Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays **February/March 2021**

2 hours 15 minutes

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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 Equality in markets and economic performance

Adam Smith's proposition that free markets organise economic resources for the benefit of everyone rests upon the even distribution of power between the market participants. Without that even distribution, the proposition fails.

The reality of markets today is that the distribution of power is uneven and the markets are exploited by the powerful for their own gain. Markets are imperfect.

These imperfections hinder economic equality. Economic equality is linked to economic power and requires ownership and control over economic resources. Concentration of economic power, particularly in the hands of large global companies can adversely affect local economies. For example, local business owners have to work longer hours to compete with giant corporations.

The growth in the power of large companies is a cause of inequality in the distribution of income and wealth. The companies have an ability to make high profits, to practise price discrimination and exploit consumers. This sometimes leads to regulation by governments. Consumer protection is usually the aim. Take-overs are monitored. Progressive taxes on high incomes are used. Social welfare, inheritance taxes and greater workers' rights all attempt to deal with excessive inequality.

However, it is also said that large companies contribute disproportionately more to a country's economic growth than smaller ones. Such companies are more productive, pay higher wages, enjoy higher profits and are more successful in international markets.

Therefore, differences in economic growth between countries, it is argued, could be linked to the difference in the number of large firms.

In Spain and Italy, firms are on average 40% smaller than those in Germany. Increasing the size of firms in Spain and Italy, it is said, is the key to improving their comparative economic growth.

Firms with more than 250 employees are only 5% of manufacturing firms in Spain and Italy. This compares with a much higher 11% of firms in Germany. The average firm size in Spain is 49.3 employees, and in Italy it is 42.7 employees. Both are lower than the average of 76.4 employees per firm in Germany.

Sources: adapted from www.euractiv.com and www.destatis.de

Table 1.1 shows GDP and inflation rates for Germany, Italy and Spain in 2017.

Table 1.1

	GDP growth rate (% p.a.)	Inflation (% p.a.)
Germany	2.2	1.7
Italy	1.5	1.3
Spain	3.1	2.0

Source: RSA Journal, Issue 1 2018

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(a) Explain what is meant by 'a free market organises economic resources for the benefit of everyone'. [4]

(b) Analyse why the article says that some markets are 'imperfect'. [4]

(c) Distinguish between equality and equity and use the information to give **two** examples of policy measures that might promote equality in the distribution of income. [4]

(d) Some argue that large firms are beneficial. Consider whether the evidence in the information supports their opinion. [8]

Section B

Answer **two** questions.

2 'Smoking cigarettes causes negative externalities and negative externalities cause market failure, which can only be solved by government intervention.'

To what extent do you agree with this statement? [25]

3 **(a)** 'A firm in a perfectly competitive market can make either a supernormal profit or a loss in the short run but will only make normal profit in the long run.'

Assess whether this statement is true. [12]

(b) Discuss the view that a firm operating in a perfectly competitive market will achieve economic efficiency but a monopoly firm will not. [13]

4 **(a)** Distinguish between transfer earnings and economic rent. With the help of diagrams, consider the links between transfer earnings, economic rent, the elasticity of supply of labour and an individual worker's wage rate. [12]

(b) 'Trade unions can gain an increase in wage levels only at the expense of higher levels of unemployment.'

To what extent do you agree with this statement? [13]

5 **(a)** Distinguish between productivity and the level of production and discuss why productivity is likely to be lower in a developing economy than in a developed economy. [12]

(b) 'Rising population levels in a developing economy create many problems while falling population levels in a developed economy cause even greater problems.'

To what extent do you think this is a true statement? [13]

6 Explain why an economy might be in equilibrium at less than a full employment level of output and critically evaluate alternative policy measures which might be used to move the economy to a full employment level of output. [25]

7 **(a)** 'Economic growth should be the most important macroeconomic aim.'

Discuss this view. [12]

(b) To what extent do you agree that it is not possible to solve a persistent balance of payments deficit without sacrificing other key macroeconomic aims? [13]

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