Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays **February/March 2022**

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 Changes in the New York yellow taxi industry

The yellow taxi is one of New York's famous sights.

There are two types of drivers of yellow taxis: owner-drivers who own the licence and lease-drivers who pay a yearly fee for the licence to the owner. Historically, owning a licence was valuable because the demand for them has been greater than the supply. The huge demand for licences meant that, in 2011, two licences sold for US$1m each.

For lease-drivers the only way to cover the lease fee and expenses such as fuel and maintenance is to work long hours and have few days off. By 2020 the value of the licence had fallen significantly leaving owners in financial hardship.

It was in 2011 that things began to change. Until then part of New York, known as Manhattan, had always been monopolised by yellow taxis. They worked only in the busiest areas resulting in large numbers of yellow taxis often seen in movies and on television.

In 2011 the local government allowed the introduction of another taxi service (painted green) in the less densely populated areas of the city where yellow taxis typically did not go. Regulations stopped the green taxis picking up customers in Manhattan, and at the airports – unless they were pre-booked. Also in 2011, a third company launched a rival taxi service right in Manhattan. This service again could not pick up customers in the street but it could be booked on a smartphone app and was cheaper than the yellow taxi. By 2019 this new company's taxis outnumbered the yellow taxis by four to one.

In 2018, as a result of protests and strikes organised by the yellow taxi drivers' trade union, the local government agreed to limit the number of alternative taxis. Also, the body responsible for the licences did not increase the fee.

In 2018, there was also a plan to introduce a minimum wage for drivers whose taxis were booked using the smartphone app. One analyst said: 'this would put enormous economic pressure on the business model of the app-based companies who operate on methods that have very low labour costs.'

In 2019, there was a proposal to introduce a surcharge for taxis, known as congestion pricing. Every taxi trip will have a surcharge added to the fare and the funds from this would go towards repair work on the underground subway (metro) system to improve its efficiency and reduce fares.

Source: Geographical, March 2019 p28 ff

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(a) Distinguish between a fixed cost and a variable cost and identify **one** example of each from the article. [3]

(b) Cross-subsidisation is when consumers of one product are charged higher prices in order to subsidise consumers of other products who then pay lower prices.

Identify an example of cross-subsidisation in the article and consider whether it can be justified. [5]

(c) Analyse whether there is any evidence that the market structure for New York taxis could be called a monopoly. [5]

(d) Identify **two** types of local government intervention allowed in 2018 and discuss how these might affect the profits of taxi owners. [7]

Section B

Answer **two** questions.

2 **(a)** Explain what is meant by dynamic efficiency and consider which type of market structure is most likely to achieve dynamic efficiency. [12]

(b) The use of cars in large cities can cause traffic congestion and pollution.

Explain how the use of cars may cause allocative inefficiency and discuss **two** alternative government policies that might be used to solve this problem. [13]

3 **(a)** Explain what economists mean by indifference curves and budget lines and evaluate whether they might be used together to support rational consumer decision making. [12]

(b) Use indifference theory to analyse the view that the demand for an inferior good is likely to be more price inelastic than the demand for a normal good. [13]

4 **(a)** A profit maximising firm operating in a perfectly competitive labour market might decide to increase the number of workers it employs but it will not choose to increase its workers' wage rates.

Discuss the extent to which you agree with this statement. [12]

(b) The government of a country sets an effective national minimum wage for workers.

Discuss the arguments for and against the government's decision. [13]

5 Many developing countries rely heavily on the production and export of primary products. This is the main cause of low levels of economic growth in developing countries and therefore the main explanation for the low standard of living in these countries.

Discuss the extent to which you agree with this statement. [25]

6 Government policies which rely on increasing budget deficits to solve the problem of unemployment will not be successful because they do not affect the natural rate of unemployment.

Discuss the extent to which you agree with this statement. [25]

7 **(a)** Consider, with the help of a circular flow diagram, the potential impact of a fall in the rate of interest on the level of output and the level of employment. [12]

(b) Discuss whether there is likely to be a conflict when a government attempts to fix exchange rates while at the same time introducing policies to decrease the level of inflation. [13]

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