UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays (Supplement) **May/June 2013**

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.

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Section A

Answer this question.

1 Collusion: Exploitation or benefit?

In 2011, two soap and detergent firms, Unilever and Procter & Gamble, were fined a total of €315 m (US$ 220 m) for fixing the price of washing powder in eight European countries. Procter & Gamble is the world's largest consumer products company. The two firms had colluded over prices for more than three years. The collusion began when they agreed to implement an industry-wide programme to improve the environmental impact of their products. They agreed to reduce the amount of packaging they used but to keep the prices unchanged. Then, later, they collectively agreed to raise prices in Belgium, France, Germany, Greece, Italy, Portugal, Spain and the Netherlands. This collusion was against the European Union competition laws and was regarded as 'unfair competition'.

Some information from the 2010 Annual Report of Procter and Gamble (P&G) is shown in Table 1.

Table 1: Annual Report of Procter and Gamble

	2006	2007	2008	2009	2010
Total Revenue US$ million	64 416	72 441	79 257	76 694	78 938
Profits US$ million	8 684	10 340	12 075	13 436	12 736
Distributed Profit per Share US$ per share	1.1	1.28	1.45	1.64	1.80

The report states that 'No company in the world has invested more in market research than P&G. We conduct over 20 000 research studies every year. Over the past 15 years, P&G had 125 notable innovations – more than our six largest competitors combined. P&G is the brand-building leader of our industry with 50 brands that are among some of the world's best-known household names – and which together make up 90% of P&G's sales and more than 90% of profits.

P&G is creating the advantage of large scale by integrating across our different businesses and markets, allocating resources more efficiently than any small business can do on its own.'

(Source: Adapted from P&G Annual Report 2010)

(a) Explain what is meant by collusion and when it is most likely to occur in an industry. [4]

(b) Analyse, using Table 1, whether price fixing benefited Procter and Gamble. [4]

(c) Suggest why creating the advantage of large scale by 'integrating across its different businesses' might benefit a firm. [6]

(d) Is the evidence in the article sufficient to conclude that Procter and Gamble is working against the public interest? [6]

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Section B

Answer **two** questions.

2 **(a)** Explain how a consumer allocates expenditure according to the principle of equi-marginal utility and analyse how a change in income might affect that allocation. [12]

(b) Discuss how a government might achieve a more equal distribution of income. [13]

3 In 2011, as a result of a recession, the governments of some countries reduced the wages that they paid to public sector workers. Trade unions organised mass demonstrations in protest.

Discuss how the economic theory of wage determination in perfect competition can be adapted to explain such a situation. [25]

4 The combination of rapid economic growth and inflation is no coincidence.

(Source: The Times)

(a) Explain why rapid growth and high inflation might often occur at the same time. [12]

(b) Discuss what policies might be used by a government to control inflation. [13]

5 **(a)** Explain what changes might occur to the age distribution and occupational structure of a population as an economy changes from developing to developed. [12]

(b) Assume that you have been given some statistics which indicate that a country has a high rate of unemployment and a dependency on inter national trade. Discuss whether these statistics are sufficient to indicate whether that country may be classed as developing or developed. [13]

6 In 2011, one of the UK's largest multinational banks announced it would reduce the number of people it employed by 43 000 – the equivalent size of a small town. Unemployment in the UK reached nearly 3 million in 2011.

(Source: adapted from The Times)

(a) Analyse what might cause an increase in unemployment in a country. [12]

(b) Discuss what impact an increase in unemployment is likely to have on an economy. [13]

7 The market system is not able to allocate resources efficiently.

Discuss this opinion. [25]

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Copyright Acknowledgements:

Question 1 © adapted: Graeme Wearden; *Unilever and P&G fined for price-fixing*; The Financial Section; The Guardian News and Media Ltd; 14 April 2011.
Question 6 © adapted: Jonathan Russell; *Lloyds review set to push job losses to 43,000*; The Times; 13 June 2011.

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