Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays (Supplement) **October/November 2014**

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 any **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 **3** printed pages, **1** blank page and **1** insert.

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Section A

Answer this question.

Employment in India

1 It is well known that many foreign countries have opened offices in India to take advantage of its low-cost labour force. Less well known is the extent to which Indian firms employ other firms within India to do their work. Compared with other economies most manufacturing firms in India are small when measured by the number of permanent workers. However, they increase their labour force by employing temporary workers from private employment agencies whenever they are needed.

Walk into any of India's new shopping malls and many of the shop workers, caretakers and security staff will be employed by companies other than those of the owners of the mall or the shops within it. These workers are paid as little as half what the permanent workers earn and normally receive few extra benefits, such as paid holidays. Although each state in India has its minimum wage, it applies only to the permanent workers, not to temporary workers.

Fig. 1:
Temporary workers as a percentage of all workers in India

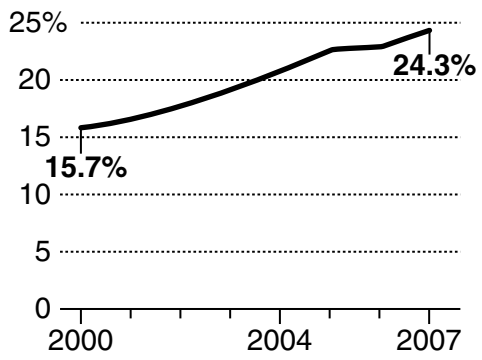


Table 1:
Percentage of all firms with fewer than ten permanent workers, in 2007

China	4%
U.S.	11%
South Korea	13%
Poland	18%
Italy	26%
India	**89%**

Source: Indian Labour Bureau; OECD

This employment model is also described as unsatisfactory by managers. They say that they have to hire and train temporary workers who have no loyalty to the firm and that finding skilled temporary workers is difficult. They say it restricts the growth of the firm and does not create enough new jobs for the 12 million who enter the labour force each year.

Many economists assert that India's labour laws will continue to restrict growth in the number of jobs. This is not good for India's economy overall, although it does allow private employment agencies to profit from the supply of temporary workers.

Source: extract from New York Times, 2011

(a) Identify **three** reasons why temporary workers in India are disadvantaged compared with permanent workers. [3]

(b) Is the evidence given sufficient to support the statement that 'most manufacturing firms in India are small'? [4]

(c) Distinguish between fixed cost and variable cost and consider how temporary workers and managers would be classified. [3]

(d) Discuss whether the payment of low wages could be good for India's economy. [10]

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Section B

Answer **two** questions.

2 **(a)** Analyse whether there is a difference between:
- the way the effects of an increase in price can be represented using a budget line, and
- the way the effects of an increase in price can be represented using a demand curve based on marginal utility theory. [12]

(b) Discuss what is likely to happen to the equilibrium price and output if a perfectly competitive firm were to become a monopolist. [13]

3 In the recession of 2012, some European firms declared that their profits were not as high as in the previous year.

(a) Explain how, in theory, a firm might try to increase its profits. [12]

(b) Discuss what alternative objectives a firm might have apart from profit maximisation. [13]

4 **(a)** Employment is likely to decrease if wages fall.
Employment is likely to decrease if wages rise.

Consider whether these apparently contradictory statements are true in the analysis of the demand for and supply of labour. [12]

(b) Discuss how wage rates might differ between a perfect and an imperfectly competitive market for labour. [13]

5 An economist stated 'you cannot encourage economic growth, and cut spending and increase taxes at the same time'. *(Source: The Times. 2011)*

(a) Explain the costs and benefits of economic growth. [12]

(b) Discuss whether economic analysis can be used to support the statement of the economist. [13]

6 Government economic policy should be directed to increasing the standard of living – employment, health, education and a sustainable environment. It should not concentrate on fixing prices, raising taxes and regulating bank lending.

Discuss whether there is any truth in this statement. [25]

7 The transfer of some functions of the public sector to the private sector is the best way of ensuring efficiency. It is, therefore, worthwhile.

Is this an argument with which you agree? [25]

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Copyright Acknowledgements:

Question 1 *Indian Labour Bureau; OECD*
Extract from New York Times, published as a supplement in The Observer, 11.12.11
Question 5 *The Times. Times Modern 20.10.11 p5*

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Section A

Answer this question.

1 Integration and market supply

Article 1. Cisco is a telecommunications company that profited from the rapid growth of the Internet in the 1990s by producing a wide range of equipment that became vital for companies providing internet services. It is now a world leader in this area.

In 2012 Cisco announced its intention to acquire Lightwire Inc. another telecommunications company. Cisco said that the acquisition would result in the integration of two comparable businesses. It would allow it to meet customers' demands for smaller and more powerful equipment and at the same time customers' capital and operating costs could be reduced. Cisco said Lightwire's employees would become Cisco employees.

Source: http://newsroom.cisco.com

Article 2. In Australia two big supermarket chains control up to 80% of grocery sales. They wish to increase the percentage of products carrying their own supermarket label (own-brand) from the current 20% of stock to over 40%. Analysts say this aim implies that supermarkets will engage in integration by taking over their suppliers and they are concerned about the effect on the 225 000 workers who manufacture alternative brands. They are also concerned about the effects it will have on consumers, competition and on Australia's capabilities as a food exporting nation.

Many manufacturers rely on the two dominant supermarkets as a means of getting their products to consumers. The supermarkets have adopted an aggressive attitude towards the manufacturers, for example, by forcing them to accept lower profits for their products. It is argued that stronger supervision by Australia's Competition and Consumer Commission is required to monitor the supermarkets to ensure fairness and prevent a misuse of market power.

Some manufacturers, as well as making their own products, also supply the supermarket with its own-brand products which are usually cheaper for the consumer. This provides both volume and certainty of sales for the manufacturer in the short run. However, it means that the manufacturer is effectively competing with itself, risking its long-term competitiveness and cutting its own long-term profit margins. This is because the supermarkets are less likely to stock the manufacturers' brands once their own-brand is established.

Analysts draw attention to the possible serious results of this for research and innovation. With reduced long-term profitability, Australian manufacturers would not invest in research. Without innovation the food processing sector will decline and also without such a sector Australia's food exports will fall. Australia's long-term food security will be weakened as it becomes more dependent on food imports.

Source: http://www.theage.com.au

(a) Distinguish between the type of integration likely to occur in Australian supermarkets and the integration intended by Cisco. [3]

(b) What is likely to happen to employment if both examples of integration occur? [3]

(c) The article concludes that Australia's long-term food security will be weakened. Analyse why this conclusion is made and discuss whether you support it. [4]

(d) Does the evidence in the article suggest that integration is beneficial? [10]

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Section B

Answer **two** questions.

2 'The purchases a consumer makes are based upon marginal utility. It is this alone that determines market equilibrium in perfect competition. Supply has no relevance.'

Is this true? [25]

3 Discuss the similarities and differences between a firm's likely price and output policy in perfect competition and oligopoly. [25]

4 A huge company with a turnover of $99.3 billion paid its chief executive $10.9 million in 2011. At the same time it was reported that the company did not pay what was regarded as a living wage to all its employees.

(a) Use economic analysis to help explain why there can be wide differences in wage rates. [12]

(b) Discuss how this analysis could be adapted if a trade union intervened in the process of wage determination. [13]

5 **(a)** Identify **two** government macroeconomic aims and analyse how a boom will bring beneficial changes for consumers and producers. [12]

Lord Skidelsky, Keynes's biographer, stated that Keynes believed that 'to cut government spending was completely the wrong policy in a slump'. *(Source: The Times.)*

(b) Discuss why cutting government spending might be considered to be the wrong policy in a slump. [13]

6 **(a)** Use liquidity preference theory to explain why there is a demand for money. [12]

My higher income will make me happier. It will make other people unhappy.

(b) Discuss whether the main aim of government policy should be to achieve a more equal distribution of income. [13]

7 **(a)** How effective is the measurement of economic growth as an indicator of how a developing country's standard of living compares with other countries? [12]

(b) Discuss whether economic growth would necessarily lead to a more efficient use of resources in developing countries. [13]

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Copyright Acknowledgements:

Question 1 *http://newsroom.cisco.com/press-release-content?type=webcontent&articleId=675179*
http://www.theage.com.au/national/accc-to-target-top-supermarkets accessed 25.03.12
Question 5 (a) *The Times. Times Modern 20.10.11 p5*

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Section A

Answer this question.

Tax rates and growth

1 It is suggested that lower tax rates will cause economic growth. If the marginal tax rate is cut and disposable income rises, labour has more incentive to work additional hours to increase their earnings, and entrepreneurs may invest in a new enterprise. The question is whether these incentive effects are large. If they are, they could cause a sustained increase in economic activity and growth. This idea is one of the key features of supply-side economic policy.

If, however, the incentive effects are small then the outcome would be quite different. Cutting taxes would raise output in the short run by putting money in people's pockets which would allow them to increase their spending. This would cause a temporary inflationary demand-side effect. If the effect is small, cutting taxes would not raise output on the supply side in the long run.

Since 1945, the top rate of income tax in the US has varied from more than 90% to less than 30%. There does not appear to be any consistent link between these tax rates and economic performance. Tax rates were lower in the 1960s than the 1970s, and economic growth was higher in the 1960s than the 1970s. However, tax rates were higher in the 1990s than the 2000s, and economic growth was higher in the 1990s than the 2000s.

Of course, many other factors affect economic growth so a lack of a consistent link between tax rates and economic growth does not prove that tax rate changes have little or no effect. A useful measure of the supply-side effects is what happens to hours worked as a result of the marginal tax rate change. Governments are also interested in the effects of tax changes because they wish to calculate the amount of revenue they could collect.

If people work longer when the tax rate is reduced, then their income will rise. Those who believe in supply-side economic policy say that this response to marginal tax rate changes is greater than one. This implies that changes in government revenue will have a similar effect to changes in a firm's revenue if it has a price elasticity of demand greater than one.

However, a review of several income groups after recent tax changes concluded that the best estimate of this response to tax rate changes ranges from 0.12 to 0.40 and is not greater than one. There is an alternative proposed to tax rate changes as a means of raising revenue which is to remove opportunities for tax avoidance.

Source: International Herald Tribune, 2012

(a) Explain what is meant by economic growth. [2]

(b) Explain why cutting tax rates is considered a supply-side policy. [3]

(c) Analyse, with the aid of a diagram, how the supply of labour might change as the marginal rate of income tax falls. [4]

(d) Explain, using the information above, what would happen to government revenue if tax rates were reduced, and the response to marginal tax rate changes is greater than one. [4]

(e) Discuss whether the evidence from the data shows that economic growth is improved by tax reductions. [7]

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Section B

Answer **two** questions.

2 The link between marginal utility and price has a similar significance for the consumer as the link between marginal cost and price for the producer.

Consider whether this statement is an accurate reflection of the economic analysis of consumer and producer equilibrium. [25]

3 **(a)** Cunard is a company that operates large passenger liners providing transatlantic crossings between the US and the UK. Larger cabins, or cabins with balconies are priced higher than the smaller cabins. Also for any cabin, passengers purchasing the voyage in the US pay a much lower price than passengers purchasing the voyage in the UK. Cunard insist that in order to make the purchase in the US the passenger must have a US address.

Explain whether these are examples of price discrimination and consider whether price discrimination can be justified. [12]

(b) Discuss whether firms operating in a market structure of monopolistic competition are less efficient than those operating in perfect competition. [13]

4 **(a)** Explain what economists mean when they say that the labour market is imperfect rather than perfect. [12]

(b) Does the use of the term 'imperfect' mean that there is some failure in the labour market that should be corrected by government intervention? [13]

5 In 2012, after a period of low demand in an economy, private consumption and investment increased and there was economic growth. This was not entirely advantageous as the increase in economic growth can conflict with other government objectives.

Explain why an increase in private consumption and investment might have led to an increase in economic growth and consider whether you agree that this may conflict with other government objectives. [25]

6 It is suggested that the use of credit cards has resulted in huge debts as people spend far more than they earn.

(a) Explain whether the liquidity preference theory of the demand for money can be applied to the use of credit cards. [12]

(b) Use the liquidity preference theory to discuss the possible consequences of an increase in the supply of money. [13]

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[Turn over

7 **(a)** The main characteristics of a developing country are a small service sector and a lack of international trade.

Do you agree with this statement? [12]

(b) It was reported that in the last quarter of 2012 a developing economy 'had performed well in terms of its GDP compared with other countries'. Explain what this statement means and discuss whether a comparison using GDP is a valid way of measuring economic performance between countries. [13]

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Question 1 *International Herald Tribune: 17-18 March 2012. P14, 16*

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