Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 A Level Data Response and Essays **October/November 2025**

2 hours

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 **one** question.
  - Section C: answer **one** question.
- 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 60.
- The number of marks for each question or part question is shown in brackets [ ].

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Section A

Answer all parts of Question 1.

1 **Working overseas**

Many low-income countries have large proportions of the population below the World Bank's absolute poverty level of $2.15 per day (United States dollars, 2022). One way in which these countries try to reduce their poverty is by the migration of workers to richer countries. The migrants send a portion of their incomes, known as remittances, back home to support their families.

These overseas workers are a link between migration and development. The flow of remittance money is greater than the foreign direct investment and official development aid received by middle-income and low-income countries. Total remittances received by those countries in 2022 was $650 billion, of which 45% ($293 billion) was received by only five countries.

About 50% of migrants from low-income countries went to high-income countries.

Migrants can find their incomes increase significantly. A nurse may make seven times more in Australia than in the Philippines, adjusted for purchasing power parity (PPP).

Unlike official aid, remittances flow directly to their receivers and are a stable source of income. They can buy extra food and they may provide savings for the receiver. They may reduce child labour in disadvantaged families and allow for higher spending on education through higher enrolments and more years of completed schooling.

Migration can reduce unemployment and raise wages in home countries. Migration may lead to larger benefits for the home country by increasing the rates of return on human capital caused by the creation of better, more productive, and higher paying jobs.

When the flow of migrants goes to a host country whose population is ageing, it may reduce the average age of the population. This can lead to an increase in the size of the labour force, reduce the age dependency ratio and make a positive tax contribution. The migrants increase the demand for host country output and may utilise housing in less popular areas. Those with a high level of education make an even more significant contribution to economic output.

Sources: The Guardian*, 23 August 2023*
asia.nikkei.com, 3 March 2023
imf.org, March 2020

(a) Explain what is meant by absolute poverty. [2]

(b) Explain, with the aid of a diagram, how the migration of workers from a low-income country is likely to affect wages in the low-income country. [5]

(c) The article states: 'Total remittances received by those countries in 2022 was $650 billion.'

Analyse how this is likely to benefit the migrants' home economies. [6]

(d) Consider if the article contains sufficient information to support the view that migrants have only a beneficial economic impact on the host country. [7]

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Section B

Answer **one** question.

EITHER

2 Market failure is to blame for climate change and the inefficient allocation of resources. The only solution is for governments to intervene to improve resource allocation.

Assess the extent to which you agree with this statement. [20]

OR

3 The degree of competition that a firm experiences is determined only by the barriers to entry into its market.

With the help of a diagram(s), evaluate this statement. [20]

Section C

Answer **one** question.

EITHER

4 Evaluate the effect of a rise in the exchange rate on the achievement of the macroeconomic aims of a country. [20]

OR

5 Economic growth can only occur when an economy is below full employment.

Evaluate this statement. [20]

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Section A

Answer all parts of Question 1.

1 **Resources in Brazil**

Between 2000 and 2020, Brazilian GDP, measured in US dollars ($), rose from $1.19 trillion to $1.89 trillion at constant prices (2015). In the same period GDP per head rose from $6745 to $8204 at constant prices (2015).

The strength of the Brazilian economy lies in the variety and quantity of its natural resources. For example, Brazil is one of the world's largest exporters of agricultural commodities, mainly soya and beef. There are also significant exports of minerals. Brazil is the second largest iron ore producer in the world and extracts 3.4% of the world's crude oil.

World agricultural markets are dominated by four large commodity traders that buy and sell products such as grain and soya. They have grown through both horizontal integration and vertical integration. These traders own many large farms, they process farm produce and transport it to trade on international markets. In addition to buying and selling, the traders provide seed and fertiliser to farmers and supply storage for their products. They use agricultural by-products to produce items like biofuel. These traders also provide financial services to these markets.

Commodity traders are very important to the development of complex global food markets. Food prices, access to scarce resources such as land and water, climate change and food security are all affected by the activities of traders. In Brazil, the output of 15 000 farmers is purchased by a single trader.

In Brazil the development of agriculture, mining and oil extraction all contribute to environmental degradation. Both agriculture and mining have been accompanied by deforestation of the Amazon rainforest. Access roads to mining areas also lead to deforestation. Waste water from mining activity is frequently stored in reservoirs behind dams. On two occasions in the last 10 years these dams failed to hold back the water. This led to widespread flooding, the discharge of pollutants such as mercury into rivers, and deaths.

Sources: The Guardian*, 23 August 2022*
Cereal Secrets, Oxfam Research Report, August 2012
oec.world/en/profile, August 2023

(a) Explain the significance of measuring GDP at constant prices. [3]

(b) Explain **one** possible benefit of horizontal integration and **one** possible benefit of vertical integration. [4]

(c) Describe how the market structure in which individual farmers operate is likely to differ from the market structure in which the commodity traders operate. [6]

(d) Use the article to evaluate the impact of the development of the agricultural and mining industries on the standard of living in Brazil. [7]

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Section B

Answer **one** question.

EITHER

2 Traffic congestion is a cause of allocative inefficiency.

Evaluate, with the help of diagram(s) **two** policies that a government may introduce to reduce the problem of allocative inefficiency caused by traffic congestion. [20]

OR

3 The average wage of chief executives in large companies in a country is over 100 times greater than the average wage of their employees.

Assess how economic theory can account for this variation in average wages. [20]

Section C

Answer **one** question.

EITHER

4 Evaluate the effect of a fall in the exchange rate on the achievement of the macroeconomic aims of a country. [20]

OR

5 Evaluate whether the presence of multinational companies (MNCs) in low-income countries is always beneficial. [20]

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Section A

Answer all parts of Question 1.

1 Inequality and globalisation

A government commission published a report saying that global poverty and inequality were worsening and there was a risk that the gap between the rich and the poor would increase.

But, according to a newspaper, a lot of what is said about inequality is wrong. It overlooks the fact that the past 50 years saw a period of dramatic reduction in global inequality. The normal measurement of relative inequality is the Gini coefficient. The figure for global inequality in 1975 was 0.75, in 2020 it was 0.72 and in 2022 it was 0.67.

It is important to understand this trend rather than make the mistake of the commission.

The fall in global inequality should not come as a surprise. For about two hundred years the benefits of industrialisation went mainly to countries in Europe and North America. Income inequality between these countries and poorer countries worsened. The spread of globalisation in recent decades has meant this difference has lessened. Countries such as China and India have benefited from large increases in per capita (average) income, as shown in Table 1.1.

Table 1.1 Per capita (average) income and Gini coefficient for China and India 1990 and 2016

	Per capita (average) income (US$)		Gini coefficient	
	1990	2016	1990	2016
China	<1 000	>13000	0.32	0.38
India	<1 200	>7 000	0.32	0.36

With such an increase in per capita incomes maybe some level of inequality does not matter. Indeed, it might be a necessary condition for economic growth. Instead of concentrating on eliminating inequality perhaps the focus should be on the absolute position of the poorest.

If the attention is on the relief of poverty rather than the wealth of the richest, improvements can be seen. Life expectancy has increased, most noticeably by ten years in the past two decades in the poorest region of sub-Saharan Africa. Literacy rates have also increased. Those in absolute poverty across the world have fallen from more than a third to under a tenth of the world's population. And all this while the world's population has increased.

Critics of globalisation and foreign direct investment (FDI) by multinational companies point to the possible negative environmental effects, the weakening of individual cultures and the reliance on international financial institutions that can fail. They also claim there can be exploitation of workers leading to greater wage inequality and possible increases in domestic unemployment as cheaper goods are imported.

Source: The Times*, 23 August 2021*

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(a) The article refers to the Gini coefficient. With the help of a diagram explain the link between a Gini coefficient and a Lorenz curve. [5]

(b) **(i)** Distinguish between equity and equality. [2]

(ii) 'But, according to a newspaper, a lot of what is said about inequality is wrong.'

Analyse whether there is a conflict between what the newspaper wrote about changes in equality and Table 1.1. [5]

(c) With reference to the article, explain the idea of globalisation and assess whether there is enough evidence to conclude that globalisation has a net benefit for everyone. [8]

Section B

Answer **one** question.

EITHER

2 With the help of a diagram, evaluate the impact on consumers and producers of an increase in market contestability. [20]

OR

3 With the help of a diagram, assess the importance of the supply of labour in relation to the wage and employment levels for firms operating in perfectly competitive and monopsony labour markets. [20]

Section C

Answer **one** question.

EITHER

4 With the help of a diagram, evaluate the effectiveness of using monetary policy to increase the rate of economic growth in a country. [20]

OR

5 'The use of tariffs is the most effective way to correct a balance of payments deficit.'

With the help of a diagram, evaluate this statement. [20]

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Section A

Answer all parts of Question 1.

1 **Market Economies**

From Adam Smith onwards, most economists have regarded competitive markets as the main mechanism of economic activity. They argue that the interaction between producers and consumers can lead to both allocative efficiency and productive efficiency.

It can, however, be questioned whether the market automatically produces the best solution. Sometimes there are significant reasons for governments to intervene in a market in order to produce a better outcome than market forces alone. These situations are market failures.

When producing goods and services firms consider the private costs they pay and private benefits they receive. For example, a steel producer accounts for the cost of iron ore, fuel, labour and administration. It offsets these costs against the revenue from selling the steel. However, those people who live near the steelworks suffer the consequences of the noise, dirt and polluted air generated as part of the production process. Similarly, in many areas the extraction of iron ore can lead to environmental destruction such as the degradation of ground water for domestic consumption and a reduction in the variety of wildlife and flowers.

Competitive markets as envisaged by economists, however, may not exist. Firms may integrate to gain the benefits of economies of scale, to realise their ambition to rule the market or to increase their market share. Such integration might lead to the development of a monopoly market structure. Many believe that a monopoly always operates against the interests of the consumer because of its lack of efficiency. As a result, governments often restrict the operation of monopolies.

(a) Explain the meaning of 'allocative efficiency and productive efficiency'. [4]

(b) **(i)** Explain what is meant by a negative production externality. [2]

(ii) Identify from the extract a negative production externality resulting from steel production. [1]

(iii) Explain, with the aid of a diagram, the consequences for output and price if the steel market is required to take into consideration negative production externalities. [5]

(c) Consider whether 'a monopoly always operates against the interests of the consumer'. [8]

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Section B

Answer **one** question.

EITHER

2 Evaluate, with the aid of a diagram, whether the diminishing marginal utility theory of demand provides an adequate explanation of the market demand curve for all goods and services. [20]

OR

3 Subnormal and supernormal profits are only experienced in the short run and only by firms in perfect competition.

With the help of diagrams, evaluate this statement. [20]

Section C

Answer **one** question.

EITHER

4 A country imposes a tariff of 20% on imported goods and restricts the number of immigrants entering the country.

Evaluate, with the aid of a diagram(s), the impact of these **two** policies on the rate of inflation in that country. [20]

OR

5 Evaluate whether an increase in a government's budget deficit will always lead to economic growth. [20]

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