Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 A Level Data Response and Essays **May/June 2024**

2 hours

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 **Income inequality**

According to a report by the World Bank, income inequality has declined in some low-income countries in recent years. For example, between 2008 and 2018, the Gini coefficient decreased by more than 5 percentage points in Chile, Colombia and Mexico. In some other countries, such as Ethiopia, India and Indonesia income inequality has remained relatively stable over the past decade while it has increased in China and South Africa.

In low-income countries inequalities of opportunity, in particular the differences in access to education between females and males, appear to pose obstacles to a more equal income distribution. Equality of opportunity becomes an issue of macroeconomic relevance.

Table 1.1 shows Gini coefficients, female/male literacy ratios and the percentages of population in absolute poverty for five countries.

Table 1.1

Country	Gini coefficient	Literacy ratio[1]	% of population below the poverty line
Brazil	0.53	1.01	4.2
Mauritius	0.36	0.95	10.3
India	0.35	0.90	21.9
Egypt	0.31	0.80	32.5
Pakistan	0.30	0.67	24.3

[1]Literacy ratio = female literacy rate ÷ male literacy rate

Source: CIA World Factbook

It is important to note that income inequality is a complex issue that can be influenced by a wide range of factors, including economic growth, government policies and global economic trends. The government can use fiscal and supply-side policies to influence and change income distribution. These could lead to higher Gross Domestic Product (GDP) and increased economic growth.

While the Gini coefficient is the most widely used measure of income inequality, it is important to note that it has limitations. It does not take into account other factors that contribute to inequality such as wealth inequality, and it may not take into account the full extent of inequality in societies with large informal economies.

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(a) Describe what is meant by the Gini coefficient and its possible range of values. [3]

(b) Distinguish between absolute poverty and relative poverty. [3]

(c) Consider whether Table 1.1 supports the conclusion that greater inequality of incomes is linked to poor literacy ratios of females to males **and** leads to greater poverty. [6]

(d) Use **one** example of a supply-side policy and **one** example of a fiscal policy to assess how a government might be able to achieve greater equality in the distribution of income. [8]

Section B

Answer **one** question.

EITHER

2 The long-term equilibrium position in perfect competition is frequently used to illustrate efficient resource allocation in a free market economy.

Explain why this is so and consider what prevents efficiency from being achieved. [20]

OR

3 With the help of an indifference curve diagram, assess the extent to which a rise in price would affect the demand for a normal good differently from the demand for a Giffen good. [20]

Section C

Answer **one** question.

EITHER

4 In many countries increased government spending is regarded as a cause of economic growth. It is sensible, therefore, for a government to spend more to increase economic growth as it is good for its country.

To what extent do you agree with this argument? [20]

OR

5 National income statistics are often used as a measure of the standard of living.

Consider to what extent national income statistics can be used to compare the standard of living between low-income countries and high-income countries. [20]

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Section A

Answer all parts of Question 1.

1 Developments in the electric vehicle (EV) industry

The advantage of the car is that it provides freedom for the consumer. However, the disadvantages of car use are that it creates congestion, carbon dioxide (CO_2) and air pollution. These disadvantages led many countries to agree to replace internal combustion engine (ICE) cars with electric vehicles (EV) from 2030.

The successful introduction of EV is dependent on the development of battery technology and production of batteries to enable EV to drive a similar distance to ICE cars before they need re-charging. Better electrode design, battery assembly and chemistry are all technical aspects of battery production that could reduce costs, resulting in economies of scale from more efficient use of capital and labour. In addition to technical economies, there may well be purchasing economies of scale in battery production when buying raw materials and capital equipment in bulk.

Table 1.1 shows the estimated average costs of battery production for EV using two different technologies.

Table 1.1 Average costs of battery production

Annual production	US $ per kwh	
kwh (millions)	Technology A	Technology B
0.5	115	120
2.0	105	90
4.0	98	80
10.0	97	80

The shift to EV will cause redundancies for highly skilled mechanical engineers who have developed and refined the ICE. Often these workers are concentrated in specific areas, such as southern Germany.

The change from ICE cars to EV may also cause difficulties for governments in two ways. First, many countries rely on oil exports for a large part of their income. For example, Saudi Arabia receives 45% of its gross national income (GNI) from oil exports. Secondly, other governments place an indirect tax on petrol (gasoline) and diesel as part of their general revenue. For example, Singapore charges S$0.41 per litre, approximately 17 % of the price.

Sources: Applied Energy 286 (2021) Economies of scale in battery cell manufacturing, 25 April 2022, and The Singapore Independent*, 28 March 2022*

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(a) Explain what is meant by internal economies of scale, using an example from the information. [3]

(b) Consider what is meant by minimum efficient scale and to what extent the data in Table 1.1 suggest this has been achieved. [3]

(c) Analyse, with the aid of a diagram, the likely impact of the change to EV on the labour market for workers producing ICE in southern Germany. [6]

(d) Evaluate the likely macroeconomic effects of the switch to EV for both Saudi Arabia and Singapore. [8]

Section B

Answer **one** question.

EITHER

2 Market failure exists in all economies.

Evaluate, with the aid of a diagram(s), the meaning of market failure and **two** policies a government may use to correct market failure. [20]

OR

3 Evaluate, with the aid of a diagram(s), whether excess profit (supernormal profit) is always necessary for the continued existence of firms in perfect competition and monopoly. [20]

Section C

Answer **one** question.

EITHER

4 In 2022, many countries experienced a high rate of inflation caused by disruptions to the supply of goods and services arising from the Covid-19 pandemic and the conflict between Russia and Ukraine. In one country, the government cut taxes and the central bank raised interest rates.

Evaluate the likely impact of these policies on that government's ability to control inflation. [20]

OR

5 Evaluate the likely impact of globalisation on a low-income country's standard of living. [20]

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