Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **May/June 2021**

2 hours 15 minutes

0010104515

You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **three** questions in total:
  Section A: answer Question 1.
  Section B: answer **two** questions.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.
- You may use a calculator.
- You may answer with reference to any economy you have studied where relevant to the question.

INFORMATION

- The total mark for this paper is 70.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **4** pages. Any blank pages are indicated.

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Section A

Answer this question.

1 **Public services – better or worse?**

A government usually has macroeconomic policy aims that it hopes will enable some success in raising the quality of life, or well-being, of the population. In doing this the government also hopes to achieve efficiency in the use of resources.

Efficiency is measured by relating inputs to outputs. Inputs are relatively easy to count: they are financial costs of public services. Output can also be counted, but it is not necessarily a good measure of the outcome. The outcome is much harder to calculate. It is broader and more subjective – how do we assess whether a public service is 'better' or 'worse'?

This is where a knowledge of well-being makes an enormous difference. It could provide a much clearer view of the trade-offs that have to be made in allocating taxpayers' money to public services. Take the example of healthcare. To maximise the impact of expenditure on well-being, the budget may need to be adjusted to give more to mental health services and less to building general hospitals. For older people it could mean giving priority to programmes that would keep them out of hospital.

A focus on well-being should lead to better outcomes. This is where policymakers need a better understanding of behavioural economics. Governments have established Behavioural Insights teams, or Nudge Units. They have had some success. A small change in the wording of a letter to people who owed tax demonstrated how more behaviourally sensitive language sped up payments. The unit also found that jobseekers were nearly twice as likely to turn up for a job fair if the text message from the job centre used their names, and nearly three times as likely if the person sending the text message added 'good luck'.

Do tax reliefs persuade people to save? No. So enrol them instead automatically in a pensions programme as a default position, with the possibility of opting out. Allowing people to learn from mistakes is good: it reduces dependency on the public sector and helps people make better decisions for themselves. But some errors, such as failing to save anything until you are too old to earn, cannot be reversed. Then an early 'nudge' is justified. It has proved successful in spreading the habit of saving for retirement into groups not persuaded by tax reliefs alone.

In the long term this, and similar behavioural changes, may well have more influence on well-being than can be represented by concentrating on a monetary calculation of GDP. Other economic indicators could be used to assess this change in well-being.

Source: RSA Issue 1, 2017

(a) The article refers to macroeconomic policy aims. Identify and explain **two** such macroeconomic policy aims. [4]

(b) Is there evidence in the article that a knowledge of behavioural economics can help public policy? [4]

(c) The article says that 'efficiency is measured by relating inputs to outputs'. Is this how economic theory states that efficiency is determined? [5]

(d) The article deals with an improvement in well-being. Discuss whether there are any economic indicators that could be used to assess whether well-being has become better or worse. [7]

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Section B

Answer **two** questions.

2 Assess the suggestion that a free market economy is neither possible nor desirable. [25]

3 **(a)** Explain what is meant by the concept of the 'equilibrium position of a consumer' and how the concept might be used to construct a demand curve for a good. [12]

(b) Distinguish between the income and substitution effects of a change in a good's price and analyse why the effect of a change in price is not always the same for different goods. [13]

4 **(a)** What costs ought a profit-maximising firm take into consideration when making decisions about price and output? [12]

(b) 'Price discrimination is always possible but never desirable.'

Do you agree with this opinion? [13]

5 'Wage differentials can be explained by economic theory. They are a sign of the power of a firm to exploit its workforce and are unjust.'

Do you agree with this view? [25]

6 **(a)** Distinguish between a country's national debt and its public sector budget deficit and consider which is the more important. [12]

(b) Discuss the effectiveness of alternative macroeconomic policies used to reduce a public sector budget deficit. [13]

7 **(a)** Explain and critically evaluate the quantity theory of money. [12]

(b) Monetary policy relies heavily on the theory of a monetary transmission mechanism.

Explain how a monetary transmission mechanism works and discuss its effectiveness. [13]

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Cambridge International AS & A Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays **May/June 2021**

2 hours 15 minutes

0420401845

You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

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INFORMATION

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Section A

Answer this question.

1 Competition in passenger aircraft manufacturing

Two companies produce all of the world's passenger aircraft with a seating capacity of over 150 passengers. The supply of these is about 1600 aircraft a year and is divided almost equally between the two competing companies, who both benefit from extremely strong brand identity and customer loyalty.

The aircraft are made in two versions: single-aisle aircraft that carry 200 passengers and double-aisle aircraft that carry 300 to 350 passengers.

In 2018 both companies took over other firms which produced a range of aircraft seating between 40 and 150 passengers. The owners of the other firms had difficulties in financing and developing their new aircraft.

Recent competition in the aircraft manufacturing industry has aimed at improving fuel efficiency, developing longer non-stop flying ranges and developing very large aircraft with a capacity of 500 passengers. The companies have been successful in achieving the first two aims.

The third aim of developing very large aircraft was intended to move larger numbers of passengers between 'hub' airports, where they would transfer to smaller aircraft for onwards transport to regional airports. Whilst it has achieved increased passenger capacity, this development has not been a success for the airlines that bought these very large aircraft. The need for these was undermined by the success of the first two competitive developments.

The nature of the aircraft manufacturing industry is that it involves significant fixed costs. The research and development (R&D) costs of a new aircraft can rise to US$26 billion.

Currently the two companies are concerned that China, in its drive to increase the value of its exports, will enter the aircraft manufacturing industry in the next 10 to 15 years and add a new level of competition.

Source: adapted from The Economist, 5 February 2019 and 27 April 2019

(a) Using the information, explain the market structure that exists in aircraft manufacturing. [2]

(b) Explain why the two companies might be concerned about the potential entry of China into the aircraft manufacturing industry. [4]

(c) 'The nature of the aircraft manufacturing industry is that it involves significant fixed costs.'

(i) Using an example from the information, explain the meaning of fixed costs. [2]

(ii) With the aid of a diagram, explain the link between an increase in an aircraft manufacturer's level of output and its average fixed costs. [4]

(d) Discuss whether economic theory can explain how two companies will compete with each other when they dominate a market. [8]

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Section B

Answer **two** questions.

2 **(a)** What is meant by 'efficiency' in relation to the use of resources? [12]

(b) 'Market failure can always be overcome to increase economic efficiency.'

How far do you agree with this statement? [13]

3 **(a)** Use indifference curve analysis to explain how an individual's demand curve for an inferior good is derived. [12]

(b) Discuss the relative importance of marginal cost and average variable cost in determining short-run production decisions. [13]

4 Evaluate whether the theory of wage determination can account for wage differentials (i) between a director and a general worker in the same company and (ii) between two workers doing the same job in different companies. [25]

5 Discuss the extent to which the Human Development Index (HDI) and the Measure of Economic Welfare (MEW) provide better measures of living standards than Gross National Income (GNI). [25]

6 **(a)** Explain the causes of unemployment and consider which is most likely to occur in a developing country. [12]

(b) Discuss whether solving the problem of unemployment should be the main policy objective for the government of a developing country. [13]

7 **(a)** Explain what is meant by quantitative easing (QE) and consider whether it is an effective policy to be used in a recession. [12]

(b) 'Policies to achieve economic growth will inevitably cause a government budget deficit.'

How far do you agree with this statement? [13]

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ECONOMICS **9708/43**

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5207815665

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Section A

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