Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **May/June 2022**

2 hours 15 minutes

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.

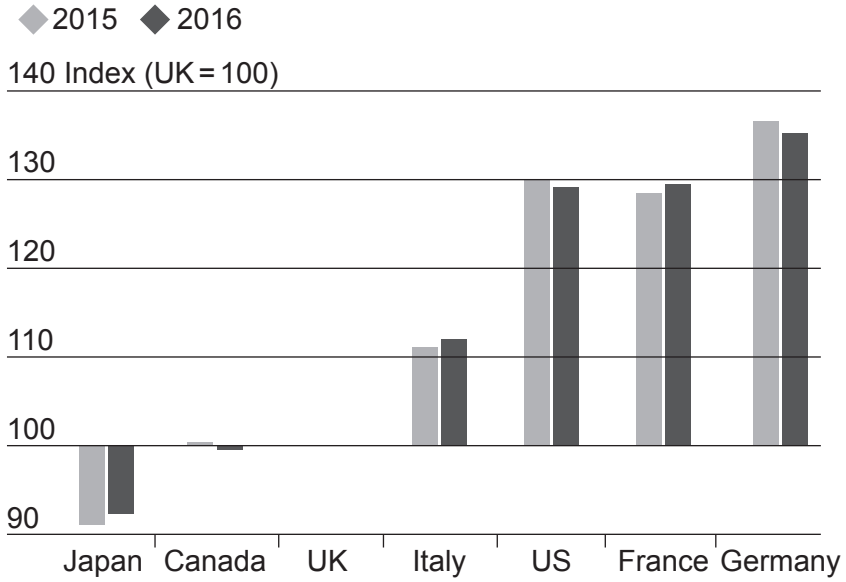
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Section A

Answer this question.

1 **Productivity in the G7 countries**

The G7 is a group of countries that have some of the world's major advanced economies. Productivity in the G7 countries varies, as shown in Fig. 1.1 below, with United Kingdom (UK) performance as the base index of 100.



Source: The Sunday Times*, 24 June 2018*

Fig. 1.1: Gross domestic product per hour worked, G7 countries, for 2015 and 2016

Productivity in the UK was one of the worst in the G7. Poor management practices and lower levels of skills in the workforce were the main reasons for the UK's position. In low wage, high employment sectors of the UK economy, the performance compared unfavourably with five of the G7 countries. In retailing, the UK was 40% lower than the performance in the United States (US). In hospitality industries the UK had a 45% lower rate than France.

Tackling poor productivity is about innovation, investment and improving infrastructure as well as labour skills.

The Federal Reserve Bank of the US suggested that innovation is one of the keys to productivity differences among the G7 countries. Innovation can occur using different factor inputs such as IT hardware and software, investment in staff training, research and development (R&D) and marketing. In 2015, the US had the most advanced software and IT services industries in the world accounting for a third of the global IT market. In 2018, the industry accounted for 12% of private sector employment and contributed 7.1% of GNP. Three of the top ten IT companies in the world were based in the US.

In 2014, in the UK, businesses spent US$26 billion on R&D, notably on digital technology and biomedical research projects that are world-renowned. However over the past 25 years R&D in the UK has only averaged between 1% and 1.3% of GNP and falls behind Japan with 3.4%, Germany 2.9%, the US 2.7% and France 2.2%.

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There were concerns about the UK government reducing spending but in 2018 it made a commitment to a large investment programme in transport and communications to provide a boost to productivity. At that time one threat to the UK economy was its decision to leave the European Union's single market. The decision created uncertainties for investors and the balance of foreign direct investment (FDI) showed that there were more investments abroad than there were foreign investments in the UK. This made some UK industries, such as car production, vulnerable. The central bank in the UK has stated that foreign owned car manufacturers in the UK invest heavily in R&D and their presence boosts the productivity of labour. It was thought this may change in the future.

Sources: The Sunday Times 24 June 2018, David Smith (Economic Outlook). 'We don't need a new target but we must raise our game'.
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Office for National Statistics, Britain, 2016

(a) Explain what is meant by productivity. [2]

(b) The information suggests that innovation and R&D are important in ensuring high productivity. Is this statement consistent with the evidence in Fig. 1.1? [4]

(c) Use the information to comment on productivity in the US and indicate which factors contributed to its performance. [6]

(d) Use the information to discuss whether or not it is likely that the UK's productivity within the G7 countries will improve. [8]

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[Turn over

Section B

Answer **two** questions.

2 **(a)** Explain what economists mean by a public good and discuss why the provision of such a good is associated with market failure. [12]

(b) Discuss the extent to which monopoly producers and the consumers of their products might benefit from the existence of barriers to entry. [13]

3 **(a)** Firms in perfect competition and firms in monopolistic competition will only achieve normal profits in the long run. This means that firms in both these types of market structure are equally efficient.

Discuss, with the help of diagrams, the extent to which you agree with this statement. [12]

(b) Interdependence is a key characteristic of oligopoly firms. This creates a problem regarding the pricing decisions made by such firms.

Explain this statement and discuss the extent to which game theory can help to solve this problem. [13]

4 **(a)** Discuss the costs and benefits of a trade union intervening to influence the wages of workers in a specific occupation. [12]

(b) The introduction of a national minimum wage will always benefit employees at the expense of employers.

Discuss the extent to which you agree with this statement. [13]

5 With the help of a circular flow diagram discuss how a policy of export-led growth might affect the standard of living in a developing economy. [25]

6 **(a)** Explain what is meant by a transmissions mechanism of monetary policy and consider why it might not work in practice. [12]

(b) Discuss the role and importance of the commercial banks in a developed economy. [13]

7 Keynesians argue that increasing budget deficits will solve the problem of unemployment. Monetarists argue that supply side policies are more effective in reducing unemployment.

Consider which view is more likely to be correct. [25]

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ECONOMICS **9708/42**

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Section A

Answer this question.

1 Recent changes in the world oil market

The world price of oil is primarily determined by OPEC (Organization of the Petroleum Exporting Countries), which is a cartel consisting of 15 major oil producing countries. These countries have over 75% of the world's reserves of oil. Saudi Arabia is effectively the leader of the cartel. It exercises leadership by adjusting the output of the cartel to maintain the price agreed by the cartel's members. Russia and the US are not members of OPEC, but they engage in collusion with the cartel by accepting the oil price agreed by OPEC.

Between 2010 and 2019 United States (US) oil production increased from 6m barrels per day (mbd) to 12 mbd, equal to the output of Russia and exceeding that of Saudi Arabia. The increase in US production was mainly through a process known as fracking, with low fixed costs and high variable costs. This contrasts with Russia and Saudi Arabia where oil production involves high fixed costs and low variable costs.

In spring 2020, faced with a falling world oil price, Saudi Arabia proposed to cut its oil production. Russia did not agree with the proposal and increased its output by 4%. Saudi Arabia responded by increasing its output by 20%. The result of this disagreement was that the world price of oil fell significantly from US$70 per barrel to under US$30 per barrel. The situation was not helped by a sharp drop in the global demand for oil as many countries shut down large sections of their economies in response to the coronavirus (Covid-19) pandemic.

The joint action of Russia and Saudi Arabia was thought to be an attempt to undermine the US oil industry. This was because oil exports were a major source of income for both countries. Oil was responsible for more than 60% of Russia's exports and provided more than 30% of the country's gross domestic product (GDP). For Saudi Arabia, the importance was even greater. The oil sector accounted for about 70% of export earnings, and 50% of GDP.

The high price of oil in past years had enabled Russia to accumulate a significant budget surplus. The recent fall in the price of oil was thought to double the budget deficit of Saudi Arabia to US$100 billion at a time when the government was seeking to develop the country's industry and reduce unemployment.

(a) Define what is meant by a cartel. [2]

(b) 'Russia and the US are not members of OPEC, but they engage in collusion with the cartel.'

Explain what the term collusion means in the context of an oligopoly. [3]

(c) The oil production processes used by Saudi Arabia and the US have different proportions of fixed costs and variable costs.

Analyse why the fall in the price of oil may have a more significant effect on the output of oil in the US. [7]

(d) Discuss, with the use of AD/AS diagrams, how Russia and Saudi Arabia are likely to be able to respond to the fall in oil prices. [8]

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Section B

Answer **two** questions.

2 A rational consumer will always purchase less of an item as the price increases.

Discuss, with the use of indifference curve analysis, whether this statement is correct. [25]

3 **(a)** Explain the relationship between marginal revenue and average revenue and their role in determining the output and profit of a profit maximising firm in a perfectly competitive market. [12]

(b) Discuss the significance of economies of scale for the survival of firms. [13]

4 **(a)** Explain how the problems of climate change, such as global warming, may be regarded as a consequence of resource misallocation. [12]

(b) Evaluate **two** policies a government may implement to reduce the impact of climate change. [13]

5 The best outcome for labour markets is that the forces of supply and demand are left to determine wages without government interference.

Discuss with the use of diagrams, whether this statement is always true. [25]

6 **(a)** Distinguish between the characteristics of developed (high-income) and developing (low-income) countries. [12]

(b) Discuss whether gross domestic product (GDP) is the best measure of the standard of living. [13]

7 **(a)** Explain the relationship between the Keynesian demand for money and the rate of interest. [12]

(b) Discuss whether monetary policy alone is sufficient for a government to achieve its macroeconomic aims simultaneously. [13]

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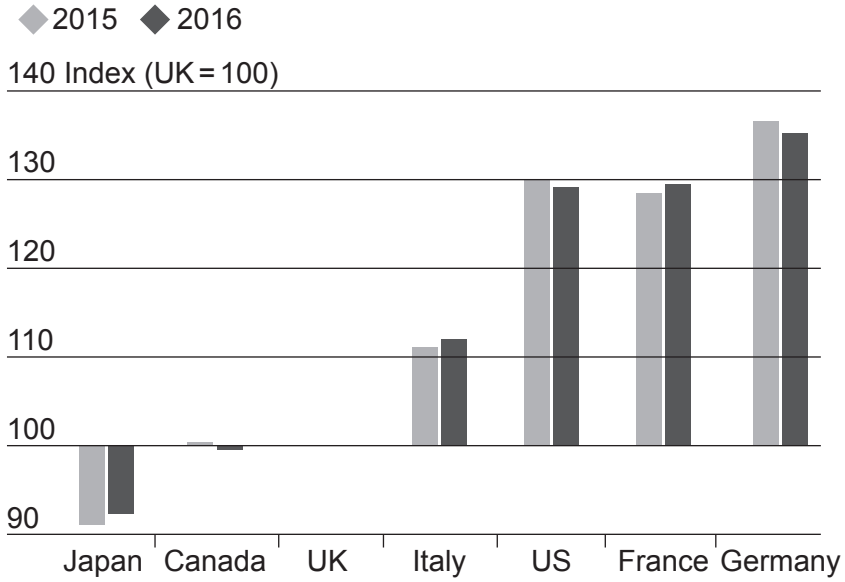
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