UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays (Supplement) **May/June 2012**

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

9460490827

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

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.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

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Section A

Answer this question.

1 **Government economic policies**

The following is a summary of the economic performance of five European countries at the start of 2010 together with the policies each government proposed.

Greece:	Size of economy (GDP)	Economic growth rate (2009)	Government debt (% of GDP)	Unemployment rate
	£209 bn	**–2%**	**124%**	**9.7%**

What's the economic situation? The economy shrank by a smaller amount than the European average in 2009 and the unemployment rate was below the European average. The public finances were a source of concern with government debt of 124% of GDP.

Suggested policies: no pay rises in the public sector; raising the retirement age from 61 to 63; increasing taxes on fuel, tobacco, alcohol and property.

Ireland:	Size of economy (GDP)	Economic growth rate (2009)	Government debt (% of GDP)	Unemployment rate
	£143 bn	**–7.25%**	**46%**	**11.8%**

Suggested policies: reducing public spending; stabilising the banking sector.

Italy:	Size of economy (GDP)	Economic growth rate (2009)	Government debt (% of GDP)	Unemployment rate
	£1 333 bn	**–4.8%**	**115%**	**8.5%**

Suggested policies: encouraging economic growth; creating greater competition through supply-side measures.

Portugal:	Size of economy (GDP)	Economic growth rate (2009)	Government debt (% of GDP)	Unemployment rate
	£141 bn	**–2.7%**	**76%**	**10.4%**

Suggested policies: raising the retirement age; reducing public spending.

Spain:	Size of economy (GDP)	Economic growth rate (2009)	Government debt (% of GDP)	Unemployment rate
	£912 bn	**–3.6%**	**49%**	**19.5%**

Suggested policies: raising the retirement age from 65 to 67; reducing public spending; raising taxes; increasing measures to stop tax evasion.

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(a) Is this information on the size of the economy (GDP) enough to conclude that the average person in Italy is better off than the average person in Ireland? Briefly explain your answer. [3]

(b) **(i)** The economic growth rates are shown to be negative. Explain what economic theory suggests might happen to the level of unemployment in an economy if the growth rate figure is negative. [4]

(ii) What evidence is there from the information whether there is any link between the economic growth rates and unemployment? [3]

(c) In 2010 there was much concern about the weakness of the economic situation in Greece compared with the other European countries shown. How far can the data be used as evidence to support that concern? [4]

(d) Discuss the possible effects on economic growth and unemployment in the Spanish economy, of the policies suggested by the Spanish Government. [6]

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[Turn over

Section B

Answer **two** questions.

2 **(a)** Explain, using a budget line diagram, whether

(i) the substitution effect of a price change and

(ii) the income effect

would be similar for a normal good and an inferior good. [12]

(b) Discuss the extent to which the law of diminishing marginal utility may be used to determine the market demand for a good. [13]

3 **(a)** Distinguish between perfect competition and monopolistic competition. [12]

(b) Discuss whether oligopoly is likely to be the most realistic market structure in a mixed economy. [13]

4 In 2010 the directors of a major UK chocolate firm, worth over £10 billion, recommended that its shareholders accept a takeover offer from a large US food firm. The firm would not then be controlled in the UK. It was feared that some production in the UK would cease.

(a) Analyse what economic theory suggests might be the outcome of such a takeover for the enlarged firm and its workers. [12]

(b) Discuss the possible macroeconomic outcomes for a domestic economy of such a takeover by a foreign firm. [13]

5 Discuss whether the higher wage rates paid in some occupations occur solely because some trade unions have a stronger bargaining power than others. [25]

6 Population is increasing more rapidly in developing countries that can least afford it if they wish to encourage economic growth.

(a) What are the main characteristics of a developing country? [12]

(b) If a developing country wishes to become developed, the main aim of its government should be to control the growth of its population. Discuss this opinion. [13]

7 Explain the difference between productive and allocative efficiency and discuss the suggestion that it is only possible to achieve such efficiencies through government intervention. [25]

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