UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/42**

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

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

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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.

This document consists of **4** printed pages.

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Section A

Answer this question.

1 Small and Medium Enterprises in Malaysia

Malaysia has a market-orientated economy and the political stability that is crucial for investors. It also has a well-developed infrastructure, a productive workforce and prices are still competitive.

Small and medium sized enterprises (SMEs) are very important in Malaysia. In the manufacturing sector SMEs are those enterprises which have fewer than 150 full-time employees and in the services sector SMEs are those which have fewer than 50 full-time employees. SMEs provide employment for about 56% of the country's workforce. They contribute 43.5% of the value of Malaysia's output and 19% of the value of its exports.

Table 1 and Table 2 provide further information about the contribution of SMEs to the Malaysian economy.

Table 1: % Distribution of Enterprises in Malaysia by Sector

	Agriculture %	Manufacturing %	Services %
SMEs	99.2	89.3	96.7
Large Enterprises	0.8	10.7	3.3
Total	100.0	100.0	100.0

Table 2: Value of Output by Sector in US$

	Agriculture	Manufacturing	Services	Total
Value of Total Output US$m	6.2	166.6	109.7	282.5
Value of SME Output US$m	2.6	58.1	62.1	122.8
% Value of Total Output from SMEs	41.9	34.9	56.6	43.5

SMEs are recognised as an important source of economic growth and their development has been given priority by the government. 72% of government development programmes, worth US$178 million, were provided for SMEs in 2008. A further US$156 million was provided in 2009.

With these funds, the government has introduced several programmes for SMEs including the provision of loans, technical advice and information on prices, production and technology. Government programmes also help producers identify the products markets require and understand changes in consumer tastes. The aim of the programmes is to encourage a better performance from SMEs.

Initially, Malaysia protected local enterprises. However, realising the huge potential that foreign investment could bring, government policy has changed and now encourages programmes that welcome more direct foreign investment.

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(a) The article begins by stating that Malaysia is a market-orientated economy. Identify evidence in the article that

(i) supports this opinion; and

(ii) contradicts this opinion. [4]

(b) State **two** indicators which can be used to measure the performance of firms. [2]

(c) The article states that the aim of the government programmes is to encourage a better performance from SMEs.

Discuss how **two** of the government policies mentioned might be used to encourage a better performance from SMEs. [6]

(d) The article says that the development of SMEs has been given government priority as they are important to the economy. How far does the information support this statement? [8]

Section B

Answer **two** questions.

2 When buying goods not everyone buys the same standard product. There are some who want a cheap product even though it might be of poor quality, while there are those who are willing to pay more for a luxury or an individually-made product. Customers search for value but value is not just in the price.

(adapted from New York Times in the Observer 21.02.10)

(a) Explain the theoretical link between utility, price and the demand for a product. [12]

(b) Discuss whether the economic analysis of a rational consumer estimating demand based on value (utility) is valid not only for standard products but also for poor quality and luxury products. [13]

3 **(a)** Explain why there may be different levels of profit within perfect competition and between perfect competition and monopoly. [12]

(b) Discuss whether the average variable cost has any significance in a perfectly competitive market structure in determining **(i)** the output produced by a firm and **(ii)** the profit of a firm. [13]

4 Wage rates in some non-essential occupations, such as entertainment, are very high while wage rates in essential occupations, such as public sector hospital nurses, are much lower. This is unfair.

Analyse how economic theory can explain these differences in wage rates and consider whether you agree with the conclusion of this statement. [25]

5 As part of the measurement of GDP governments calculate the level of investment expenditure.

(a) What determines the level of investment and how do changes in investment expenditure affect GDP? [12]

(b) Assess the difficulties of using GDP as an economic indicator. [13]

6 It is sometimes stated that the economic growth rates of developed countries are higher than those of developing countries.

(a) Explain why developing countries often aim to increase economic growth. [12]

(b) Assess the likely effectiveness of the types of policy the government of a developing country might use if it wished to increase economic growth. [13]

7 It is important to achieve economic efficiency in the use of resources. This can only be done if the private sector is increased in size. Government intervention in the economy should, therefore, be minimised.

To what extent do you support this argument? [25]

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