Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays (Supplement) **May/June 2015**

2 hours 15 minutes

No Additional Materials are required.

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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.

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 A fuel shortage slows India's economic growth

India has struggled to provide enough electricity to power its industry. New power stations have been built but the country cannot get enough fuel, mainly coal, to run the power stations. About 55% of India's electricity is generated by the use of coal. India has one of the world's largest reserves of coal but has not been able to exploit it. The state-owned Coal India, which has a monopoly control of 80% of production, is required by government policy to sell coal at a 70% discount below the market price.

There has been almost no new investment in coal production by either the Government or the private sector according to industrialists who struggle with the daily loss of electric power. Coal production increased by 1% in 2012 while electricity-generating capacity increased by 11%. Some coal is imported but this has now become very expensive as India's chief supplier, Indonesia, has doubled prices of its coal.

Attempts to open new areas to mining have met with strong opposition from environmental regulators who have blocked the plans because, it is claimed, the development would destroy dense forests.

The electricity sector's problems have contributed to a second year of decreasing economic growth for India. The growth rate was 10% in 2010 but only an estimated 7% in 2012. A complex system of price controls has resulted in retail electricity prices being lower than the cost of producing power, which has caused large losses at state-owned electricity-generating industries.

Businesses report that frequent losses of electric power have forced them to lower production and spend significantly more on diesel fuel to run back-up generators. Analysts say that the reduced rate of economic growth could have been avoided if policymakers had addressed the problems of electricity shortage, weak infrastructure and restrictive regulations.

The gap between demand and supply for electricity increased between 2010 and 2012 as shown by Table 1.

Table 1: Electricity use in India, 2010–12

	Excess of electricity units demanded over units supplied 2010–2011	Excess of electricity units demanded over units supplied 2011–2012
Normal use	8.5%	10.3%
Peak use	9.8%	12.9%

Source: Adapted from The New York Times

(a) Define economic growth and identify **two** reasons for India's decreasing economic growth. [4]

(b) Analyse whether the increase in electricity-generating capacity in 2012 overcame the problems reported by businesses. [3]

(c) Consider whether the above evidence about Coal India conflicts with the economic analysis of a monopoly. [5]

(d) Use evidence from the information given to analyse whether the government policy towards Coal India has been only disadvantageous to businesses and to economic growth in India. [8]

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Section B

Answer any **two** questions.

2 International conferences have been held to discuss the effects of global warming and to persuade governments to agree to improve efficiency in the use of resources by limiting the amount of harmful gases produced by their country.

Explain what is meant by an efficient use of resources and discuss whether efficiency can only be achieved if governments are involved. [25]

3 With a perfect market and a given income, economic analysis explains how a rational consumer decides the quantities of which products to demand. It cannot, though, explain what happens when incomes change or when businesses in imperfect markets manipulate prices.

Discuss whether you agree with this opinion about the economic analysis of consumer behaviour. [25]

4 **(a)** How does economic analysis explain the level of wage rates in a perfectly competitive labour market? [12]

(b) Here are two press statements.

'A government announced that it would limit the top level of pay for senior executives in private industries by imposing a maximum wage.'

'The trade union for transport workers decided to call a strike unless its members were awarded a higher rate of pay.'

Source: The Telegraph Business, March and October 2012

Discuss how the economic analysis of wage determination would be changed by the announcement of the government and the decision of the trade union. [13]

5 **(a)** Explain why manufacturers differentiate their products and describe the characteristics of **two** market structures where product differentiation occurs. [12]

(b) Analyse and consider the extent of the link between marginal cost, diminishing returns and economies of scale. [13]

6 In 2013, a new aircraft, the Boeing 787 Dreamliner, was assembled in the United States (US). United Airlines, an American private company, ordered 50 of these aircraft, each costing over US$200 million.

(a) Imagine that the US was a closed economy with no government intervention. Analyse why the increase in national income from this investment in new aircraft might be different than if it were an open, mixed economy. [12]

(b) Discuss the policies that a government might use to influence the level of investment in an economy. [13]

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7 In 2012, a table for Gross Domestic Product (GDP) per head showed that only three of the world's ten richest countries had populations above 7 million. These were the United States: 315 million; the United Arab Emirates: 8.2 million; and Switzerland: 8 million.

(a) Explain how GDP is calculated and show how GDP at market prices is different from net national income at factor cost (basic prices). [12]

(b) Classifications often distinguish between developed (rich) and developing (poor) countries. Consider in what sense a developing country is said to be 'poor' and discuss whether the best way to become developed (rich) would be to reduce the size of its population. [13]

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Section A

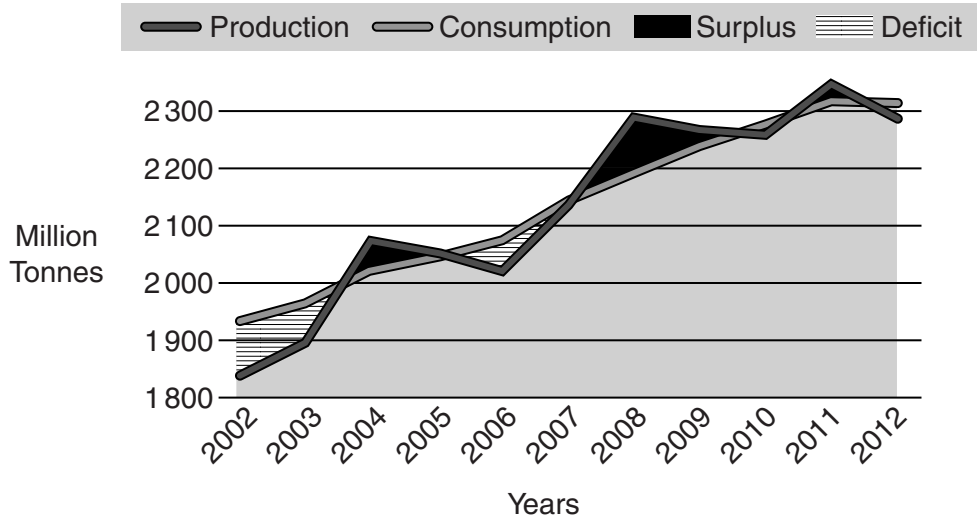
Answer this question.

1 **Food scarcity: a world crisis**

In 2012, families in poorer countries were forced to have days without food each week. A report by a large children's charity claimed that such days were now a part of life for up to 24% of families in India, 27% in Nigeria and 14% in Peru.

One of the reasons for this was the changing condition of demand and supply in world cereal markets as shown in Fig. 1.

Fig. 1: World cereal market



Source: Adapted from The Observer, 14/10/2012

Droughts and heatwaves in 2012 reduced production in some of the world's leading cereal producers such as the United States (US), Ukraine and Australia. This shortage was combined with the increase in demand for corn to make biofuels. In 2012, more corn was used for ethanol production to fuel cars in the US than was used for animal feed. As a consequence, prices of meat and dairy products rose as farmers found it more expensive to feed cattle, pigs and poultry. This was particularly noticeable, as a general rise in incomes resulted in an increased consumption of meat. Stocks of cereals were used to reduce the shortages.

During 2012, the world cereal harvest was expected to be 3% lower than that of 2011. More significantly, it was expected to be 4% lower in per capita terms because the world's population increased by 80 million in 2012.

The changes in the cereal market affected developing and developed economies in different ways. On average, people living in the US spend 9% of their income on food, while those living in the developing world spend between 50% and 70% of their income on food. World cereal prices rose between 10% and 25% in 2012, but in countries affected by drought in Africa, such as Mozambique, they more than doubled.

A charity organisation has forecasted that rice and wheat prices will double again in the next 20 years with disastrous consequences for the poor.

Sources: Adapted from The Observer and The Independent, October 2012

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(a) Identify **three** reasons why there was a problem with the world cereal market in 2012. [3]

(b) Explain whether the changes in the world cereal market would have been likely to increase the profits of all farmers. [4]

(c) To what extent does evidence in the article support the argument that developing and developed countries are affected differently by rising cereal prices? [5]

(d) Choose **two** government macroeconomic aims and consider how the changes in the world cereal market in 2012 might have affected a government's ability to achieve those aims. [8]

Section B

Answer any **two** questions.

2 **(a)** Describe how consumer theory suggests a rise in income will cause a consumer's demand to change for a normal good and for an inferior good. [12]

(b) Explain the difference between structural, cyclical and seasonal unemployment and discuss whether a general rise in income in a country would have the same effect on each of these types of unemployment. [13]

3 **(a)** A firm in a perfectly competitive market and a firm with a monopoly both seek to maximise their profit. Explain, with the help of a diagram, why the levels of price and output might be different in the two markets. [12]

(b) Discuss whether it is always true that a firm, rather than maximising its profits while remaining small, will seek to grow in size. [13]

4 'Wage determination in the factor market is just like price determination in the product market. It is entirely dependent on the forces of supply and demand.'

Do you agree with this statement? [25]

5 'Lack of consumer spending causes recessions. Recessions do not improve a country's standard of living. It is always better, therefore, to encourage consumer spending for this improves a country's standard of living.'

(a) What is a recession and is it always caused by a lack of consumer spending? [12]

(b) Discuss what policies a government may use to try and end a recession. [13]

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6 The table shows figures for annual GDP growth rates at market prices for three developing countries, Bangladesh, Ethiopia and Malawi, and three developed countries, Greece, UK and USA.

	GDP growth rates (%)		
	2009	2010	2011
Bangladesh	5.7	6.1	6.7
Ethiopia	8.8	9.9	7.3
Greece	–3.1	–4.9	–7.1
Malawi	9.0	6.5	4.3
UK	–4.0	1.8	0.8
USA	–3.5	3.0	1.7

Source: The World Bank

(a) Describe what is meant by economic growth and consider if it is always advantageous. [12]

(b) Explain what is meant by a developing country and a developed country and consider whether the table supports the idea that GDP growth rates are a good indicator of development. [13]

7 'The free market is not the way to achieve a sustainable, efficient use of economic resources. Even the famous economist Adam Smith recognised that there was a need for some government involvement.'

Discuss whether government involvement in the economy might overcome the weaknesses of the free market system. [25]

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Section A

Answer this question.

1 **Consumer exploitation?**

Economists often speak of price discrimination. Some would argue that price discrimination exploits consumers. Others say that it is related to demand and supply and is acceptable in a market economy.

When you buy a rail ticket the price you are asked to pay may well depend on the departure time, the route, the rail operator, whether you have a discount railcard, whether you buy an economy ticket or a first-class ticket and whether you buy the ticket on the Internet or at a ticket office.

Similar price variations occur when booking hotel rooms and when buying theatre tickets. In hotels, the same room is cheaper on some days of the week or at certain times of the year than others. In theatres, it is cheaper to buy a ticket for an afternoon performance than a ticket for a Saturday evening. It is also cheaper to sit in the seats further from the stage than in those seats nearer the stage.

Some football clubs also adopt a similar approach with what they call 'price-categorisation'. There are three categories of price depending upon whether the football team is playing another team with well-known players which is near the top of the league or whether the team is in the middle or near the bottom of the league. To charge more for a game against a top team is asking the buyer to believe that the game will be better than a game against a lower-placed team. However, excitement and entertainment are sometimes just as great with the lower-placed team. Football clubs also often charge lower ticket prices to children attending football matches with an adult.

The rail operator and the football club justify the charges by saying that they require the extra revenue in order to improve the facilities and infrastructure and cover increased costs. The railway track needs replacing; the football stadium needs continual maintenance. Some would argue, however, that it is simply an attempt to maximise profit. Interestingly, not all the more expensive tickets are sold as people do not buy them.

Source: Adapted from Telegraph Sport, January 2013

(a) What is meant by 'price discrimination'? [2]

(b) Identify **one** example of price discrimination and **one** example of non-price discrimination in the article. Explain the reason for each of your choices. [4]

(c) Draw and explain a diagram for price discrimination. [4]

(d) The article says that price discrimination 'is related to demand and supply and is acceptable in a market economy'. Is there any relationship between price discrimination and demand and supply? [4]

(e) The article says that 'price discrimination exploits consumers'. The implication is that it should not be allowed. Do you agree with this assertion? [6]

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Section B

Answer any **two** questions.

2 Economic theory often refers to the concept of equilibrium.

(a) Identify **two** areas of microeconomic theory that use the concept of equilibrium and explain how in each case that equilibrium is achieved. [12]

(b) Discuss whether economic efficiency is always at its highest if the equilibrium is achieved without any government involvement. [13]

3 'The aim of all firms is to grow in size, overcome diminishing returns and gain economies of scale.'

(a) Explain whether the idea of diminishing returns contradicts the concept of economies of scale. [12]

(b) Do you agree that, whatever the market structure, the main aim of a firm is to grow in size? [13]

4 During the recession of 2011–2012, competition among high street shops changed. Some well-known shops closed and the labour market became more imperfect.

Analyse what economic theory predicts will happen to the level of wages when competition is reduced in the labour market. [25]

5 **(a)** Briefly explain the differences between monetary policy, fiscal policy and supply-side policy and whether they overlap in their effects. [12]

(b) The Finance Minister of a country said that 'Monetary policy remains the main tool for responding to changes in the economic outlook at the moment'.

Source: The Telegraph Business section, February 2012

Discuss whether monetary policy is always the main tool for responding to changes in the economic outlook. [13]

6 'Labour is a resource; the use of resources increases economic wellbeing. The main aim of the government of a developing country keen to increase wellbeing should, therefore, be to support an increase in the population of its country.'

Discuss this argument and decide whether you agree with it. [25]

7 One macroeconomic indicator is the level of investment.

(a) What determines the level of investment? [12]

(b) Discuss how a large increase in the level of investment may affect an economy and whether such an increase is always beneficial. [13]

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