier and help businesses, some central banks lowered their interest rates. The central banks also bought government bonds in an attempt to increase the supply of money in the economy.

- (a) Explain what is meant by a recession. [3]
- (b) The article states that 'higher tax rates do not work'.
- (i) What does the article mean by this statement? [3]
- (ii) Is there enough evidence in the article to justify this statement? [6]
- (c) Discuss why the actions of the central banks mentioned in the article might have been expected to ease the recession. [8]

**Section B**

Answer **two** questions.

- 2** Discuss whether economic efficiency can be improved if governments are involved in the regulation and provision of goods and services when there is market failure. [25]
- 3** (a) Analyse, with the aid of a diagram, whether there is a link between diminishing marginal returns and economies of scale. [12]
- (b) Discuss whether the objectives of a firm in a perfectly competitive market are likely to be different from the objectives of a firm in an imperfect market structure. [13]
- 4** Do you agree that the wage of labour is determined by the market like any other price? [25]
- 5** (a) Explain what is meant by GDP and describe the alternative methods by which it is calculated. [12]
- (b) 'GDP figures tell us many things except that which makes life worthwhile. They tell us nothing about education, health and quality of life. They are, therefore, of little value.' Discuss the extent to which you agree with this argument. [13]
- 6** (a) Explain how the impact of the Keynesian multiplier process will change if a free-market closed economy becomes a mixed economy with foreign trade. [12]
- (b) Analyse how a change to the equilibrium level of income resulting from the multiplier process might lead to unemployment or inflation. [13]
- 7** The main way a developing country could become a developed country is for government policy to concentrate on the protection of domestic industry and investment in infrastructure. Do you agree that this is the best policy? [25]

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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education  
Advanced Level

## ECONOMICS

9708/42

Paper 4 Data Response and Essay (Supplement)

May/June 2011

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

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#### Section A

Answer **Question 1**.

#### Section B

Answer any **two** questions.

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This document consists of **4** printed pages.



## Section A

Answer this question.

1

### Emerging economies and the way out of a recession

During the recession of 2009 several economists forecast that some emerging (fast developing) economies would perform better than the developed economies. One indicator of this, they said, was the strength of the exchange rate of the currency of some emerging economies against the US dollar. For example, between November 2008 and July 2009, the Brazilian currency rose 11.4% against the dollar and the Indonesian currency rose 10.2%. Another indicator was the forecast growth rate in GDP as shown in Table 1.

**Table 1: Forecast growth rate in GDP for selected countries**

Forecast Growth Rate in GDP		
	2009 %	2010 %
US	−2.7	+1.4
UK	−3.5	+0.3
Germany	−4.3	+0.3
Japan	−6.5	+0.4
Hong Kong	−5.9	−0.3
China	+6.0	+7.0
Singapore	−7.5	+1.9
Brazil	−1.5	+2.7
Columbia	−1.0	+1.5
India	+5.0	+6.4
Indonesia	−1.3	+0.6

Emerging economies are often dependent on exports to achieve an increase in GDP. Some economists suggested that it would be better for their economic growth if these countries were to concentrate on domestic demand rather than exports.

China, in particular, they said could lead the world out of the recession if it relied increasingly on domestic demand. Indeed, the Chinese government encouraged a shift from export-led industries to programmes aimed at improving the Chinese infrastructure in order to create jobs and thus increase consumption of Chinese goods. Banks were encouraged to make borrowing easier in order to create more credit for consumers and businesses. The government started a massive fiscal stimulus and increased its forecast of GDP to a growth rate of 8.3% in 2009 and 10.9% for 2010 (previous forecast figures were 6.0% and 7.0% as in Table 1).

However, other economists do not accept that there should be an emphasis on domestic demand. They argue that trading links are the strongest evidence of the emerging economies' ability to grow. They state 'no emerging market that adopted an export-led growth model has subsequently needed to break away from it – including China'. China's exports as a percentage of GDP are 32% compared with only 13% for the US. Smaller Asian countries are even more dependent on exports; Singapore's ratio of exports to GDP is 234%, Hong Kong's is 169%. It will be difficult for economies such as these to increase domestic demand and reduce their dependence on export-led growth.

(Source: *Financial Times*: June 12 2009. Table source: *Economist* p105 April 18–24 2009)

- (a) Explain what is meant by GDP. [3]
- (b) The article says that banks were encouraged to make borrowing easier.  
Explain what this might mean and why the government might have thought this was necessary. [3]
- (c) Is there enough evidence in the article to support the view that there has been an improvement in the economic situation of emerging economies? [6]
- (d) Identify the **two** policy approaches suggested by economists in the article and discuss whether there is a conflict between them. [8]



## Section B

Answer **two** questions.

- 2** The use of cars causes market failure. To achieve an efficient use of resources it would be better if governments intervened to affect both the production and the use of cars.

Explain the meaning of the terms 'market failure' and 'the efficient use of resources' and analyse whether economic theory can be used to support this argument. [25]

- 3 (a)** Discuss whether demand schedules and budget line diagrams are similar in the way they represent the effect of

(i) a rise in the price of a good

(ii) a rise in a consumer's income. [12]

- (b)** Analyse what is meant by the equi-marginal principle of consumer demand and whether it can be linked to the derivation of a market demand curve. [13]

- 4 (a)** Discuss whether it is always advantageous for a firm to grow in size. [12]

- (b)** Explain the economic theory of profit maximisation for a firm and consider whether firms are likely to follow this theory in fixing their price and output. [13]

- 5** In imperfect competition, labour markets can lead to worker exploitation in terms of the wage rates they receive compared with wage rates in perfect competition. Discuss this opinion. [25]

- 6 (a)** An increase in investment will raise national income but an increase in the desire by consumers to save will reduce national income.

Explain why this is the case. [12]

- (b)** To increase national income, interest rates should be lowered; indeed lowering interest rates is the only policy available to increase national income.

Discuss whether you support this opinion. [13]

- 7 (a)** As an economy develops, the relative importance of different sectors of production changes. Explain, with examples, why the pattern of employment might change as an economy develops. [12]

- (b)** Discuss whether increases in economic growth are necessarily beneficial to an economy. [13]

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**ECONOMICS**

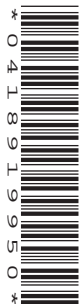
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## ECONOMICS

9708/41

Paper 4 Data Response and Essays (Supplement)

May/June 2012

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper



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## Section A

Answer this question.

1

## Government economic policies

The following is a summary of the economic performance of five European countries at the start of 2010 together with the policies each government proposed.

<b>Greece:</b>	Size of economy (GDP) <b>£209 bn</b>	Economic growth rate (2009) ⚡ <b>-2%</b>	Government debt (% of GDP) <b>124%</b>	Unemployment rate ■■■■■■■ <b>9.7%</b>
<p><i>What's the economic situation?</i> The economy shrank by a smaller amount than the European average in 2009 and the unemployment rate was below the European average. The public finances were a source of concern with government debt of 124% of GDP.</p> <p><i>Suggested policies:</i> no pay rises in the public sector; raising the retirement age from 61 to 63; increasing taxes on fuel, tobacco, alcohol and property.</p>				
<b>Ireland:</b>	Size of economy (GDP) <b>£143 bn</b>	Economic growth rate (2009) ⚡ <b>-7.25%</b>	Government debt (% of GDP) <b>46%</b>	Unemployment rate ■■■■■■■■■ <b>11.8%</b>
<p><i>Suggested policies:</i> reducing public spending; stabilising the banking sector.</p>				
<b>Italy:</b>	Size of economy (GDP) <b>£1 333 bn</b>	Economic growth rate (2009) ⚡ <b>-4.8%</b>	Government debt (% of GDP) <b>115%</b>	Unemployment rate ■■■■■■■ <b>8.5%</b>
<p><i>Suggested policies:</i> encouraging economic growth; creating greater competition through supply-side measures.</p>				
<b>Portugal:</b>	Size of economy (GDP) <b>£141 bn</b>	Economic growth rate (2009) ⚡ <b>-2.7%</b>	Government debt (% of GDP) <b>76%</b>	Unemployment rate ■■■■■■■ <b>10.4%</b>
<p><i>Suggested policies:</i> raising the retirement age; reducing public spending.</p>				
<b>Spain:</b>	Size of economy (GDP) <b>£912 bn</b>	Economic growth rate (2009) ⚡ <b>-3.6%</b>	Government debt (% of GDP) <b>49%</b>	Unemployment rate ■■■■■■■■■■■■■■■■■■ <b>19.5%</b>
<p><i>Suggested policies:</i> raising the retirement age from 65 to 67; reducing public spending; raising taxes; increasing measures to stop tax evasion.</p>				

## 3

- (a) Is this information on the size of the economy (GDP) enough to conclude that the average person in Italy is better off than the average person in Ireland? Briefly explain your answer. [3]
- (b) (i) The economic growth rates are shown to be negative. Explain what economic theory suggests might happen to the level of unemployment in an economy if the growth rate figure is negative. [4]
- (ii) What evidence is there from the information whether there is any link between the economic growth rates and unemployment? [3]
- (c) In 2010 there was much concern about the weakness of the economic situation in Greece compared with the other European countries shown. How far can the data be used as evidence to support that concern? [4]
- (d) Discuss the possible effects on economic growth and unemployment in the Spanish economy, of the policies suggested by the Spanish Government. [6]



## Section B

Answer **two** questions.

- 2 (a)** Explain, using a budget line diagram, whether
- (i)** the substitution effect of a price change and
  - (ii)** the income effect
- would be similar for a normal good and an inferior good. [12]
- (b)** Discuss the extent to which the law of diminishing marginal utility may be used to determine the market demand for a good. [13]
- 3 (a)** Distinguish between perfect competition and monopolistic competition. [12]
- (b)** Discuss whether oligopoly is likely to be the most realistic market structure in a mixed economy. [13]
- 4** In 2010 the directors of a major UK chocolate firm, worth over £10 billion, recommended that its shareholders accept a takeover offer from a large US food firm. The firm would not then be controlled in the UK. It was feared that some production in the UK would cease.
- (a)** Analyse what economic theory suggests might be the outcome of such a takeover for the enlarged firm and its workers. [12]
  - (b)** Discuss the possible macroeconomic outcomes for a domestic economy of such a takeover by a foreign firm. [13]
- 5** Discuss whether the higher wage rates paid in some occupations occur solely because some trade unions have a stronger bargaining power than others. [25]
- 6** Population is increasing more rapidly in developing countries that can least afford it if they wish to encourage economic growth.
- (a)** What are the main characteristics of a developing country? [12]
  - (b)** If a developing country wishes to become developed, the main aim of its government should be to control the growth of its population. Discuss this opinion. [13]
- 7** Explain the difference between productive and allocative efficiency and discuss the suggestion that it is only possible to achieve such efficiencies through government intervention. [25]

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**ECONOMICS**

**9708/42**

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## Section A

Answer this question.

1

### Small and Medium Enterprises in Malaysia

Malaysia has a market-orientated economy and the political stability that is crucial for investors. It also has a well-developed infrastructure, a productive workforce and prices are still competitive.

Small and medium sized enterprises (SMEs) are very important in Malaysia. In the manufacturing sector SMEs are those enterprises which have fewer than 150 full-time employees and in the services sector SMEs are those which have fewer than 50 full-time employees. SMEs provide employment for about 56% of the country's workforce. They contribute 43.5% of the value of Malaysia's output and 19% of the value of its exports.

Table 1 and Table 2 provide further information about the contribution of SMEs to the Malaysian economy.

**Table 1: % Distribution of Enterprises in Malaysia by Sector**

	Agriculture %	Manufacturing %	Services %
SMEs	99.2	89.3	96.7
Large Enterprises	0.8	10.7	3.3
Total	100.0	100.0	100.0

**Table 2: Value of Output by Sector in US\$**

	Agriculture	Manufacturing	Services	Total
Value of Total Output US\$m	6.2	166.6	109.7	282.5
Value of SME Output US\$m	2.6	58.1	62.1	122.8
% Value of Total Output from SMEs	41.9	34.9	56.6	43.5

SMEs are recognised as an important source of economic growth and their development has been given priority by the government. 72% of government development programmes, worth US\$178 million, were provided for SMEs in 2008. A further US\$156 million was provided in 2009.

With these funds, the government has introduced several programmes for SMEs including the provision of loans, technical advice and information on prices, production and technology. Government programmes also help producers identify the products markets require and understand changes in consumer tastes. The aim of the programmes is to encourage a better performance from SMEs.

Initially, Malaysia protected local enterprises. However, realising the huge potential that foreign investment could bring, government policy has changed and now encourages programmes that welcome more direct foreign investment.

## 3

- (a) The article begins by stating that Malaysia is a market-orientated economy. Identify evidence in the article that
- (i) supports this opinion; and
  - (ii) contradicts this opinion. [4]
- (b) State **two** indicators which can be used to measure the performance of firms. [2]
- (c) The article states that the aim of the government programmes is to encourage a better performance from SMEs.
- Discuss how **two** of the government policies mentioned might be used to encourage a better performance from SMEs. [6]
- (d) The article says that the development of SMEs has been given government priority as they are important to the economy. How far does the information support this statement? [8]

## Section B

Answer **two** questions.

- 2 When buying goods not everyone buys the same standard product. There are some who want a cheap product even though it might be of poor quality, while there are those who are willing to pay more for a luxury or an individually-made product. Customers search for value but value is not just in the price.  
(adapted from *New York Times in the Observer* 21.02.10)
- (a) Explain the theoretical link between utility, price and the demand for a product. [12]
  - (b) Discuss whether the economic analysis of a rational consumer estimating demand based on value (utility) is valid not only for standard products but also for poor quality and luxury products. [13]
- 3 (a) Explain why there may be different levels of profit within perfect competition and between perfect competition and monopoly. [12]
- (b) Discuss whether the average variable cost has any significance in a perfectly competitive market structure in determining (i) the output produced by a firm and (ii) the profit of a firm. [13]
- 4 Wage rates in some non-essential occupations, such as entertainment, are very high while wage rates in essential occupations, such as public sector hospital nurses, are much lower. This is unfair.
- Analyse how economic theory can explain these differences in wage rates and consider whether you agree with the conclusion of this statement. [25]

- 5** As part of the measurement of GDP governments calculate the level of investment expenditure.
- (a)** What determines the level of investment and how do changes in investment expenditure affect GDP? [12]
- (b)** Assess the difficulties of using GDP as an economic indicator. [13]
- 6** It is sometimes stated that the economic growth rates of developed countries are higher than those of developing countries.
- (a)** Explain why developing countries often aim to increase economic growth. [12]
- (b)** Assess the likely effectiveness of the types of policy the government of a developing country might use if it wished to increase economic growth. [13]
- 7** It is important to achieve economic efficiency in the use of resources. This can only be done if the private sector is increased in size. Government intervention in the economy should, therefore, be minimised.
- To what extent do you support this argument? [25]

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	£209 bn	 -2%	124%	 9.7%

*What's the economic situation?* The economy shrank by a smaller amount than the European average in 2009 and the unemployment rate was below the European average. The public finances were a source of concern with government debt of 124% of GDP.



*Suggested policies:* no pay rises in the public sector; raising the retirement age from 61 to 63; increasing taxes on fuel, tobacco, alcohol and property.

<b>Ireland:</b>	Size of economy (GDP)	Economic growth rate (2009)	Government debt (% of GDP)	Unemployment rate
	£143 bn	 -7.25%	46%	 11.8%



*Suggested policies:* reducing public spending; stabilising the banking sector.

<b>Italy:</b>	Size of economy (GDP)	Economic growth rate (2009)	Government debt (% of GDP)	Unemployment rate
	£1 333 bn	 -4.8%	115%	 8.5%

*Suggested policies:* encouraging economic growth; creating greater competition through supply-side measures.

<b>Portugal:</b>	Size of economy (GDP)	Economic growth rate (2009)	Government debt (% of GDP)	Unemployment rate
	£141 bn	 -2.7%	76%	 10.4%

*Suggested policies:* raising the retirement age; reducing public spending.

<b>Spain:</b>	Size of economy (GDP)	Economic growth rate (2009)	Government debt (% of GDP)	Unemployment rate
	£912 bn	 -3.6%	49%	 19.5%

*Suggested policies:* raising the retirement age from 65 to 67; reducing public spending; raising taxes; increasing measures to stop tax evasion.

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- 3 (a)** Distinguish between perfect competition and monopolistic competition. [12]
- (b)** Discuss whether oligopoly is likely to be the most realistic market structure in a mixed economy. [13]
- 4** In 2010 the directors of a major UK chocolate firm, worth over £10 billion, recommended that its shareholders accept a takeover offer from a large US food firm. The firm would not then be controlled in the UK. It was feared that some production in the UK would cease.
- (a)** Analyse what economic theory suggests might be the outcome of such a takeover for the enlarged firm and its workers. [12]
  - (b)** Discuss the possible macroeconomic outcomes for a domestic economy of such a takeover by a foreign firm. [13]
- 5** Discuss whether the higher wage rates paid in some occupations occur solely because some trade unions have a stronger bargaining power than others. [25]
- 6** Population is increasing more rapidly in developing countries that can least afford it if they wish to encourage economic growth.
- (a)** What are the main characteristics of a developing country? [12]
  - (b)** If a developing country wishes to become developed, the main aim of its government should be to control the growth of its population. Discuss this opinion. [13]
- 7** Explain the difference between productive and allocative efficiency and discuss the suggestion that it is only possible to achieve such efficiencies through government intervention. [25]

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**ECONOMICS**

**9708/41**

Paper 4 Data Response and Essays (Supplement)

**May/June 2013**

**2 hours 15 minutes**

Additional Materials: Answer Booklet/Paper

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**Section A**

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## Section A

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### Macroeconomic decisions: microeconomic effects.

In 2011 many countries experienced a recession. Most industries, even monopolies, in those countries saw a decline in demand, consumer spending and profits. However the decline was less severe in some firms, for example those in the food and beverage industry, than for others, for example those in the leisure industry. This fall in consumer spending and in consumer confidence might have been caused by anticipated job losses as governments announced reductions in public sector expenditure.

Governments decided to reduce expenditure because they had very large budget deficits. Apart from public sector employment reductions the macroeconomic measures they introduced included fewer subsidies, tax increases and a more restrictive monetary policy.

Tax increases did not help businesses. For example they made it more necessary for firms to make the control of any credit they gave a priority, and to monitor their cash flow very carefully. Increasing prices to match indirect tax increases in order to retain profit levels was not always possible when consumer demand was reduced. The alternative of reducing costs was also a problem. Some argued that firms operating with a high proportion of fixed costs found the market conditions increasingly difficult as their revenues failed to recover and the possibility for further cost reductions became more limited. Others thought that firms with a higher proportion of variable costs faced greater difficulties.

Some governments also reduced investment allowances and subsidies to firms. These tax-free allowances enabled firms to deduct some of the investment cost from what they had to pay in tax. However, a reduction in the allowances had no effect on those industries that did not invest in new equipment. It did harm small and medium-sized enterprises that wanted to buy new machinery, or undertake research in order to become more efficient, or improve their products.

The situation was not helped by increased restrictions imposed by the government on banks' ability to lend. These restrictions meant borrowing for house purchases was more difficult and this again reduced consumer expenditure.

*(adapted from The Guardian)*

- (a) Use the information to explain how macroeconomic changes can be linked to microeconomic decisions. [5]
- (b) Analyse with the aid of a diagram, showing costs and revenue for a monopoly, what is likely to happen to the firm's profits when there is a fall in demand in the industry due to a recession. [5]
- (c) Suggest, using the concept of income elasticity of demand, why the decline in profits was less severe during the recession in the food industry than in the leisure industry. [4]
- (d) Do you support the opinion in the information that a recession is likely to be worse for firms with a high proportion of fixed costs than firms with a higher proportion of variable costs? [6]

## Section B

Answer **two** questions.

- 2 It is important that an economy makes the most efficient use of its resources. This can only be done if firms are allowed to increase in size. Government regulation of firms should, therefore, be minimised.

Discuss whether you agree with this statement. [25]

- 3 (a) Explain how the quantity of labour employed and the wage rate are determined by a firm in a perfectly competitive labour market. [12]
- (b) Discuss why wage rates might be different in practice from those in a perfectly competitive labour market. [13]

- 4 Governments often suggest that there has been an improvement in the standard of living in their economy and support their statement by referring to a range of economic indicators. One of the indicators they use is GDP.

Discuss whether GDP is a reliable indicator of changes in the standard of living in an economy. [25]

- 5 (a) What distinguishes a developed economy from a developing economy? [12]
- (b) Developing economies are often keen to encourage industrial development in rural areas. Developed economies, by contrast, often prevent industrial development in rural areas.

Discuss why there might be this difference in policies. [13]

- 6 (a) Explain how a fall in interest rates might influence the level of investment and, as a result, national income. [12]
- (b) Discuss, with reference to liquidity preference theory, whether interest rates are the main determinant of consumers' demand for money. [13]

- 7 (a) A newspaper reported that 'unemployment had risen for the third consecutive month.' What might be the cause of a rise in unemployment? [12]
- (b) Discuss whether achieving a fall in the level of unemployment should be the main macroeconomic aim of a government. [13]

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## ECONOMICS

9708/42

Paper 4 Data Response and Essays (Supplement)

May/June 2013

2 hours 15 minutes

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## Section A

Answer this question.

1

**Collusion: Exploitation or benefit?**

In 2011, two soap and detergent firms, Unilever and Procter & Gamble, were fined a total of €315m (US\$ 220m) for fixing the price of washing powder in eight European countries. Procter & Gamble is the world's largest consumer products company. The two firms had colluded over prices for more than three years. The collusion began when they agreed to implement an industry-wide programme to improve the environmental impact of their products. They agreed to reduce the amount of packaging they used but to keep the prices unchanged. Then, later, they collectively agreed to raise prices in Belgium, France, Germany, Greece, Italy, Portugal, Spain and the Netherlands. This collusion was against the European Union competition laws and was regarded as 'unfair competition'.

Some information from the 2010 Annual Report of Procter and Gamble (P&G) is shown in Table 1.

**Table 1: Annual Report of Procter and Gamble**

	2006	2007	2008	2009	2010
Total Revenue US\$ million	64 416	72 441	79 257	76 694	78 938
Profits US\$ million	8 684	10 340	12 075	13 436	12 736
Distributed Profit per Share US\$ per share	1.1	1.28	1.45	1.64	1.80

The report states that 'No company in the world has invested more in market research than P&G. We conduct over 20 000 research studies every year. Over the past 15 years, P&G had 125 notable innovations – more than our six largest competitors combined. P&G is the brand-building leader of our industry with 50 brands that are among some of the world's best-known household names – and which together make up 90% of P&G's sales and more than 90% of profits.

P&G is creating the advantage of large scale by integrating across our different businesses and markets, allocating resources more efficiently than any small business can do on its own.'

(Source: Adapted from P&G Annual Report 2010)

- (a) Explain what is meant by collusion and when it is most likely to occur in an industry. [4]
- (b) Analyse, using Table 1, whether price fixing benefited Procter and Gamble. [4]
- (c) Suggest why creating the advantage of large scale by 'integrating across its different businesses' might benefit a firm. [6]
- (d) Is the evidence in the article sufficient to conclude that Procter and Gamble is working against the public interest? [6]

## 3

## Section B

Answer **two** questions.

- 2 (a) Explain how a consumer allocates expenditure according to the principle of equi-marginal utility and analyse how a change in income might affect that allocation. [12]
- (b) Discuss how a government might achieve a more equal distribution of income. [13]
- 3 In 2011, as a result of a recession, the governments of some countries reduced the wages that they paid to public sector workers. Trade unions organised mass demonstrations in protest.
- Discuss how the economic theory of wage determination in perfect competition can be adapted to explain such a situation. [25]
- 4 The combination of rapid economic growth and inflation is no coincidence. *(Source: The Times)*
- (a) Explain why rapid growth and high inflation might often occur at the same time. [12]
- (b) Discuss what policies might be used by a government to control inflation. [13]
- 5 (a) Explain what changes might occur to the age distribution and occupational structure of a population as an economy changes from developing to developed. [12]
- (b) Assume that you have been given some statistics which indicate that a country has a high rate of unemployment and a dependency on international trade. Discuss whether these statistics are sufficient to indicate whether that country may be classed as developing or developed. [13]
- 6 In 2011, one of the UK's largest multinational banks announced it would reduce the number of people it employed by 43 000 – the equivalent size of a small town. Unemployment in the UK reached nearly 3 million in 2011.
- (Source: adapted from The Times)*
- (a) Analyse what might cause an increase in unemployment in a country. [12]
- (b) Discuss what impact an increase in unemployment is likely to have on an economy. [13]
- 7 The market system is not able to allocate resources efficiently.
- Discuss this opinion. [25]



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Question 6 © adapted: Jonathan Russell; *Lloyds review set to push job losses to 43,000*; The Times; 13 June 2011.

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## ECONOMICS

**9708/43**

## Paper 4 Data Response and Essays (Supplement)

May/June 2013

**2 hours 15 minutes**

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## 3

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Answer **two** questions.

- 2 It is important that an economy makes the most efficient use of its resources. This can only be done if firms are allowed to increase in size. Government regulation of firms should, therefore, be minimised.

Discuss whether you agree with this statement. [25]

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## **ECONOMICS**

**9708/41**

Paper 4 Data Response and Essays (Supplement)

**May/June 2014**

**2 hours 15 minutes**

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## Section A

Answer this question.

1

### Supermarket power

One supermarket chain in a European country is responsible for about 30% of the market share of grocery sales. Recently its strategy has been to open smaller supermarkets in local areas rather than concentrate on large stores on the edge of towns. The expansion in local areas is not always welcomed.

Residents miss the diversity of different types of shops, farmers and suppliers complain that the supermarket pays little for their products, and small local shops fear its growth. A senior manager from the supermarket agreed that suppliers were made to suffer the main effects of the economic recession as the supermarket insisted on substantial reductions in prices from its suppliers. The supermarket gains the benefit of bulk buying and the large sales to the supermarket are a major source of revenue for the suppliers.

However, if the supermarket were to cancel its order it would leave the supplier facing difficulties. Suppliers sometimes, therefore, have little choice but to reduce their prices. The supermarket is able to act as a monopsonist, particularly when purchasing supplies from meat and poultry farmers, milk producers and wine growers. Some consumers choose not to shop at the supermarket because they believe some of its policies towards suppliers are unfair.

In 2012, the supermarket's defence was that it planned to create 20 000 new jobs which would help the economy. The Prime Minister said 'the supermarket is the biggest private sector employer in the country and its commitment to creating jobs is fantastic news at a difficult time for the economy.' However, a report in January 2012 stated that the supermarket did not pay what was regarded as a living wage to all its employees. This was despite the fact that its chief executive was paid the equivalent of US\$ 10.9 million in 2011.

The company reported that it planned substantial expenditure to improve its existing shops and open new ones. It needed the profits from its monopsony position to fund this new investment.

Some consumers said that the expansion would eventually be likely to harm all shoppers, by reducing options and driving other businesses out of the market.

*Source: London Evening Standard 2012; Daily Telegraph 2012*

- (a) (i) Explain what is meant by an economy of scale. [3]
- (ii) Explain how economies of scale are likely to affect the price and output of a firm such as the supermarket. [4]
- (b) In the article the supermarket states that it helps the economy. Is this usually an aim of large businesses? [5]
- (c) The article says the supermarket 'acts as a monopsonist'. Analyse what this means and consider whether the article can be used as evidence to support the opinion that a monopsony is beneficial. [8]

## 3

## Section B

Answer **two** questions.

- 2 There is concern about conservation of the environment, prevention of waste and efficient use of resources. Economic theory is clear on how to allocate resources efficiently in a market but in reality such allocation is a problem.

Discuss this opinion. [25]

- 3 A consumer's demand is sometimes influenced by advertising and sometimes influenced by impulse buying. This means that the economic theories of consumer demand based on utility are of no relevance to a firm trying to determine its likely revenue.

Do you agree with this argument? [25]

- 4 (a) Explain how a profit-maximising firm will choose the quantity of labour it employs. [12]

(b) Governments sometimes aim to reduce the level of unemployment. Discuss whether this necessarily results in a conflict between this aim and other government macroeconomic aims. [13]

- 5 (a) Explain what is meant by a country's national income multiplier and **two** reasons why the value of the multiplier might fall. [12]

(b) Discuss how a fall in national income might affect a country's standard of living. [13]

- 6 (a) In a time of recession some people fear that their continued employment is uncertain. Explain how, according to liquidity preference theory, this might affect their demand for money. [12]

(b) Discuss how, in a closed economy, a fall in interest rates might affect consumers and producers. [13]

- 7 (a) It is sometimes claimed that the population of a developing country is always large. Is a large population the distinguishing feature of a developing country? [12]

(b) Discuss whether economic growth is necessarily beneficial to a developing economy. [13]



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Question 1 London Evening Standard 02.02.12 p15; Telegraph 05.03.12 Business section p1

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## **ECONOMICS**

**9708/42**

Paper 4 Data Response and Essays (Supplement)

**May/June 2014**

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## Section A

Answer this question.

1

### Telecommunications in India

In India, until the late 1990s the Government held a monopoly on all types of telecommunication (telecom). The industry had a small-sized market. In the twenty-first century the industry switched to private sector ownership. The telecom industry then experienced rapid growth, less restrictive regulations, greater technological developments, reduced costs of equipment and competition. Telecom became one of the major contributors to India's economic growth and one of the fastest-growing industries in India.

When it was in the public sector, the telecom industry recorded only a marginal increase in customers – on average 1.92% a year. After privatisation and the relaxation of regulations, the annual increase reached 36.9% in 2009. By 2009 India was second in the world only to China in terms of wireless network customers.

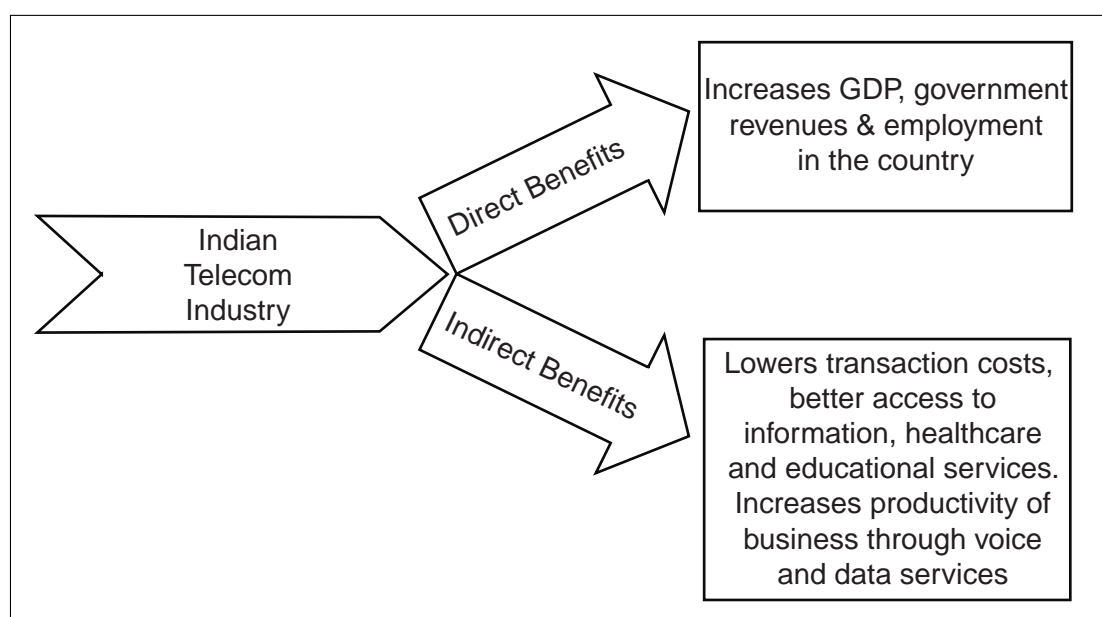
The industry emerged as crucial to India's economic growth because of its multiplier effect and the fact that it is beneficial to other industries. The contribution of the industry to India's GDP has more than doubled to 2.83% in 2007 from 1.0% in 1992.

Much of this growth was caused by a large increase in cell (mobile) phone customers which grew at a rapid rate from 10 million in 2002 to 392 million in 2009. There is a direct correlation between the growth in cell phone customers and the growth in GDP per capita in developing countries, which tend to have a high percentage of the population living in rural areas.

The Indian telecom industry now has intense competition and continuous price wars from a growing number of telecom service providers.

The government has been applying suitable fiscal and promotional policies to boost domestic demand to help Indian firms.

**Fig. 1 The significance of the Telecom Industry to India**



**Table 1: The significance of the Telecom Industry to India**

	2004–5	2005–6	2006–7
GDP at factor cost (2007 prices) Indian Rupees billion	28 439	32 006	37 175
Total Telecom Revenue Indian Rupees billion	716	867	1053
Contribution of Telecom to India's GDP	2.52%	2.71%	2.83%

Source: <http://www.dnb.co.in>

- (a) Table 1 shows GDP at factor cost. What is the difference between GDP at factor cost and GDP at market prices? [2]
- (b) (i) The extract says that India's telecom industry was crucial to growth because of its multiplier effect. With the help of a numerical example explain what economists mean by 'the multiplier effect'. [5]
- (ii) Use the information to explain how India's telecom industry had a beneficial effect on the Indian economy. [5]
- (c) Consider how far the success of India's telecom industry has been because of the change from public sector monopoly to private sector competition. [8]

## Section B

Answer **two** questions.

- 2 'The analysis of marginal utility as an explanation of consumer equilibrium can only be related to the purchase of one good, cannot be used if incomes increase, and is not applicable if advertising causes a change in tastes. It is, in practice, not a useful guide to consumer behaviour'.

Assess this opinion. [25]

- 3 'The profitability of firms is a measure of their efficiency. The higher the profit, the greater the efficiency. High profits should, therefore, be encouraged.'

Do you support this argument? [25]

- 4 (a) Some top executives and some sports people are paid very high salaries. It is argued that this is inevitable as people are paid the market rate for the job. Use economic analysis to support this opinion. [12]

- (b) It is argued that the wage determination in imperfect markets leads to exploitation. It is therefore necessary and beneficial if the government intervenes in the determination of wage rates. Discuss whether there is any truth in this argument. [13]

- 5 It was reported in 2012 that consumers should not be encouraged to save more and reduce their debts. Increased saving would result in a Keynesian 'paradox of thrift' which would not help economic growth. Instead consumers should spend money on new purchases.

(Source: *The Times*. 2011)

- (a) Explain and comment on what is meant by 'the paradox of thrift'. [12]

- (b) Discuss what is meant by economic growth and consider whether spending money on new purchases would necessarily help economic growth. [13]

- 6 (a) Explain the possible causes of unemployment and explain which is responsible for most of the unemployment in your country. [12]

- (b) 'When a government wishes to lower unemployment its only method of reducing it is by the use of fiscal policies'.

Do you agree with this opinion? [13]

- 7 (a) Too much labour but not enough capital. Is this the most significant difference between a developing and a developed economy? [12]

- (b) Discuss whether GDP is a reliable measure of the difference in living standards between developing and developed economies. [13]

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Question 1 <http://www.dnb.co.in/IndianTelecomIndustry/OverviewTI.asp> accessed 12.03.12

Question 5 The Times. Times Modern 20.10.11 p5

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### Supermarket power

One supermarket chain in a European country is responsible for about 30% of the market share of grocery sales. Recently its strategy has been to open smaller supermarkets in local areas rather than concentrate on large stores on the edge of towns. The expansion in local areas is not always welcomed.

Residents miss the diversity of different types of shops, farmers and suppliers complain that the supermarket pays little for their products, and small local shops fear its growth. A senior manager from the supermarket agreed that suppliers were made to suffer the main effects of the economic recession as the supermarket insisted on substantial reductions in prices from its suppliers. The supermarket gains the benefit of bulk buying and the large sales to the supermarket are a major source of revenue for the suppliers.

However, if the supermarket were to cancel its order it would leave the supplier facing difficulties. Suppliers sometimes, therefore, have little choice but to reduce their prices. The supermarket is able to act as a monopsonist, particularly when purchasing supplies from meat and poultry farmers, milk producers and wine growers. Some consumers choose not to shop at the supermarket because they believe some of its policies towards suppliers are unfair.

In 2012, the supermarket's defence was that it planned to create 20 000 new jobs which would help the economy. The Prime Minister said 'the supermarket is the biggest private sector employer in the country and its commitment to creating jobs is fantastic news at a difficult time for the economy.' However, a report in January 2012 stated that the supermarket did not pay what was regarded as a living wage to all its employees. This was despite the fact that its chief executive was paid the equivalent of US\$ 10.9 million in 2011.

The company reported that it planned substantial expenditure to improve its existing shops and open new ones. It needed the profits from its monopsony position to fund this new investment.

Some consumers said that the expansion would eventually be likely to harm all shoppers, by reducing options and driving other businesses out of the market.

*Source: London Evening Standard 2012; Daily Telegraph 2012*

- (a) (i) Explain what is meant by an economy of scale. [3]
- (ii) Explain how economies of scale are likely to affect the price and output of a firm such as the supermarket. [4]
- (b) In the article the supermarket states that it helps the economy. Is this usually an aim of large businesses? [5]
- (c) The article says the supermarket 'acts as a monopsonist'. Analyse what this means and consider whether the article can be used as evidence to support the opinion that a monopsony is beneficial. [8]

## Section B

Answer **two** questions.

- 2 There is concern about conservation of the environment, prevention of waste and efficient use of resources. Economic theory is clear on how to allocate resources efficiently in a market but in reality such allocation is a problem.

Discuss this opinion. [25]

- 3 A consumer's demand is sometimes influenced by advertising and sometimes influenced by impulse buying. This means that the economic theories of consumer demand based on utility are of no relevance to a firm trying to determine its likely revenue.

Do you agree with this argument? [25]

- 4 (a) Explain how a profit-maximising firm will choose the quantity of labour it employs. [12]

(b) Governments sometimes aim to reduce the level of unemployment. Discuss whether this necessarily results in a conflict between this aim and other government macroeconomic aims. [13]

- 5 (a) Explain what is meant by a country's national income multiplier and **two** reasons why the value of the multiplier might fall. [12]

(b) Discuss how a fall in national income might affect a country's standard of living. [13]

- 6 (a) In a time of recession some people fear that their continued employment is uncertain. Explain how, according to liquidity preference theory, this might affect their demand for money. [12]

(b) Discuss how, in a closed economy, a fall in interest rates might affect consumers and producers. [13]

- 7 (a) It is sometimes claimed that the population of a developing country is always large. Is a large population the distinguishing feature of a developing country? [12]

(b) Discuss whether economic growth is necessarily beneficial to a developing economy. [13]



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*Copyright Acknowledgements:*

Question 1 London Evening Standard 02.02.12 p15; Telegraph 05.03.12 Business section p1

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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education  
Advanced Level

**ECONOMICS**

**9708/41**

Paper 4 Data Response and Essays (Supplement)

**October/November 2012**

**2 hours 15 minutes**

Additional Materials: Answer Booklet/Paper

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Write in dark blue or black pen.

You may use a soft pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid.

**Section A**

Answer **Question 1**.

**Section B**

Answer any **two** questions.

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

At the end of the examination, fasten all your work securely together.

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## Section A

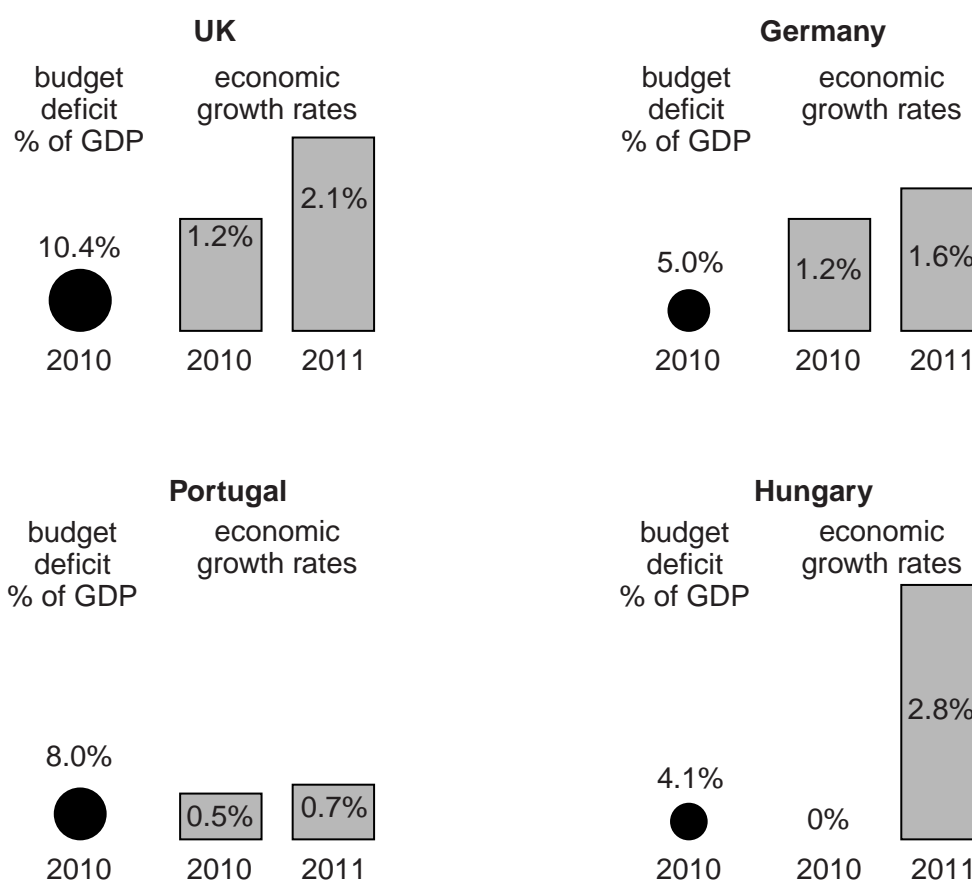
Answer this question.

1

## Budget deficits

The recent world recession has resulted in an increased government budget deficit in many European countries. Fig. 1 shows budget deficits and economic growth rates for 2010 together with expected economic growth for 2011 for selected countries.

Fig. 1



Below are two opinions about budget deficits.

**First opinion**

Budget deficits should be reduced quickly by immediate reductions in public spending. An economy needs to grow and reductions in public spending encourage growth in the private sector. If the economy grows, wages will rise. Consumers feel safe to borrow and consume more. Investors will expect better returns if growth increases and they will also know that the deficit has been reduced by cuts in public spending and not by tax increases.

**Second opinion**

In 2009 there was a massive reduction in demand by the private sector in some countries. To offset the reduction in private spending, some governments believed they should increase public spending. This would cause a larger budget deficit and provide a stimulus to demand. Businesses need increased demand to invest and innovate. Increased demand causes a multiplier effect on national income. Demand is central to the debate about budget deficits.

Below is a newspaper comment on these two opinions.

By 2010 the falling value of some countries' currencies stimulated international demand for their tradable goods, resulting in manufacturing growth. Some argued that this growth in exports meant it was possible for the government to decrease its spending to reduce the budget deficit.

Others argued that this growth in exports would be insufficient and raised the question 'where would demand for the economy's output then come from?' They said it would not come from the public sector because the decrease in government spending would put people out of work, ruin small businesses and damage some larger ones. It would not come from the private sector because interest rates on borrowing in some countries had been at record low levels for some time but this had failed to stimulate demand. They believe it is better to wait until an economy grows and repay the deficit by reducing public spending gradually. (*Source: The Observer 13/06/10*)

- (a) The data refers to a 'government ..... budget deficit'. Explain what this means. [2]
- (b) Use Fig. 1 to consider whether there is a link between the size of the budget deficit and economic growth. [4]
- (c) Explain how the falling value of some countries' currencies 'stimulated international demand for their tradable goods, resulting in manufacturing growth.' [4]
- (d) Use the evidence given to discuss the similarities and differences in the two opinions and consider which you think is more appropriate to overcome a recession. [10]

## Section B

Answer **two** questions.

- 2 (a) Explain how the law of diminishing marginal utility might be used to construct a consumer's demand curve for a product. [12]
- (b) Analyse how budget lines may be used to illustrate what happens for both a normal good and an inferior good when the price of the good increases at the same time as a consumer's income increases. [13]
- 3 (a) Explain why a firm's short-run average cost curve is usually drawn as a U shape and explain the link between the short-run average cost curve and the long-run average cost curve of a firm. [12]
- (b) It is said that perfectly competitive firms and monopolies aim to maximise profits. Discuss whether price, output and profit levels are, therefore, likely to be the same in perfectly competitive firms as in monopolies. [13]
- 4 The differences in wage rates paid in different occupations are caused entirely by the differences in the elasticity of supply of labour. The way, therefore, to overcome the differences in wage rates is to increase the training available to workers.
- Discuss whether economic analysis supports this argument. [25]
- 5 (a) Explain what is meant by an inflationary gap. [12]
- (b) Discuss the effectiveness of the policies a government might use to reduce an inflationary gap. [13]
- 6 Whether a country can be classified as developed depends on the value of its GDP and the higher the GDP the better it is for the country.
- Assess this opinion. [25]
- 7 (a) Explain what is meant when it is said that there might be inefficiencies in the production of goods and in the allocation of resources. [12]
- (b) Discuss whether the best way to overcome market failure is to control private enterprise by means of taxation. [13]

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Copyright Acknowledgements:

Question 1 Figure 1: *The Guardian* 12/06/10 p. 34 and *The Observer* 13/06/10

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## ECONOMICS

9708/42

Paper 4 Data Response and Essays (Supplement)

October/November 2012

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

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#### Section A

Answer **Question 1**.

#### Section B

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## Section A

Answer this question.

1

### Income from migrant workers

The recent financial crisis has slowed down economic growth worldwide but the number of migrants seeking work in another country is still increasing. One reason for this is that the countries from which workers leave may have experienced a severe recession making workers willing to travel abroad to do unpopular jobs that others avoid. A further reason is that many migrants move to join other members of their family which helps explain why migration, once established, is hard to reverse.

Workers going abroad are particularly important for the Philippines, where 25% of the labour force work overseas. Doctors go abroad to work as nurses; teachers go to work as housemaids. In addition, local centres train workers to enable overseas work. For example, workers train to clean cabins on cruise ships in the hope that they will be able to earn four times the local wage for cleaning. The workers send money home (migrant remittances) to support their families. This money can provide food, clothing, housing, pay for educational expenses or for investment in small enterprises.

Migrant remittances could become even more important to a country because experts predict that aid and foreign direct investment in developing countries could be halved as a result of the 2009–2010 financial crisis.

There is a debate about the use of migrant labour. For employers, there is an advantage in employing cheap foreign labour in order to reduce costs. However, the consequence of using foreign labour is that domestic workers are being replaced. There is also little or no incentive for manufacturers to mechanise their production processes because it is cheaper to use labour than invest in capital-intensive machinery.

The flow of money from migrant workers has been rising by as much as 33% each year in some areas, but the rate of growth is beginning to slow down. In 2007, the World Bank predicted that, by 2009, the amount sent home by the world's 150 million international migrants could fall by about 1%. Mexico, the third biggest recipient of migrant remittances in the world, estimated in 2007 it would receive \$23.8bn but that this would fall in 2008 by almost 8%.

In 2010, a different organisation produced the following table of migrant remittances.

**Table 1: Money sent home by migrant workers to selected countries (US\$ billion)**

Country	2006 US\$ bn	2007 US\$ bn	2008 US\$ bn	2009 US\$ bn
India	26.9	27.0	45.0	55.0
China	22.5	25.7	40.5	n/a
Philippines	12.7	14.4	16.4	17.3
Mexico	25.6	26.1	25.1	21.2
Bangladesh	5.5	6.6	9.0	10.7

## 3

- (a) What might be concluded about the Philippines' economy from the information given? [4]
- (b) How far is the information in the fifth paragraph of the article supported by the evidence in Table 1? [4]
- (c) Assess whether it is beneficial for the receiving country to use migrant labour. [5]
- (d) Discuss the overall effect of the outflow of workers on the economy of their home country. [7]

## Section B

Answer **two** questions.

- 2 A study found that demand for tickets for exhibitions at a major art gallery had unitary price elasticity.
  - (a) Explain how the concept of diminishing marginal utility may be used to construct a demand curve for the product and whether that analysis still applies in the case of demand for tickets for the exhibitions. [12]
  - (b) Discuss whether the law of diminishing returns contradicts the concept of economies of scale. [13]
- 3 (a) Explain what is meant by an oligopoly market and why prices might fluctuate less in an oligopoly market than in a perfectly competitive market. [12]
  - (b) Discuss whether a firm in monopolistic competition is more likely to act in the public interest than a firm that is a monopoly. [13]
- 4 Some workers producing non-essential luxury goods or services are paid very highly. The wage rate is not related to the economic value of a good or service but more to social factors or fashion. The economic theory of wages is, therefore, of little use in explaining wage differentials.
 

Assess this argument. [25]
- 5 It is said that the lack of investment funds for private companies from banks leads to temporary closures of factories which then become permanent and cause long-term unemployment. This loss of output will lead to a possible recession.
 

Analyse each part of this argument and discuss whether you agree with it. [25]



- 6 (a) Explain how the age and employment structures of the population of a developing country are likely to differ from those of a developed country. [12]
- (b) You are told that a country has problems relating to overcrowding, unemployment and pollution.

Discuss whether the existence of such problems necessarily means that the country must be a developing country. [13]

- 7 (a) For what purposes do people demand money? [10]
- (b) Too much money causes inflation. Discuss the main macroeconomic aims of the government and consider whether it should give priority to the limitation of inflation in achieving economic well-being. [15]

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Question 2	© Innovation in Arts and Cultural Organisations; Hasan Bakhshi and David Throsby
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**ECONOMICS**

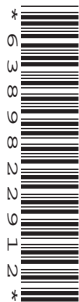
**9708/43**

Paper 4 Data Response and Essays (Supplement)

**October/November 2012**

**2 hours 15 minutes**

Additional Materials: Answer Booklet/Paper



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## Section A

Answer this question.

1

### The virtual economy is set to make billions

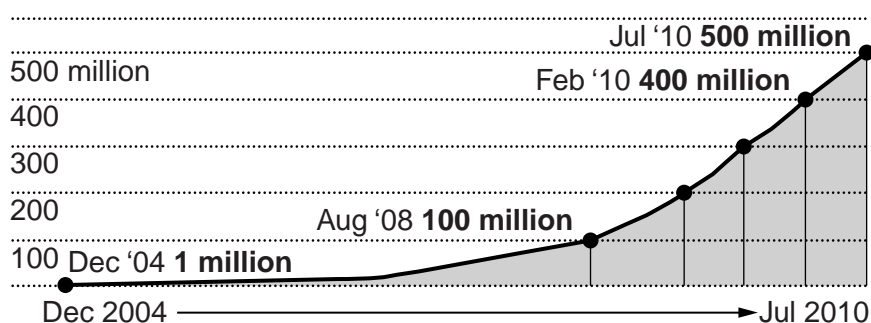
There has been a rapid growth in companies that sell 'virtual goods' on the Internet. The goods do not exist, they are only pictures on a screen used to play computer games. One game for example puts the consumer in the position of a farmer. Items for the farm, such as farm animals, crops and farm buildings, can be purchased. However, the farm buildings and the crops and animals are not real. They are only computer graphics on the consumer's home computer.

One firm has spent US\$10m in the last ten years promoting these games. Its director said 'In the last two years we have seen the revenue of firms in this industry go from nothing to tens and hundreds of millions of dollars.'

The director of another firm said 'We have two different revenue sources. The first is the sale of the virtual goods for the games, the second is the revenue from other firms who wish to advertise within the game.'

Some items are acquired by consumers because they accumulate points by completing an activity within the game, such as harvesting a crop. Other items can be purchased to speed up the game. Part of the motive, said one consumer who spends about US\$10 a month on virtual goods, is to impress your friends and let them see all the virtual goods you have won or bought. It has now become a popular thing to do. Central to the increased popularity of the games is the fact that the virtual goods can be purchased through social networking sites such as Facebook and MySpace.

**Fig. 1: Facebook's Membership**



Proof of the attraction of this market is the fact that the social networking sites are negotiating with the virtual goods firms to get a percentage of the revenue every time a consumer purchases a virtual tractor or crop.

The promoters of the virtual goods say it enables consumers to buy products without the rush and crowds of shops. They are easy to buy and that is why people are prepared to buy products that do not exist.

The firms claim that tens of millions of people buy the virtual products. In December 2009 one of the firms sold part of its business to another firm for US\$113 million, whilst another was valued at US\$400 million.

The director of one virtual goods firm said 'the industry is one of the most exciting developments of 2009, it is in the early stages of growth but it is growing fast.'

## 3

- (a) Identify two reasons given why people purchase virtual goods. [2]
- (b) (i) What indicators may be used to determine whether a firm is large or small? [4]
- (ii) Is the evidence given enough for you to determine whether the firms that sell virtual goods are large or small? [4]
- (c) The article says that customer numbers are increasing rapidly. What is likely to happen to the total fixed costs and total variable costs of the virtual goods company as this occurs? [4]
- (d) From the evidence given, discuss whether it is wise for a firm to spend money advertising products that do not exist through sites such as Facebook on the internet. [6]

## Section B

Answer **two** questions.

- 2 'The achievement of equilibrium in a market rests solely on the ability to measure marginal utility. This is not possible and, therefore, equilibrium in a market can never be achieved.' Discuss this argument. [25]
- 3 (a) With the help of diagrams, analyse how a firm can experience both diminishing returns and economies of scale. [12]
- (b) 'Monopolies create a deadweight loss. They should always be discouraged.'
- Discuss this opinion. [13]
- 4 The economic analysis of wage determination states that all wages rates in different occupations will in the long run become the same and equal to the average product of labour.
- Discuss this statement. [25]
- 5 In 2010 a number of governments were concerned that they had large budget deficits. A group of economists recommended that the deficit should be reduced by public spending cuts rather than tax increases.
- (a) Explain what is meant by a budget deficit and why a large deficit might be a source of concern. [12]
- (b) Discuss the similarities and differences of using spending cuts or tax increases as a means of solving budget deficits. [13]

- 6 (a) Explain the causes of unemployment and consider which cause is the most significant for a country with which you are familiar. [12]
- (b) The main guide to the economic development of a country is the proportion of its working population engaged in the tertiary sector. Discuss whether this statement is true. [13]
- 7 The table below shows figures for GDP for two countries in 2000 and 2010.

Country	GDP 2000 \$US billions	GDP 2010 \$US billions
USA	9825	13271
India	469	929

Discuss whether the above figures are sufficient to conclude that the standard of living in the USA is higher than the standard of living in India. [25]

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Question 1  
Figure 1

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