Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **October/November 2021**

2 hours 15 minutes

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 The economic impacts of the increasing use of all-electric cars

Some governments have agreed targets to reduce air pollution and, as part of this, are concerned about the social costs caused by the use of petrol and diesel vehicles. In response, car manufacturers are producing all-electric cars. The sales of these are increasing, especially in developed countries. The success of this switch to all-electric cars will depend on improving both battery technology as well as building an infrastructure in which, as drivers reduce their use of fossil fuels, electricity charging points will replace petrol pumps.

Fig. 1.1 shows the cumulative number of all-electric cars in the world between 2010 and 2016.

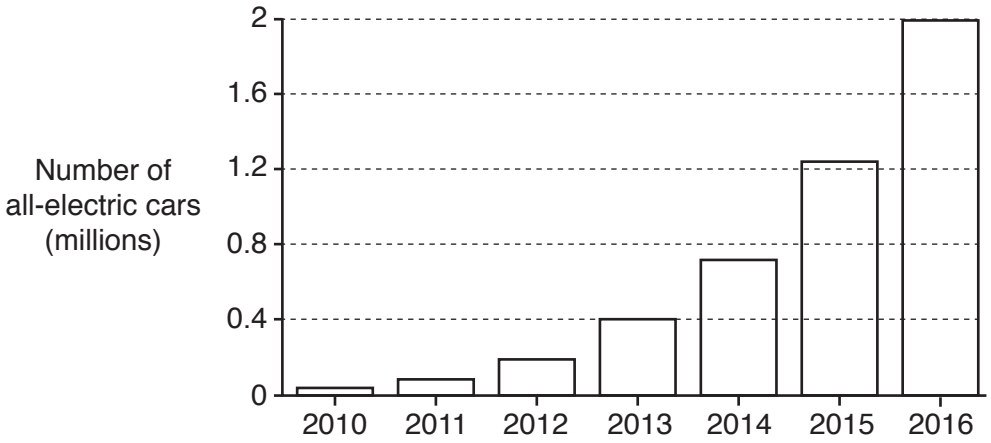


Fig. 1.1

Fig. 1.2 shows the annual sales of all cars in the world between 2010 and 2016.

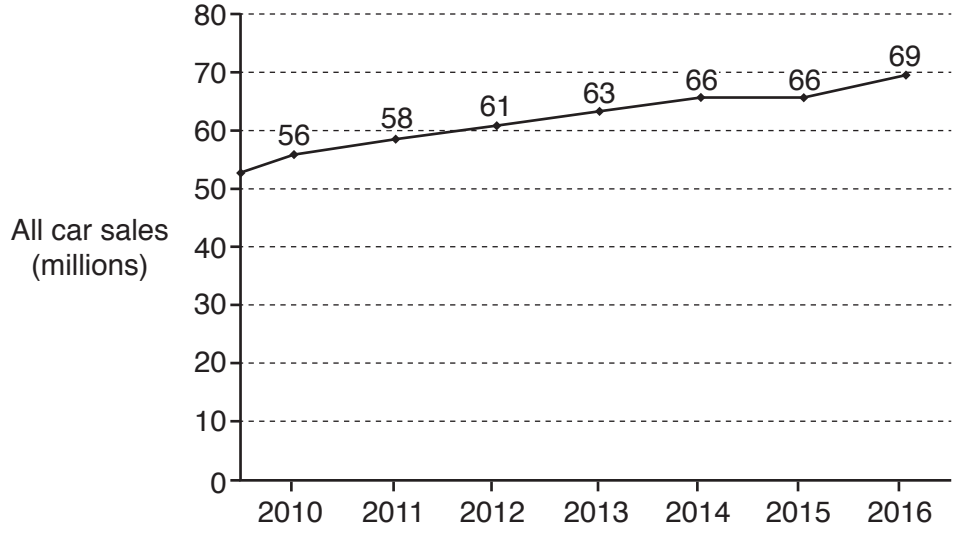


Fig. 1.2

Some forecasters predict that about one third of the world's cars will be all-electric by 2040. Their forecasts are based on the assumption that the costs of batteries to run these cars will have declined steeply from their present levels. Battery costs are dependent on supplies of various metals which are used as component parts. Supplies of these metals are finite and their prices, linked to mining costs, will be crucial in increasing the scale of all-electric car production.

In 2016, the cost of the batteries was 49% of the total cost of the car. In 2017 it was stated at a New Energy conference in Shanghai that battery prices would need to drop by more than half before all-electric cars would become competitive with cars powered by petrol and diesel engines.

Oil producers claim that growth in sales of all-electric cars will not substantially reduce world demand for oil. The world needs oil for much more than just cars. Cars account for only about a fifth of the 95 million barrels the world consumes every day. Most of the rest is used in industry or to fuel heavy goods vehicles, aircraft and ships, which do not have easy non-oil alternatives. In developing economies, petrol sales are expected to continue rising because these countries do not have the infrastructure or sufficient capital investment to enable the switch to electric vehicles.

Source: The Times, 31 July 2017; letters to the Guardian, 8 August 2017;
World Motor Vehicle sales of new vehicles 2005–2016 published by OICA, accessed 8 August 2017

(a) Comment on the relative significance of the growth in the number of all-electric cars for 2010–2016 compared with annual sales of all cars in the world. [2]

(b) Use the information to discuss what might happen to the long-run average cost of producing batteries for all-electric cars. [5]

(c) Use the information to assess whether it is likely that the switch to all-electric cars will substantially reduce world demand for oil. [6]

(d) Assess the effects on the social costs of transport of replacing diesel and petrol engine cars with all-electric cars. [7]

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Section B

Answer **two** questions.

2 'The cause and extent of market failure depends entirely upon the type of market structure under consideration.'

Discuss this statement. [25]

3 **(a)** Explain the factors which determine the elasticity of demand for labour and discuss the importance of the elasticity of demand for labour in relation to the effectiveness of a government's minimum wage policy. [12]

(b) 'Monopsonist employers cause labour market failure while trade unions can solve this labour market failure.'

To what extent do you agree that this view is accurate? [13]

4 **(a)** Explain what economists mean by the marginal propensity to consume and consider the importance of this concept in relation to government macroeconomic policy. [12]

(b) Discuss what determines the level of savings in an economy and assess the impact of an increase in the level of savings upon economic growth and employment. [13]

5 **(a)** Explain the quantity theory of money and discuss why the theory might not work in practice. [12]

(b) To what extent do you agree with the view that the control of inflation should be the most important macroeconomic aim? [13]

6 'In developing economies an increase in GDP determines an increase in the standard of living. Foreign direct investment (FDI) will produce an increase in GDP therefore governments in developing economies should encourage FDI.'

How far do you agree with this statement? [25]

7 **(a)** Explain what is meant by infrastructure and consider the view that an increase in investment in infrastructure will promote an increase in both actual and potential economic growth. [12]

(b) To what extent do you agree that it is **not** possible to achieve economic growth without simultaneously causing a balance of payments deficit? [13]

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ECONOMICS **9708/42**

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Section A

Answer this question.

1 **Competition in the skies over Europe**

In the sixteen months to April 2019 thirteen airlines ceased trading in Europe. This reflected a global trend where small airlines found it increasingly difficult to compete against large airlines, which have continued to grow.

Large airlines charge a price for a flight that includes meals and entertainment for passengers. Smaller airlines charge a price for the flight only and passengers need to pay extra for other services such as meals.

Large airlines benefit from economies of scale. Without these cost-reductions some smaller airlines have gone bankrupt.

The reduction in the number of airlines has not reduced the overcapacity in the market because the aircrew and aircraft of the bankrupt airlines were acquired by the remaining companies, which have developed into super-airlines. This has left passengers with fewer airlines to choose from and more expensive fares. It was predicted that this would lead to an increase in the market share for the top five European airlines from 50% of the European market in 2019 to match the top five United States (US) airlines, which control 77% of the US market.

The development of super-airlines took place at the same time as increasing regulation of the airline market. For example, the European Union (EU) will only grant operating licences for flights between EU countries to an EU airline. This has prevented non-EU airlines from competing on EU routes.

For the super-airlines, large scale is the easy way to avoid the stresses and strains of open competition. For passengers this will lead to higher prices and poorer service.

Sources: adapted from Financial Times, 6 October 2017 and The Economist, 27 April 2019

(a) Using the information, explain the predicted effect of the development of super-airlines on the concentration ratio in the European airline market. [2]

(b) 'Large airlines benefit from economies of scale.'

With the use of an example and a diagram, explain how a large airline can benefit from economies of scale. [5]

(c) Explain what is meant by a contestable market and discuss how making the airline market more contestable could benefit passengers. [6]

(d) Identify the market structure for airlines in Europe in 2019 following the development of the super-airlines and discuss how airlines may compete in this market structure. [7]

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Section B

Answer **two** questions.

2 Discuss whether market failure can be successfully eliminated by governments. [25]

3 **(a)** Use marginal utility analysis to explain the derivation of the individual demand curve for a good. [12]

(b) Use indifference curve analysis to discuss whether the demand curve for a good will always slope downwards. [13]

4 **(a)** Explain the link between diminishing marginal returns and the shape of a firm's short-run marginal cost curve and short-run average total cost curve. [12]

(b) Discuss whether consumers or producers benefit more from the practice of price discrimination. [13]

5 Discuss the extent to which gross domestic product (GDP) is a useful measure of living standards and economic development. [25]

6 **(a)** Explain the difference between frictional unemployment and real wage (classical) unemployment. [12]

(b) Evaluate the policies available to a government to reduce the level of structural unemployment. [13]

7 **(a)** Explain the quantity theory of money and consider its relevance for a country's macroeconomic policy. [12]

(b) Discuss whether fiscal policy alone can promote a more equal distribution of income. [13]

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Section A

Answer this question.

1 The effects of European Union (EU) labour migration

In 2016 in the EU labour market there was free movement of people seeking work among the EU's 28 member countries. One country reported that an extra 252 000 workers from other EU countries came to work there during 2014–2015. This meant that the total number of EU workers was 2.1 million, or 6.8% of the country's workforce. The eight Eastern European countries that joined the EU in 2004 supplied 987 000 of those workers by 2015.

A critic of this free movement of labour stated that "It is the workers on low pay in the receiving country – and those out of work – who feel the consequences of uncontrolled migration. They are forced to compete for jobs with thousands of people from abroad, and they suffer downward pressures on their wages."

In contrast, other studies have shown that migration of workers has been good for both economic growth and public finances. These studies reported "There is no correlation between high migration and unemployment. Unemployment fell significantly as total migration rose to a record level of 392 000 in May 2014. Migration is acknowledged to be positive for public finances. In the EU, migrants contributed US$25 billion more in taxes in the decade to 2011 than they used in welfare and public services. Wages may have been affected for low-skilled workers but only marginally downward."

Other economists have argued that, in theory, "the impacts of immigration on wages and employment critically depends on whether migrants' skills are complements to, or substitutes for, the skills of existing workers. These impacts vary between the short run and long run. In the short run if the skills of migrants and existing workers are substitutes, immigration can be expected to increase competition in the labour market and drive down wages. If, on the other hand, the skills of migrants are complementary to those of existing workers, all workers experience increased productivity which can be expected to lead to a rise in wages of existing workers. In the long run the economy can adjust to the increase in labour supply."

Some governments have introduced a minimum wage to help those workers on low pay. The wage is set to increase to match any increase in inflation.

Sources: The Times, 18 May 2016, Daily Telegraph, 18 May 2016, BBC, 19 May 2016

(a) Use a marginal revenue product diagram to illustrate what will happen to wages as a result of the changes mentioned by the critic of the free movement of labour (in the second paragraph). [3]

(b) What do the high numbers of workers migrating from Eastern Europe to other countries in the EU suggest about the state of their own economies compared with the country to which they migrate? [4]

(c) Explain whether the introduction of a minimum wage will always result in a different outcome for employment from that which would occur in a free market. [5]

(d) With the help of information in the article assess whether the increasing numbers of migrant workers are an advantage or a disadvantage to the receiving country. [8]

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Section B

Answer **two** questions from this section.

2 Analyse the reasons why it might be thought necessary for a government to control dominant firms in an industry and consider the methods it might use to achieve such control. [25]

3 **(a)** Explain the theory of how a consumer decides to achieve the situation described as 'equilibrium' when purchasing two different products. [12]

(b) Two shops sell clothes. One has luxury fashionable designs. The other has cheaper inferior alternatives. Both shops decided to have promotional sales with price reductions.

Consider how indifference curve analysis could be used to explain a consumer's reaction to both the price reductions. [13]

4 **(a)** Explain the difference between, and the purpose of, integration between firms and a cartel. [12]

(b) 'In large firms the long-run average cost falls as output increases and consumers benefit from lower prices. In small firms it does not. There is, therefore, no place in a modern economy for small firms.'

Do you agree with these statements? [13]

5 **(a)** Explain the role of liquidity preference in the determination of interest rates and assess its importance. [12]

(b) Keynes argued that the rate of interest will not ensure that the level of savings will equal the level of investment in an economy because savings and investment are undertaken by different individuals for different reasons.

Explain this statement and discuss how far you would support this view. [13]

6 **(a)** Explain how governments measure economic growth and discuss why this measurement is important. [12]

(b) 'Economic growth will always decrease the level of unemployment but this will usually create significant problems in relation to attaining other key macroeconomic aims.'

How far do you agree with this statement? [13]

7 The International Monetary Fund (IMF) lends money to developing countries but requires that these countries reduce existing restrictions on imports, focus on the export of primary goods and accept a devaluation of their currencies.

Based upon the above, assess whether developing countries should continue to borrow money from the IMF. [25]

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