Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/41**

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

2 hours 15 minutes

No Additional Materials are required.

8697176859

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.

© UCLES 2017

CAMBRIDGE International Examinations

Section A

Answer this question.

1 Changes in the world oil market and their effects

Founded in 1960, the Organisation of Petroleum Exporting Countries (OPEC), consisted of five countries all of whom produced oil. OPEC's success, with Saudi Arabia as its market leader, encouraged other oil exporting countries to join. There are now 12 OPEC member countries, including Iran, Nigeria and Venezuela. OPEC is responsible for over 35% of world oil production, working together to fix prices and control output.

OPEC has faced various external shocks. In recent years, the financial crisis 2008–2011 reduced global demand for oil. Also, since 2012, non-OPEC oil supplies have increased, as shown in Fig. 1, mainly due to the use of fracking – a process of extracting oil from rock using very expensive drilling equipment. This has happened in spite of opposition to fracking by environmentalists who accuse the fracking companies of causing minor earthquakes and polluting underground water sources.

The main oil producer using fracking is the United States (US) which has become almost self-sufficient in oil and consequently does not need to rely on OPEC. In 2014, the US even began to export its oil, especially to Europe as a rival to OPEC and Russia. This had an effect on the price of oil as shown on the chart in Fig. 2.

There have been both winners and losers from this change in production of oil. While all oil importing countries have become winners as the price of oil declines, undoubtedly the US has strengthened its economy the most. The fracking boom has increased consumer spending in the US, which has been a key element in the recovery of the US economy from the financial crisis.

The losers are OPEC's members that are dependent on oil as the main source of revenue. Nigeria greatly overestimated the price of oil and, as a result, it had to devalue its currency in November 2014, raise taxes on luxury items and cut government spending by 6%.

Fig. 1 Supply of oil 2012–2015

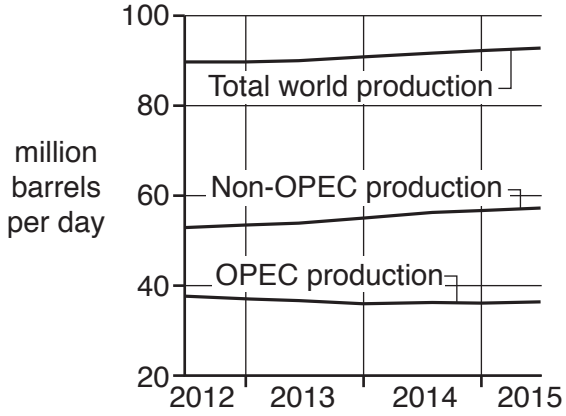
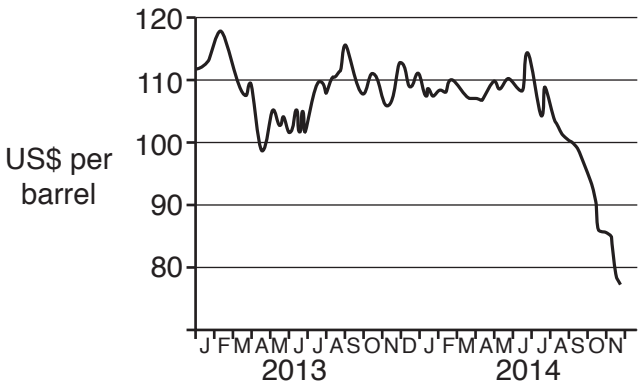


Fig. 2 World price of oil 2013–2014



Despite the fall in oil prices, in January 2015 Saudi Arabia refused to agree to demands from other OPEC members to cut oil supplies in order to keep prices high. Saudi Arabia was happy to allow oil prices to fall further in order to put US fracking companies out of business.

Source: The Times, 5 December 2014 and 7 January 2015

© UCLES 2017

(a) Define what is meant by a cartel and explain why a cartel might be formed. [3]

(b) What evidence is there in the information that OPEC is a cartel? [4]

(c) Given the information above, analyse with the help of an appropriate diagram whether the overall price change shown in Fig. 2 is consistent with what would be expected in the market for oil. [5]

(d) Is there any evidence in the information that might lead to the conclusion that the US economy is a winner in the short run but could become a loser in the long run? [8]

© UCLES 2017

[Turn over

Section B

Answer **two** questions.

2 **(a)** Compare the derivation of a demand curve for a product using the marginal utility theory with the derivation using indifference curve theory. [12]

(b) Discuss whether the existence of (i) inferior goods and (ii) advertising invalidates the underlying assumptions of those theories of demand. [13]

3 **(a)** Explain the reasons why people demand money according to the liquidity preference theory. Consider which reason is the most important. [12]

(b) In 2015, after a period of low inflation and low interest rates a commentator wrote, 'If inflation suddenly increases it could result in a faster than expected rise in interest rates. The consumer spending boom will end.' *(Source: London Evening Standard, 26 January 2015)*

Discuss the possible reasons behind this suggested result. [13]

4 Economic theory produces a precise equilibrium outcome, often in an idealised market situation, but in reality things are much less certain.

Discuss whether this opinion can be applied to the determination of wage rates. [25]

5 **(a)** Explain why some countries are referred to as developing. Suggest why the expected increase in population in developing economies is thought to be a source for concern. [12]

(b) Discuss what the government of a developing country might do to enable its economy to become more developed. [13]

6 Governments have a range of macroeconomic aims apart from economic growth.

(a) Explain the other main macroeconomic aims a government might have apart from economic growth. [12]

(b) Discuss whether there is always a consistent link between investment and economic growth. [13]

7 'Lack of efficiency in the use of resources is not due to the market's inability to function. It is due to government intervention in a system that is best left to its own workings.' *(Source: RSA Journal, Issue 4, 2013)*

Consider this opinion. [25]

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

© UCLES 2017

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.

6026211913

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.

© UCLES 2017

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.

© UCLES 2017

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

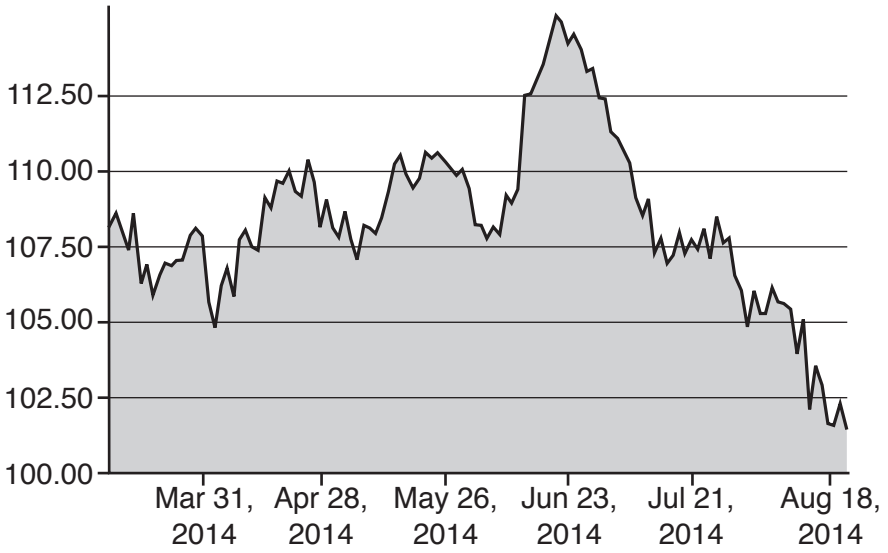
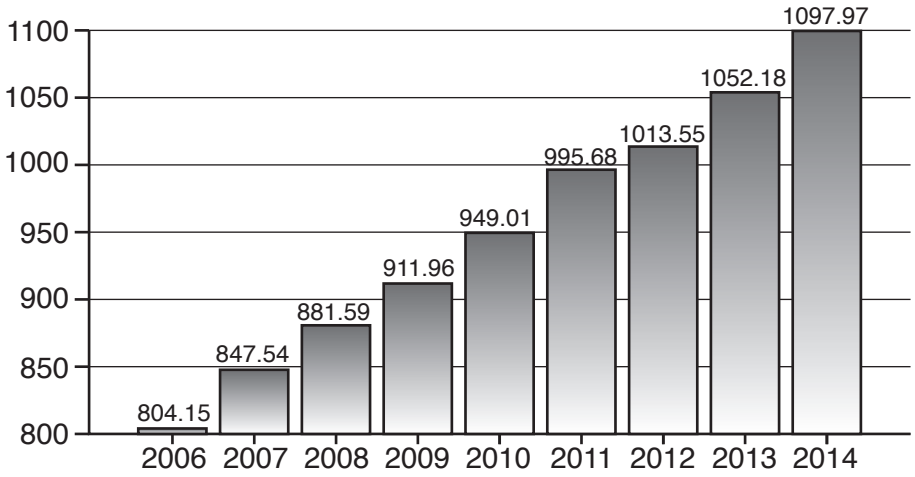


Fig. 2 Nigeria real GDP per head (US$ at constant 2000 prices)



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]

© UCLES 2017

[Turn over

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]

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

© UCLES 2017

Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/43**

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

2 hours 15 minutes

No Additional Materials are required.

1910373444

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.

© UCLES 2017

CAMBRIDGE International Examinations

Section A

Answer this question.

1 **Pay and the rate of inflation**

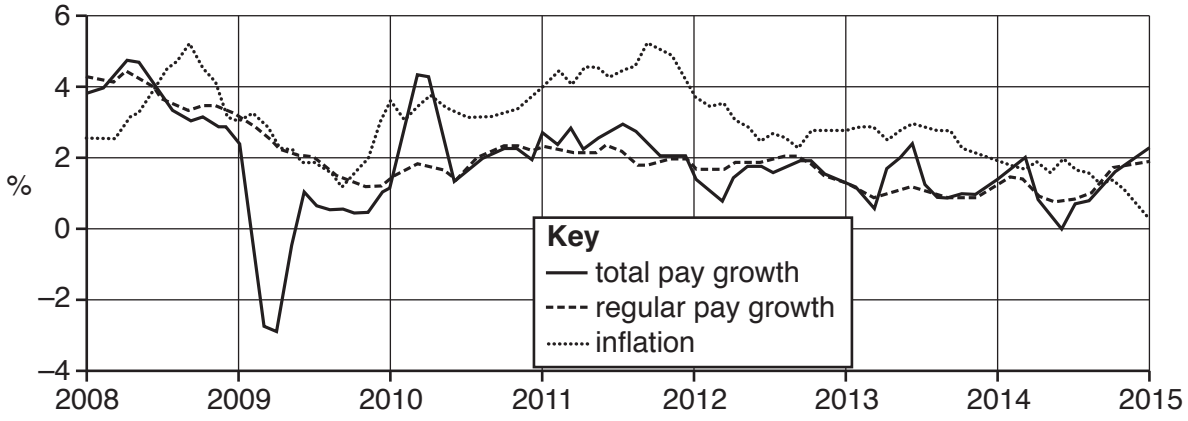
In the United Kingdom (UK) in the last three months of 2014 the employment rate was at a record high (73.2%) and total pay had its highest increase since before the world financial crisis. Total pay (regular pay plus bonuses) rose by an average of 2.1% between October and December 2014. This was partly because of a large growth in bonus payments in the private sector. Average weekly regular pay rose by 1.7% in that period.

Private sector total pay rose by an average of 2.5% while workers who were employed in the public sector saw average total pay growth of only 0.7% because of government controls over pay and an absence of bonuses.

By comparison, annual inflation fell to 0.5% in December 2014 and to 0.3% in January 2015. The Prime Minister said that high employment, stronger productivity and low inflation rates are key matters helping economic recovery and an increase in living standards. However, while total hours worked grew by 0.8% in the last three months of 2014, GDP growth was 0.5% implying that output per head fell over the quarter and the increased employment was not boosting labour productivity. This is not good for a long-term improvement in living standards even if inflation is very low.

The chief executive of an oil company said that oil companies will have to adapt to a new era of lower prices and a greater emphasis on reducing carbon emissions in order to survive. This is already happening by way of short-term market forces as costs of production come down but long-term structural changes will be needed. His remarks came after two international oil companies announced large reductions in both fixed and variable costs as oil prices fell by 50% in the last six months of 2014 amid a surplus of supply and reduced demand.

Fig. 1 UK Pay growth and inflation 2008–2015



Source: Daily Telegraph, 19 February 2015

(a) The article says that public sector workers had an average increase in pay of 0.7% compared with a 2.5% increase for private sector workers. State **two** reasons given in the information for this. [2]

(b) "In 2014, despite the rise in earnings, both regular pay and real total pay have gradually fallen since 2008."

Use Fig. 1 to determine whether or not this is true. [5]

(c) In January 2015 the workforce of an oil company demanded a pay increase.

How could the company use the evidence from the information to oppose the demand? [5]

(d) Discuss why inflation and the rate of growth of total pay are significant economic indicators. [8]

© UCLES 2017

Section B

Answer **two** questions.

2 Firms should be allowed to produce in the manner they wish and consumers allowed to buy what they believe they want.

Discuss whether this is the best means of ensuring an efficient use of an economy's resources. [25]

3 **(a)** Explain how utility theory can be used to determine the downward slope of a demand curve. [12]

(b) Discuss, using indifference curve analysis, why a decrease in a sales tax on all goods and services might have a different impact on demand for a normal good than for an inferior good. [13]

4 **(a)** Why is it important for a firm seeking to maximise profits to distinguish between the concepts of diminishing returns and economies of scale? [12]

(b) Analyse and discuss how the market price and quantity supplied might change if a profit maximising firm in a perfectly competitive market were able to achieve a monopoly status in that market. [13]

5 Analyse the difference shown by marginal revenue productivity theory between wage determination in perfect and imperfect labour markets. Discuss the proposition that, in imperfect markets, a trade union can only increase the wage rate by allowing a reduction in employment. [25]

6 All countries hope to cause their economies to expand and develop through economic growth.

(a) Explain what is meant by economic growth. Consider why, if all countries are developing, some are called developed countries. [12]

(b) Would you agree that for a developed country with unused resources economic growth is only ever beneficial? [13]

7 **(a)** Estimates in 2015 put the GDP of New Zealand at US$191 billion, Peru at US$190 billion and Romania at US$189 billion. Are these figures a sufficient indication that the standard of living in the three countries was very similar? [12]

(b) Distinguish between monetary policy and fiscal policy. Discuss whether fiscal policy may be used to influence the standard of living in a country. [13]

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

© UCLES 2017