Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **October/November 2022**

2 hours 15 minutes

1703059915

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 [ ].

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Section A

Answer this question.

1 **Romania's economy booms**

Romania, like other former planned economies in eastern Europe has increased the amount of private enterprise and foreign direct investment (FDI) in its economy. Romania's economy has boomed in recent years and compares favourably with economies in the European Union (EU) as indicated in Fig. 1.1.

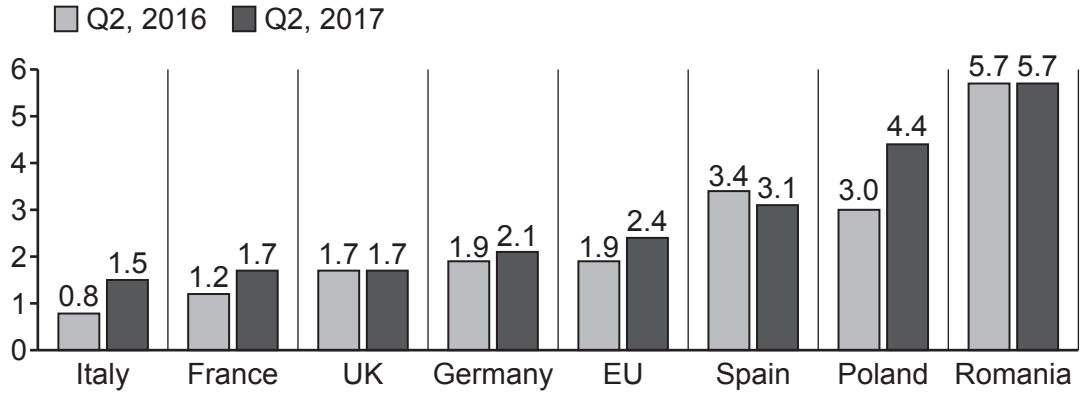


Fig. 1.1: GDP growth rates in selected European economies 2016, 2017

This economic boom has been characterised by the expansion of services and manufacturing sectors. In particular the high-tech industries have been very successful and are expected to double their contribution to GDP to 12% by 2025. The low wage rate in Romania was a benefit for foreign companies. For example, global car companies have, since 2008, invested US$1.4 billion in Romania's car factories that has increased employment.

After Romania joined the EU in 2007, many Romanian workers took advantage of the free movement of labour the EU allows. In 2008, 600 000 out of a population of 21.2m left Romania. In spite of its economic boom, Romania has failed to attract sufficient workers back and there is now a shortage of labour. The total population is lower than in 2008 at 19.4m. Unemployment was only 5.9% in 2017 compared with an average rate of 8.6% for the EU as a whole.

Since 2015, the government has taken measures to boost the economy. It reduced sales tax from 24% to 19%, which increased consumer demand. It also doubled the national minimum wage providing a boost for both private sector and public sector employment.

But there are also serious economic challenges. The gap between government income and spending has widened causing a rising budget deficit. The transport infrastructure remains poor. In a World Economic Forum report in 2016, Romania was ranked 128th out of 138 countries for the quality of its road network and 79th for its railway system.

Sources: 1. Romania is poor man of the EU no more as economy booms,
The Observer, 15 October 2017
2. Table 2.6 Private Sector Activity: 'Transition Economics Two Decades On',
Gerard Turley and Peter J. Luke, Routledge 2011

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(a) Use the information to indicate how Romania's economy performed in 2017 compared with the European Union as a whole. [3]

(b) Use the information to explain the reasons for Romania's rapid economic growth. [4]

(c) Describe the changes in Romania's workforce mentioned and consider whether they have been a benefit to Romania. [6]

(d) The information states that Romania had a budget deficit. Explain what is meant by a budget deficit and discuss whether the measures taken by the government in 2015 were likely to reduce this deficit. [7]

Section B

Answer **two** questions.

2 Explain what is meant by cost benefit analysis and consider how it might be used by a government to decide whether a new hospital should be built. [25]

3 **(a)** Monopoly firms will always aim to maximise profits and limit pricing is the only way to ensure that these profits are maintained in the long run.

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

(b) Explain what economists mean by collusion and consider the view that collusion will occur only in a certain type of market structure. [13]

4 **(a)** Explain what is meant by the marginal revenue product theory and consider the relationship between this theory and a trades union's ability to gain higher wages for its members. [12]

(b) Distinguish between economic rent and transfer earnings and, with the help of diagrams, discuss why famous sports people receive much higher pay than street cleaners. [13]

5 **(a)** Explain, with the help of a diagram, the Keynesian theory of the liquidity trap and consider the importance of the liquidity trap to government policy makers when an economy is in a recession. [12]

(b) The most important aim of a central bank is to control the money supply while the most important aim of a commercial (retail) bank is to maximise profits.

Discuss the extent to which these two aims can be achieved together. [13]

6 Explain what economists mean by an increase in real GDP per capita and discuss the extent to which an increase in real GDP per capita will have a positive impact on economic development. [25]

7 A government's decision to increase its budget deficit as a proportion of the economy's GDP will depend significantly upon whether the economy's output gap is positive or negative.

With the help of a diagram explain and evaluate this statement. [25]

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Section A

Answer this question.

1 An Opportunity for Guyana

The International Monetary Fund (IMF) believed that Guyana, one of South America's geographically smallest countries, was likely to see a dramatic 86% rise in its economic output in 2020.

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- invest in coastal protection to guard against rising sea levels.

Source: The Economist, *29 February 2020 pg.35*

(a) Explain how the discovery and extraction of oil affects the productive capacity of Guyana. [2]

(b) Using the information in the article:

(i) Explain the type of unemployment arising from the closure of sugar plantations in Guyana. [2]

(ii) Explain how this type of unemployment might be reduced. [4]

(c) Explain how an over-valuation of the exchange rate may affect Guyana's economy. [4]

(d) Discuss, with reference to the article, how the establishment of the new fund may benefit the population of Guyana. [8]

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Section B

Answer **two** questions.

2 **(a)** Using diagrams, explain with examples the meaning of a positive externality for a consumer and a negative externality for a producer. [12]

(b) Discuss the extent to which positive externalities and negative externalities explain all forms of market failure. [13]

3 **(a)** Explain the law of diminishing returns and its relevance to the shapes of the marginal cost curve and the average variable cost curve of a firm. [12]

(b) Discuss the extent to which a firm's ability to operate a policy of price discrimination is determined by the market structure in which that firm operates. [13]

4 Discuss the extent to which the marginal revenue product theory can be used to explain the determination of wages. [25]

5 **(a)** Using Keynesian theory of interest rate determination, explain why interest rates are sometimes very low. [12]

(b) Discuss whether in a period of very low interest rates, monetary policy alone can solve the problem of cyclical unemployment. [13]

6 **(a)** Explain how changes in the internal value of a country's currency can affect the external value of that currency. [12]

(b) Discuss whether a government can achieve all its key macroeconomic aims simultaneously. [13]

7 Discuss the ability of multinational corporations to increase living standards in their home country **and** the other countries in which they operate. [25]

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ECONOMICS **9708/43**

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Section A

Answer **this** question.

1 The Hidden Cost of Palm Oil

Worldwide production of palm oil has been increasing for many years. Between 1995 and 2015, annual production quadrupled. The amount of land taken to produce palm oil is vast. It accounts for 10% of all global cropland.

Over 3 billion people in 150 countries now use products containing palm oil. The worldwide demand has raised incomes, especially in the rural areas of Malaysia and Indonesia that produce 85% of the output of palm oil. After the global economic crisis of 1998, the region had been suffering from a significant decline in the exports of manufactured goods. This had a detrimental effect on the balance of payments and resulted in external debt.

Nations producing palm oil view it as a means of reducing poverty, while international finance organisations regard it as an engine of growth for developing economies. The International Monetary Fund (IMF) encouraged Malaysia and Indonesia to cultivate natural resources and to produce more palm oil in spite of an awareness of high external costs. Dutch banks provided more than US$12 billion in loans to Indonesian producers. Palm oil is Indonesia's main export earner.

Widespread adoption of palm oil began when, in 1995, one of the world's major multinational companies decided to use it in its global food manufacturing industries instead of animal fats and other vegetable oils, which were then said to be unhealthy. It invested heavily in expanding palm oil plantations in Malaysia and achieved considerable cost savings because palm oil has a much higher yield per hectare than other vegetable oils.

Palm oil's versatility is not limited to food. It is used in 70% of personal care products (toiletries) such as soap, shampoo and make-up. It is also increasingly used as biodiesel fuel.

As the palm oil industry expanded, conservationists began to raise the alarm about the devastating effects from carbon emissions and on wildlife habitats. Fires set to clear forests and create land for more palm plantations are the major source of greenhouse gas emissions in Indonesia. The financial incentive to produce more palm oil is helping to warm the planet, while destroying the only habitat of some rare animals.

In 2019, one supermarket promised to remove palm oil from all its own-brand foods. Norway banned imports for biodiesel production. The European Parliament proposed that public subsidies for biodiesel should be removed by 2021. If this proposal is enacted it will affect the demand for biodiesel and may force palm oil producing countries to reduce deforestation programmes, leading to improved environmental sustainability.

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Fig. 1.1 illustrates the palm oil uses in Europe.

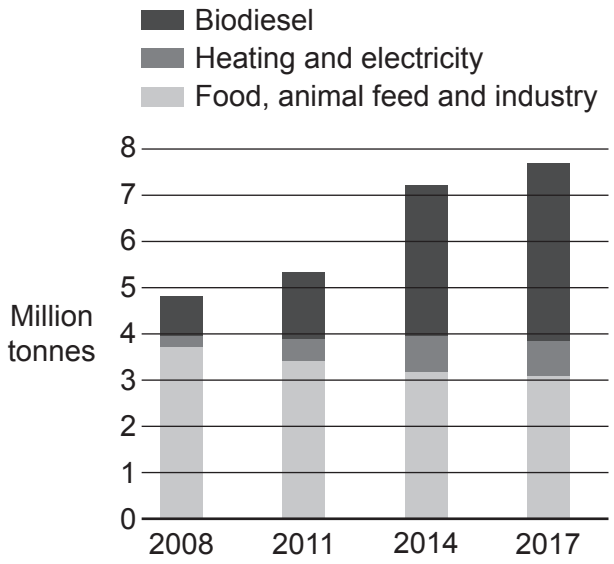


Fig. 1.1: Palm oil uses in Europe

Sources: 1. Article: The Hidden Cost of Palm Oil by Paul Tullis: The Guardian 19 Feb 2019
2. www.tranpsortenvironment.org/what-we-do/biofuels

(a) Identify the trends in demand for different uses of palm oil as shown in Fig. 1.1. [3]

(b) Analyse why developing countries that produce palm oil view it as a means of poverty reduction. [4]

(c) Explain how a change in fiscal policy proposed by the European Parliament for 2021 regarding biodiesel could affect the economies of palm oil producing countries such as Malaysia and Indonesia. [5]

(d) To what extent do you agree with the advice of the IMF to encourage Indonesia to expand its production of palm oil? [8]

Section B

Answer **two** questions.

2 **(a)** Consider why it is important for a government to use cost benefit analysis when deciding how much of a public good to provide. [12]

(b) Pareto optimality can only be achieved when an economy is both productively and allocatively efficient. This will create a more equitable society.

Discuss the extent to which you agree with this statement. [13]

3 **(a)** High market concentration ratios are closely linked to oligopoly market structures.

Explain what this means and consider its importance in relation to the pricing policy of an oligopoly firm. [12]

(b) Limit pricing may sometimes be used by a monopoly. It creates a barrier to entry which benefits consumers in the short run but increases costs to the consumer in the long run.

Discuss this statement. [13]

4 **(a)** Discuss the effectiveness of government policies which increase the net advantage of labour on the long–term supply of labour in an economy. [12]

(b) Compare the impact of an increase in labour productivity on a firm in a monopsony labour market with an increase in labour productivity on a firm operating in a perfectly competitive labour market. [13]

5 **(a)** Consider, with the help of a circular flow diagram, why an export-led growth policy is likely to be successful when a developed economy is in a recession. [12]

(b) The introduction of new technology will increase efficiency but will also cause an increase in unemployment.

Discuss the extent to which you agree with this statement. [13]

6 Developing economies have a high proportion of economically inactive people relative to the size of the labour force (a high dependency ratio). This is the main reason why the standard of living is low in developing economies.

Evaluate this statement. [25]

7 A government's decision to move from a fixed exchange rate to a free market floating exchange rate will solve the problem of unemployment in the short run but will cause higher rates of inflation in the long run.

Evaluate this statement. [25]

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