Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays **February/March 2019**

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.

This document consists of **4** printed pages and **1** Insert.

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Section A

Answer this question.

1 Downturn in the growth of the world's leading economies

In February 2016 there were dramatic changes in both financial and commodity markets across the world. Central bank interest rates in some countries were at their lowest recorded level, prices of banking shares fell heavily and oil prices in New York fell to US$26.34 a barrel, the lowest in 13 years.

Economists warned that the falls in share prices could indicate a downturn for economies with a possible collapse of banks, as happened in the financial crash of 2008. A healthy banking system is needed to promote economic growth. Very low interest rates undermine the profitability of commercial banks.

Overproduction of oil by Saudi Arabia, the leader of the oil cartel OPEC, created price falls and deficits in the budgets of its OPEC partners that resulted in contractions in the economies of oil-exporting countries. On the other hand, oil-importing countries benefited from lower production costs although their governments claimed that revenues from sales taxes on oil products fell.

Also in 2016, China's demand for oil fell because of a downturn in its economy. In 2010 China's economy grew by 10%. By 2015 the rate had fallen to 6.9%. Some critics said that China's high economic growth was enabled by the excessive borrowing of the central government to build massive infrastructure projects – such as roads, offices and factories. This meant that the government owed huge amounts to banks driving them towards bankruptcy. These debts were linked to excess capacity in the construction and manufacturing industries.

The Organisation for Economic Co-operation and Development (OECD) expressed concern at the state of the global economy in 2016. It criticised the over-reliance by some of the world's major economies on monetary policies based on low interest rates and quantitative easing. It argued that monetary policy cannot work alone to boost an economy and that fiscal expansion was needed to increase aggregate demand and aggregate supply. By 2016, many economies had reduced government spending and aimed at cutting budget deficits. As a result the OECD reduced its GDP growth forecasts in 2016. For example, the world average forecast growth rate was cut from 3.3% to 3.0%.

Sources:
1 The Guardian, 12 February 2016
2 Reuters, February 2016
3 The Times, 13 February 2016
4 The Guardian, 19 February 2016

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Table 1.1: OECD reduction in GDP growth forecasts, 2016

Country	Reduction (%)
World average	–0.3
France	–0.1
United Kingdom (UK)	–0.3
Italy	–0.4
United States (US)	–0.5
Germany	–0.5
Canada	–0.6

Source: OECD

(a) What is meant by 'quantitative easing'? [3]

(b) Explain why 'a healthy banking system is needed to promote economic growth'. [4]

(c) Explain what caused the fall in the price of oil and analyse whether the evidence in the article indicates that the only cause of the economic downturn in various economies was the fall in the price of oil. [6]

(d) Consider the concerns and recommendations of the OECD about the state of the global economy. [7]

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[Turn over

Section B

Answer **two** questions from this section.

2 'Governments should use whatever methods they can to regulate monopolies because they are inefficient.'

Consider whether monopolies are always inefficient and what methods might be used by governments to regulate them. [25]

3 **(a)** Explain why indifference curves are usually drawn convex to the origin, are downward sloping and do not cross each other. [12]

(b) Consider, for an inferior good, the relationship between indifference curves, budget lines, price changes and demand curves. [13]

4 **(a)** Analyse whether there is a link between the marginal cost of a firm and

(i) its variable cost;

(ii) the supply curve of the industry to which the firm belongs. [12]

(b) Discuss how the objective of a firm in an oligopolistic market might differ from the objective of a firm in a perfectly competitive market. [13]

5 **(a)** According to economic theory, what is the significance for a firm in a perfectly competitive labour market of a worker's marginal product and average product? [12]

(b) Discuss the economic conditions that might make it possible for a trade union to increase the wages of its members without reducing the number of workers employed. [13]

6 **(a)** Distinguish between leakages and injections in the circular flow of income and consider how they might be related. [12]

(b) Critically evaluate a central bank's use of interest rates to increase injections into an economy. [13]

7 'Keynesian policies to solve the problem of unemployment will not work because they will conflict with the attainment of other key macroeconomic aims.'

Assess the accuracy of this statement. [25]

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