Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays **February/March 2016**

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.

1 **Global Employment Trends**

A report from the International Labour Organisation (ILO) in 2014 warns that young people are likely to be hit hardest as global total unemployment continues to rise. 42.6 million people are expected to enter the labour market every year but the forecast is that only 40 million net new jobs will be created.

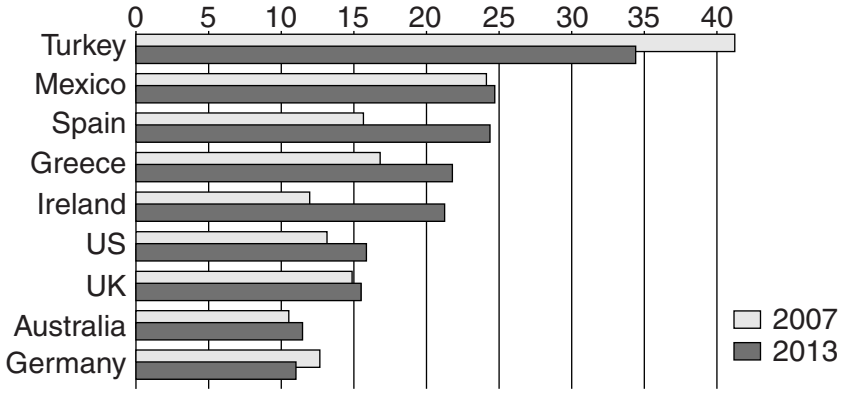
The ILO forecasts that millions more will be unemployed as companies choose to increase dividends to shareholders rather than invest their profits by employing new workers. They expect that the world unemployment rate (adults and youths) will be 6.1% in 2014, up from 5.5% in 2007. The report puts the youth unemployment rate at 13.1%, almost three times the adult rate of 4.6%. Young people will continue to be particularly affected by what the ILO describes as a "weak and uneven recovery" in the world economy. In many advanced economies, the average duration of unemployment has doubled compared with 2008.

The ILO warns that if countries fail to tackle the crisis of long-term youth unemployment, hopes for sustainable growth will be destroyed. There will be a risk of further and perhaps deeper social unrest, linked to widening inequalities of incomes.

For some countries the proportion of young people not in employment, education or training (NEETS) continues to rise as shown in Fig. 1. Some of the worst rates are in countries affected by the European financial crisis, as advanced economies in Europe try to find the right balance between employment and other macroeconomic goals.

The ILO said that although emerging economies would continue to enjoy the lowest combined (adults and youths) unemployment rate this year, growth in those economies has slowed down in the past two years. Notably, China's growth rate of 10.5% per year in the last decade fell to 7.7% in 2013. Changes in such growth rates have created changes in international markets for both commodities and manufactured goods, which have also affected unemployment.

Fig. 1: Young people not in Employment, Education or Training (NEETS) as a percentage of the population aged 15–29



Source: *The Guardian*, 21 January 2014

(a) What evidence is provided in the information for the statement that youth unemployment has been 'hit hardest'? [3]

(b) Explain **two** reasons why, according to the information, not enough jobs are being created each year in the world. [4]

(c) Referring to the information and your own knowledge, explain why it is usually important to tackle the problem of increasing long-term youth unemployment. [5]

(d) From the information given, do you agree that within the world economy recovery was both 'weak and uneven'? [8]

Section B

Answer any **two** questions.

2 'The best way to increase economic welfare is to encourage competition in a market system.'

Consider whether you agree with this view. [25]

3 **(a)** 'If a firm is experiencing diminishing returns and diseconomies of scale, it means that its output must be decreasing.'

Explain whether this statement is true. [12]

(b) 'It is certain that firms maximise profits where marginal cost equals marginal revenue, and that this is what all firms seek to do.'

Discuss this assertion. [13]

4 **(a)** Discuss how wage rates are determined in a perfect market. [12]

(b) If the labour market is imperfect, is the determination of wage rates still better left to that market? [13]

5 **(a)** Consider whether the main cause of economic growth is an increase in population, and hence in labour supply. [12]

(b) Do you agree that a country should try to increase its rate of economic growth? [13]

6 **(a)** Assess how changes in interest rates might influence investment. [12]

(b) Some argue that increases in investment cause national income to increase. Others argue that the reverse is true: an increase in national income brings about investment.

Discuss whether both these seemingly contradictory statements can be true. [13]

7 Governments want to increase the standard of living in their country.

Discuss whether the indicators used to measure the standard of living are reliable and consider what policies a government might use to try to increase the standard of living in its country. [25]

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