Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **October/November 2020**

2 hours 15 minutes

1548064857

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.
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Section A

Answer this question.

1 Divergences in economic performance

A report considered the determinants of long-term economic growth and rated economies on their global competitiveness using an index from 7 to 1. Labour productivity is one influence on the competitiveness of an economy and labour productivity also determines the level of prosperity that a country can achieve. Switzerland, Singapore and the United States (US) were the world's three most competitive economies (see Table 1.1). Countries in the Euro Area were also ranked in the report. The Euro Area is a monetary union of 19 countries that have adopted the euro as their common currency.

Table 1.1 Data related to global competitiveness of selected countries, 2016–17

Country	Global competitiveness		Labour productivity GDP per hour (US$)	Current account balance	
	rank	index		(US$bn)	(% GDP)
Switzerland	1	5.81	64.2	+66.1	+9.4
Singapore	2	5.72	41.6 *(2013)*	+63.0	+21.5
US	3	5.70	68.3	–476.6	–2.6
Euro Area:					
Netherlands	4	5.57	65.4	+59.7	+8.5
Germany	5	5.57	65.5	+296.2	+8.8
Belgium	17	5.25	69.7	+4.8	+0.7
Spain	32	4.68	51.0	+23.5	+1.6
Italy	44	4.50	51.9	+47.8	+2.4
Greece	86	4.00	35.3	–0.2	–0.2

In the Euro Area a strong economy such as Germany has benefited much more from the use of the euro single currency than weaker economies such as Spain and Greece. As these weaker economies do not have their own currencies, they have been forced to adjust their domestic economic policies to tackle balance of payments problems by decreasing wages and reducing government spending instead of devaluation.

The unemployment rate in the weaker economies of the Euro Area remains higher than in the stronger economies. For example, in Spain it was 18.4% in 2016 with 40% of young people out of work. By contrast the unemployment rate in Germany was 3.9%, an all-time low in 2016. Although unemployment across countries in the entire Euro Area decreased from 2013 to 2016, prices have shown a strong upward trend in 2016 which may result in reduced consumer spending. In future this may cause increases in interest rates in an attempt to control inflation.

Sources: The Times, 1 February 2017; World Economic Forum Global Competitiveness Report, 2016; http://time.com

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(a) Explain what is meant by labour productivity and whether the information confirms that countries with higher labour productivity are always more competitive than countries with lower labour productivity. [5]

(b) **(i)** State **three** general macroeconomic aims a government might have. [3]

(ii) Is there evidence in the information that suggests Germany is achieving any of these macroeconomic aims? [4]

(c) The article describes the effects of a single euro currency on the changes in the domestic policies of Spain and Greece.

Discuss the possible effects on the Spanish and Greek economies that these policy changes might have. [8]

Section B

Answer **two** questions.

2 'The existence of externalities is neither a necessary nor a sufficient condition for government intervention to achieve efficiency in the economy.'

Do you support this opinion? [25]

3 **(a)** Compare and contrast the derivation of a consumer's demand curve using Marshall's marginal utility analysis with a consumer's demand curve derived by indifference curves. [12]

(b) Discuss how the effect of a rise in a sales tax (goods and services tax) can be analysed using indifference curve analysis. [13]

4 **(a)** Consider whether in oligopoly the theory proposes that the market price is rigid. [12]

(b) 'Mergers of firms in the same industry are against the public interest. It is better that firms remain small.'

Discuss this opinion. [13]

5 **(a)** In some industries the wage rate is often omitted when a job is advertised.

Explain the role of the marginal revenue product in determining the wage rate in a perfectly competitive firm and consider whether the labour market is likely to be perfect or imperfect if the wage rate is omitted from an advertisement. [12]

(b) Discuss, with the aid of a diagram, whether it is possible for a trades union to increase its members' wage rate without reducing the level of employment. [13]

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6 'The use of quantitative easing (QE) has the same effect on the economy as the use of Keynesian fiscal demand management policy. Both policies create employment in the short run at the expense of inflation in the long run.'

How far would you support this view? [25]

7 **(a)** Explain the economic costs of unemployment and consider which is the most important. [12]

(b) 'Government intervention in supply-side policies will not have a significant impact on unemployment whereas supply-side policies that increase aggregate demand because of a freer market will significantly reduce the level of unemployment.'

Discuss this statement. [13]

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Section A

Answer this question.

1 **The economy of Uruguay**

Uruguay, a country of 3.5 million people, had a gross domestic product (GDP) per capita of US$20 000 in 2017 and was ranked at 63rd in the world.

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(a) **(i)** Identify **two** economic policies the Uruguayan government has introduced that should increase economic growth. [2]

(ii) Explain how these policies should increase Uruguay's economic growth. [4]

(b) The information states that in Uruguay there is a national minimum wage.

Using a diagram, discuss the likely effects of the introduction of a national minimum wage on labour markets. [6]

(c) Using Figs. 1.1 to 1.4, comment on the macroeconomic performance of Uruguay. [8]

Section B

Answer **two** questions.

2 **(a)** Explain the relationship between the pollution created by industrial production and economic efficiency. [12]

(b) Using diagrams, discuss whether the policies employed by governments to reduce allocative inefficiency are always effective. [13]

3 **(a)** Explain the roles of marginal costs and average costs in determining the profits of a firm. [12]

(b) Discuss whether mergers between firms always operate against the consumers' interest. [13]

4 The wages of the Chief Executive Officers (CEO) of the six largest banks in the United States (US) were reported to be between 250 and 360 times the average wage of the workers in those banks. The six CEOs were all male.

Discuss the extent to which economic theory can account for these variations in wages. [25]

5 **(a)** Analyse the causes of unemployment and explain which cause could be most significant for your country. [12]

(b) Discuss whether supply-side policies are the most appropriate for reducing unemployment. [13]

6 "Investment by multinational corporations (MNCs) in a developing country always promotes sustainable economic growth in that country."

Discuss. [25]

7 **(a)** Explain why gross domestic product (GDP) is widely used as a measure of economic growth and the standard of living. [12]

(b) Discuss why alternatives to GDP are increasingly used to measure the standard of living. [13]

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Section A

Answer this question.

1 Economic links between developed and developing economies

In the developing world the working-age population is expected to increase. It was predicted in 2016 that in 2017 more than 1.1 million new workers would join the labour force each month. Sub-Saharan Africa was expected to experience the most rapid labour-force growth, but many developing countries in Asia and the Middle East would be close behind.

It was also forecast that by 2030, developing and emerging economies will have added 1.7 million workers a month to their labour force. China, by comparison, added an average of 1.1 million workers a month from 1978 to 2011. Therefore, to absorb these workers developing nations must create jobs at a faster rate than China experienced during one of its fastest periods of economic growth (8–10% a year).

Capital inflows to developing countries rose in 2016 after almost a decade of decline caused by the global financial crisis of 2007–8. Capital flows are needed to finance manufacturing and infrastructure. The rise in capital flows could provide not only welcome economic growth for developing economies by providing facilities for more employment but also benefit developed economies.

But there is a risk that these mutually beneficial gains will not occur.

First, despite the recent increase, capital flows to developing economies remained low, as shown in Fig. 1.1.

Secondly, some domestic policies of developed countries do not help. In the United States (US) policies to protect its manufacturing industries, such as iron and steel, and measures to halt the flow of economic migrant labour have created uncertainties in the global economy. There is a disincentive to invest in the developing world and a redirection of savings into the US economy.

Some economists argue that if the mutual benefits from the developed world to developing and emerging economies do not occur the alternative will be even greater economic migration as millions of young people from Egypt, India, Nigeria, Pakistan, Mexico and the Philippines, enter the labour force without the prospect of meaningful employment and make their way to rich countries, legally or otherwise in search of work.

Source: adapted from The Economist, The World in 2017, December 2016

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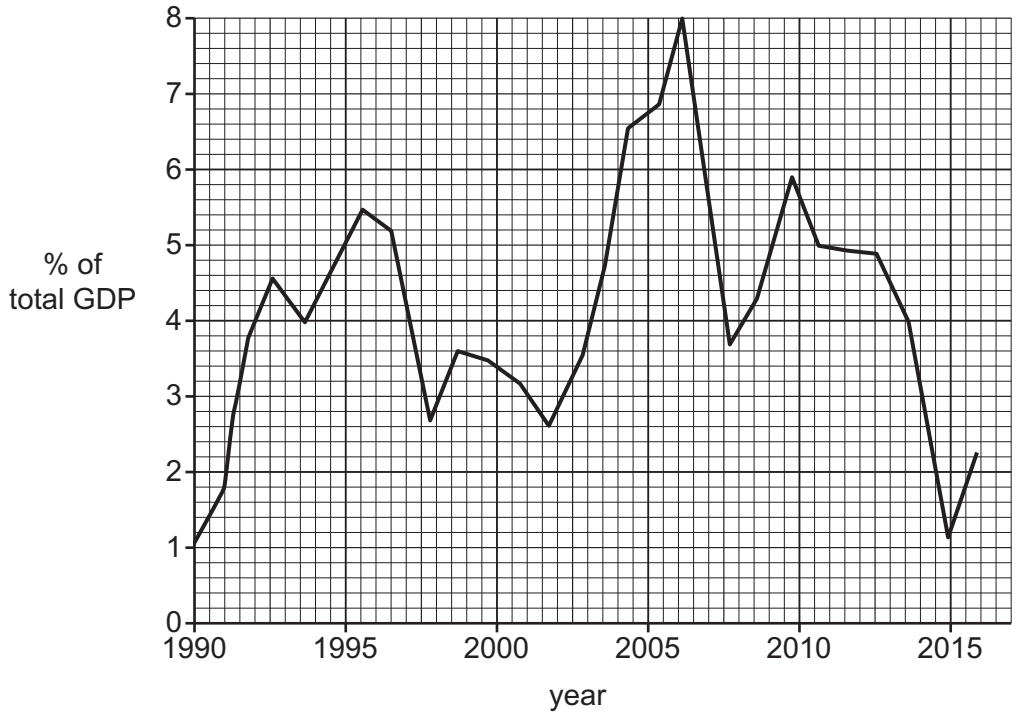


Fig. 1.1 Total private capital flows to 25 emerging economies (including China) as a % of total GDP, 1990–2016

(a) The article mentions economic growth. What is meant by economic growth? [3]

(b) Explain how economic growth is linked to a country's level of development. [4]

(c) Explain why economic migrants are mainly from the developing economies. [4]

(d) Discuss, using the information, whether links between developed economies and developing economies are necessarily 'mutually beneficial'. [9]

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Section B

Answer **two** questions.

2 **(a)** Explain what is meant by 'Pareto optimality' and whether it is correct to say that an optimal allocation of resources would result if a good's price equalled its marginal cost. [12]

(b) Discuss why an optimal allocation of resources might fail to occur in practice and consider what could be done about this failure. [13]

3 **(a)** Examine the analysis behind the downward sloping demand curve for a normal good. [12]

(b) Use indifference curve analysis to discuss why a manufacturer might be interested in a consumer's reaction to an equal rise in price for a normal good and a Giffen good. [13]

4 **(a)** With the aid of a diagram, consider what is likely to happen to the level of profit earned by a firm if barriers to entry are introduced in a perfect market. [12]

(b) Discuss why an industry might experience falling long-run average costs and comment on whether consumers might benefit from such a situation. [13]

5 Marginal revenue productivity theory analyses why wage rates differ in imperfect markets.

Explain this analysis using a diagram and consider if a trade union negotiated a higher wage than determined by the market, whether the outcome would necessarily be the same as that in perfect competition. [25]

6 **(a)** Explain the causes of demand deficient (cyclical) unemployment and consider which is the most important. [12]

(b) Critically evaluate the use of Keynesian demand management policies to solve the problem of unemployment. [13]

7 'The rate of interest is one of the most important macroeconomic variables because changes in the rate of interest have a significant impact on each of the key macroeconomic aims.'

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

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