Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 A Level Data Response and Essays **May/June 2023**

2 hours

0021071659

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 **one** question.
  - Section C: answer **one** question.
- 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 60.
- 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 all parts of Question 1.

1 Competition, monopoly and the market

Firms are sometimes thought of as machines: inputs go in, products come out. However, it matters how powerful these firms are allowed to become.

Competition law – the law that governs how firms compete in the market, how they may exert their power and how and when they may join forces – has not prevented high concentration ratios in many industries.

Global monopolies have been created in the name of 'free market' capitalism. Mergers have been approved and monopolies tolerated under the assumption that they are efficient. Their ability to enable innovation is relied upon to justify these monopolised industries.

Competition law is being used to protect a narrow set of public interests based on the idea of 'consumer welfare'. The test applied by the law is whether any change will result in lower prices for consumers and thus is beneficial. This is regardless of how monopolised the resulting market structure becomes.

The logic that focuses on consumer prices is flawed. This can be seen in the impacts of firms on the environment. Prices do not capture the negative externalities of production, for which neither the producer nor the consumer pays.

Low consumer prices are not an adequate indicator for consumer welfare. The low price/low wage spiral keeps pushing for cheaper goods and services to increase the profitability of the firm. The result is that workers are paid less. Low prices cause unequal bargaining positions between powerful employers and workers, and between powerful buyers and small independent suppliers.

Regulation has a role to play in protecting consumers from the worst abuses of market power by firms. There needs, however, to be new competition law that promotes the free market rather than the desires of the monopoly firms. It needs to consider the balance of power between the public sector and private enterprise.

Source: RSA Journal. Issue 3, 2020 p 32.

(a) The article refers to concentration ratios. Explain what is meant by a concentration ratio and how it is calculated. [4]

(b) Explain, with an example, whether the article is correct in saying that neither the producer nor the consumer pays for negative externalities. [4]

(c) Apart from negative externalities, describe **two** reasons why the article says increased concentration in an industry may not improve consumer welfare. [4]

(d) The article says that monopolies are tolerated because they are efficient.

Assess, with the help of a diagram, whether economic theory supports the idea that monopolies are efficient. [8]

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Section B

Answer **one** question.

EITHER

2 To improve allocative efficiency economists frequently advise governments to remove existing subsidies to the private sector providers of education.

With the help of a diagram, evaluate this advice. [20]

OR

3 Some firms frequently use price discrimination.

Assess the view that when this occurs, price discrimination will always benefit the producer at the expense of the consumer and society. [20]

Section C

Answer **one** question.

EITHER

4 An increase in a government's budget surplus will increase unemployment in the short run but it will make it easier to control a balance of payments deficit on the current account in the long run.

Evaluate this statement. [20]

OR

5 To what extent do you agree that an increase in productivity will lead to a higher standard of living in low-income countries? [20]

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Section A

Answer all parts of Question 1.

1 Pakistan and the Belt and Roads Initiative (BRI)

The BRI is a strategy initiated by China in 2013 that seeks to connect Asia with Africa and Europe via land and sea networks. Its aim is to improve regional integration, increase trade and stimulate economic growth. It involves major investment in infrastructure projects. Under the BRI China is looking for markets with growth potential for their exports, in particular openings for profitable infrastructure and industrial investment. Profits in China are falling and over-capacity is widespread.

Better direct transport links will encourage growth for China's inland provinces, for example, the China-Pakistan Economic Corridor (CPEC). This is a US$50 billion road building scheme linking an inland province in western China to a newly developed Pakistani port on the Arabian Sea. The development offers a shorter and cheaper route for China's exports to Africa, the Middle East and Europe. Additionally, the port development includes plans for investment in Pakistan's railways and industrial zones.

Other projects are focused on energy supply including coal-fired and nuclear-powered electricity generation and the development of Pakistan's electricity grid. Pakistan's economy is affected by power cuts which lead to many firms having their own inefficient diesel generators that increase their costs of production. The generators are also highly polluting. A more reliable electricity supply will also benefit households as cooking can be done without using unhealthy solid fuels, such as straw, and students can study for longer in the evening.

The construction machinery used for these infrastructure projects is supplied mainly by China and the projects are supervised by Chinese managers. To pay for these projects Pakistan takes loans provided by Chinese banks and institutions. Pakistan already has outstanding foreign debt of approximately 25% of gross domestic product (GDP).

Table 1.1 Selected Comparative Data for China and Pakistan

	GDP per capita adjusted for purchasing power parity (US$)		Unemployment Rate (%)		Gini Coefficient	
	2014	2018	2014	2018	2014	2018
China	11 917	15 243	4.1	3.8	43.7	38.5
Pakistan	4171	4740	5.8	5.5	29.8	33.5

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(a) Explain what is meant by purchasing power parity (PPP). [2]

(b) Explain, with the help of a diagram, the likely impact of the BRI on both the potential economic growth and the actual economic growth of Pakistan. [4]

(c) Consider, with reference to Table 1.1, the change in the standard of living in Pakistan and China between 2014 and 2018. [6]

(d) Evaluate, using the article, the likely impact of the BRI on the economies of Pakistan and China in the long run. [8]

Section B

Answer **one** question.

EITHER

2 The increased use of electric vehicles (EVs) is encouraged as part of governments' climate change policies because they create fewer negative externalities than diesel and petrol (gas) vehicles.

Evaluate, with the help of a diagram(s), **two** policies that a government may use to encourage the use of EVs. [20]

OR

3 Evaluate, with the help of a diagram(s) how total market demand and minimum efficient scale may determine the form of market structure in an industry. [20]

Section C

Answer **one** question.

EITHER

4 Consider the extent to which the depreciation of its foreign exchange rate contributes to the economic growth of a low-income country. [20]

OR

5 Evaluate the effectiveness of using monetary policy to reduce the rate of inflation and how this policy may affect a government's ability to achieve its other macroeconomic aims. [20]

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