Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays **February/March 2017**

2 hours 15 minutes

No Additional Materials are required.

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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.

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Section A

Answer this question.

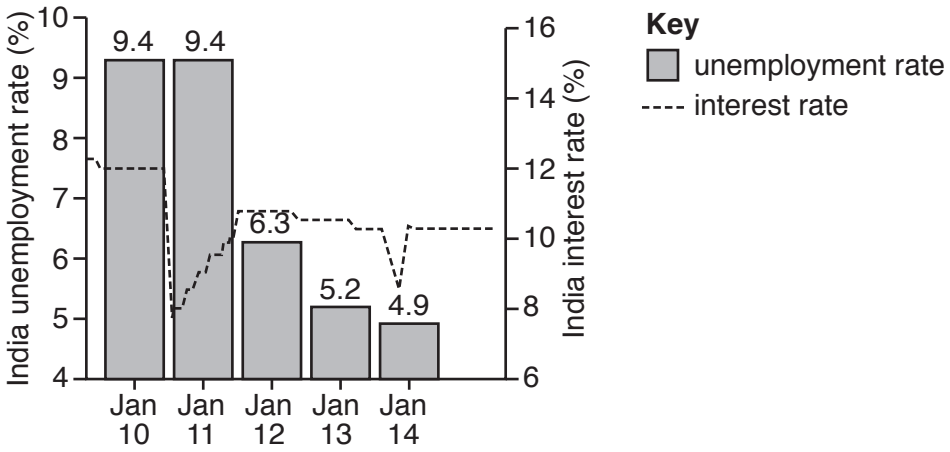
1 **Finance Ministers and Economic Power**

The power of Finance Ministers to make a difference to an economy is exaggerated. Political parties would argue that Finance Ministers have the ability to form policies that lead to the creation of jobs, the building of houses, and the encouragement of economic growth. The reality is that Finance Ministers are usually at the mercy of the economy rather than in control of it.

The Finance Minister has a limited macroeconomic range of policy measures. Interest rates, bond markets, international trade markets, company investment policies and changes in consumer spending are far more important than Finance Ministers in shaping the economy and determining tax revenues.

Consider monetary policy. This is often controlled by central banks. In 2015, there were low interest rates across much of the world. These lower borrowing costs could encourage firms to invest and this may result in increased employment. Statistics for unemployment and the level of interest rates for India from 2010 to 2014 are given below in Fig. 1.

Fig. 1 India: unemployment rate and interest rate (2010–2014)



In international trade markets some economies improved in 2015 because of the halving of the crude oil price – a benefit for companies and households with an effect on inflation that allowed interest rates to stay low. However, part of the benefit of such a change in the general price level would be short-term if oil prices recovered.

Another influence on the economy can be a high level of immigration which could increase the working population and possibly increase employment and production. Immigration is not controlled by the Finance Minister.

Some consider that the best hope for improving an economy is on the supply side. But supply-side policies are also often the responsibility of ministers other than the Finance Minister and take a long time to become effective.

A further economic boost could be a rise in house prices. House price rises encourage consumer confidence and stimulate retail sales. Moving house often results in re-decoration, modernisation and the purchase of household items. However, house price rises, or the corresponding rent increases, can sometimes be out of proportion to wage rates and make it impossible for many people to purchase property or to move.

Source: The Times, 18 April 2015

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(a) The information refers to supply-side policies. Explain, with **two** examples, what is meant by supply-side policies. [4]

(b) Explain briefly the link between the rate of interest, investment and employment. Consider whether this is supported by the information in Fig. 1. [4]

(c) The information refers to rising house prices and politicians sometimes say such a rise is a sign of an improvement in the economy. Analyse how the economy is claimed to benefit from *rising* house prices but can also benefit from *falling* oil prices. [6]

(d) Summarise the main argument of the information. Discuss whether there is sufficient evidence in the information to support it. [6]

Section B

Answer **two** questions.

2 **(a)** Explain what is meant in economic theory by consumer equilibrium. [12]

(b) Discuss the conditions that would cause the demand for a good to **(i)** increase and **(ii)** fall as a result of a fall in the price of the good. Use indifference curve analysis to support your answer. [13]

3 **(a)** Some firms have power over their market. Explain what this means and consider why this power might change in a contestable market. [12]

(b) Discuss the different aims a firm might have in order to continue with production. [13]

4 A politician remarked that the absence of trades unions would necessarily lead to an improvement in all labour markets.

To what extent does economic analysis support this remark? [25]

5 **(a)** How might the employment composition and age structure of a developing country differ from those of a developed country? [12]

(b) Apart from the employment composition and age structure, discuss what changes are likely to occur in a developing country if it progresses towards developed status. Consider whether these changes are always beneficial. [13]

6 **(a)** Consider how significant the level of income is in determining people's demand for money, according to liquidity preference theory. [12]

(b) Discuss whether an increase in the national income of a country is a reliable indication of an improvement in the standard of living for the people in that country. [13]

7 A society that says it cares about efficiency needs to abandon the notion of a market system to allocate resources. Markets only serve self-interest, they are never efficient.

Discuss whether this opinion is supported by economic analysis. [25]

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