Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays **May/June 2017**

2 hours 15 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer **Question 1**.

Section B
Answer **two** questions.

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

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

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

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CAMBRIDGE
International Examinations

Section A

Answer this question.

1 **Monetary policy and economic growth**

Between 2009 and 2014, the central bank of the United Kingdom (UK) used policy measures of quantitative easing (QE) and very low interest rates. The Finance Minister said that monetary policy was the primary tool for encouraging investment that could lead to economic growth. Private businesses, however, said that QE by itself cannot restore confidence in the economy. It needs to be supported by a range of supply-side policies, in particular policies to help small firms access credit. Pension fund companies also did not welcome the policy and said that it penalised those who rely on their savings for income.

A policy of QE was also followed by the United States (US) central bank but was criticised by other central banks and governments in the emerging markets. They argued that the extra money was depressing the value of the US dollar on the exchange markets. This may have increased US competitiveness but it did not help economic development in the rest of the world as their products became relatively more expensive.

By contrast, it was suggested that the greatest threat to global economic development was the culture of risk aversion among companies. This meant that too many were concentrating on managing costs while failing to invest sufficiently. The aim seemed to be to reduce costs rather than create new revenue. When growth is slow companies often merge and consolidate, rather than make risky investments. This happened in food and beverages, construction, pharmaceuticals and the media.

One way to find new opportunities and encourage growth would be to look to emerging markets. They account for more than half of the global economy. However, in 2014 emerging markets were suffering large capital outflows, partly caused by the stronger US dollar and partly because of demographic factors. Population structure is vital to a nation’s prosperity. A young workforce and a small proportion of retired people help the economy to grow.

One country that offers great potential is Nigeria. About 43% of its population is under the age of 15, and only 3% are aged over 65. Demographically it looks good. The largest generator of GDP in Nigeria is the oil industry. Fig. 1 shows the changes in the price of crude oil between March and August 2014 and Fig. 2 shows changes in Nigeria’s real GDP per head between 2006–2014.

Fig. 1 Crude oil price (US$) per barrel

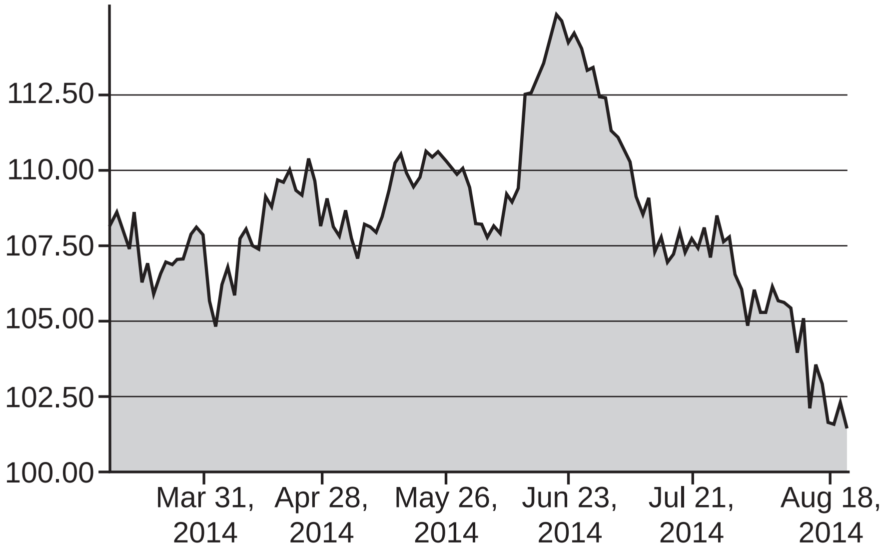
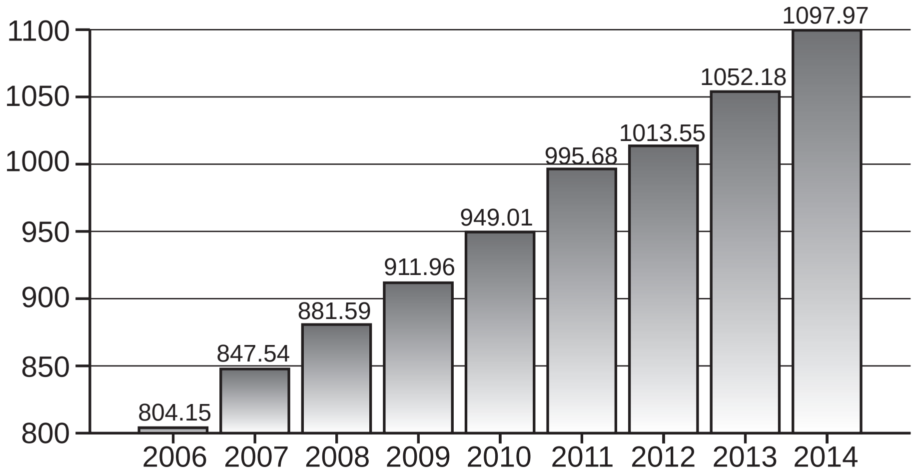


Fig. 2 Nigeria real GDP per head (US$ at constant 2000 prices)



Source: Daily Telegraph, 10 February 2012 and Sunday Telegraph, 12 April 2015.

(a) Explain what is meant by 'the extra money was depressing the value of the US dollar on the exchange markets'. [4]

(b) Explain the difference between quantitative easing and supply-side policies. [4]

(c) Analyse whether Nigeria is likely to be a good prospect for investors. [6]

(d) Discuss the evidence in the information that companies have a different opinion to the Finance Minister about the value of monetary policy. [6]

Section B

Answer **two** questions.

2 Choice is an essential part of economics. Sometimes consumers change their choices either when shops have special offers on previously very expensive luxury products, or when advertising persuades them to change their preferences.

Analyse how the economic theory of indifference curves can be used to construct a consumer's demand curve. Discuss whether this theory can explain the above changes in choice. [25]

3 **(a)** Explain the difference between price leadership and price discrimination. [12]

(b) Discuss whether firms always want to maximise profits and are able to do so in the way suggested by economic theory. [13]

4 **(a)** Explain why people demand money according to the liquidity preference theory. [12]

(b) In 2016 the Trade Unions called a strike of bus and train drivers after a demand for higher wages was rejected.

Use the economic theory of wages to discuss whether a demand for higher wages is likely to be successful. [13]

5 Economic models have little practical relevance.

Discuss whether this is true of the analysis of how a fall in interest rates might affect an economy's GDP. [25]

6 **(a)** Developed countries sometimes prevent investment in rural areas while developing countries often encourage rural development. Consider why this might be so. [12]

(b) Why is it important to use qualitative data as well as quantitative GDP data when considering whether a country is developed or developing? [13]

7 The driving force of some governments is to bring the benefits of competition to formerly monopolised markets.

(a) Explain the benefits that might occur in a more competitive market compared with a monopolised market. [12]

(b) Discuss why competitive markets in the private sector are not always the most efficient means of deciding how to employ a country's resources. [13]