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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) **May/June 2012**

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

9460490827

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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.
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Section A
Answer **Question 1**.

Section B
Answer any **two** questions.

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[Turn over

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.

Greece:	Size of economy (GDP)	Economic growth rate (2009)	Government debt (% of GDP)	Unemployment rate
	£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.

Ireland:	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.

Italy:	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.

Portugal:	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.

Spain:	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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(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]

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[Turn over

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.

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(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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