Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays (Supplement) **May/June 2014**

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 any **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.

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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]

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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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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

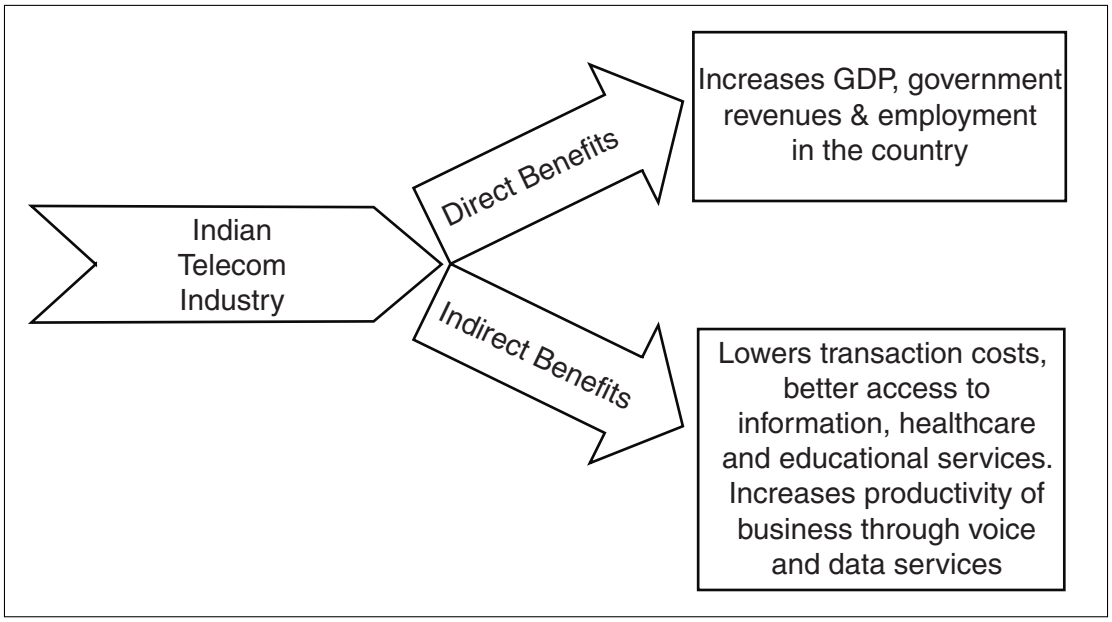


Table 1: The significance of the Telecom Industry to India

	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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