Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays (Supplement) **May/June 2014**

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 **Supermarket power**

One supermarket chain in a European country is responsible for about 30% of the market share of grocery sales. Recently its strategy has been to open smaller supermarkets in local areas rather than concentrate on large stores on the edge of towns. The expansion in local areas is not always welcomed.

Residents miss the diversity of different types of shops, farmers and suppliers complain that the supermarket pays little for their products, and small local shops fear its growth. A senior manager from the supermarket agreed that suppliers were made to suffer the main effects of the economic recession as the supermarket insisted on substantial reductions in prices from its suppliers. The supermarket gains the benefit of bulk buying and the large sales to the supermarket are a major source of revenue for the suppliers.

However, if the supermarket were to cancel its order it would leave the supplier facing difficulties. Suppliers sometimes, therefore, have little choice but to reduce their prices. The supermarket is able to act as a monopsonist, particularly when purchasing supplies from meat and poultry farmers, milk producers and wine growers. Some consumers choose not to shop at the supermarket because they believe some of its policies towards suppliers are unfair.

In 2012, the supermarket's defence was that it planned to create 20 000 new jobs which would help the economy. The Prime Minister said 'the supermarket is the biggest private sector employer in the country and its commitment to creating jobs is fantastic news at a difficult time for the economy.' However, a report in January 2012 stated that the supermarket did not pay what was regarded as a living wage to all its employees. This was despite the fact that its chief executive was paid the equivalent of US$ 10.9 million in 2011.

The company reported that it planned substantial expenditure to improve its existing shops and open new ones. It needed the profits from its monopsony position to fund this new investment.

Some consumers said that the expansion would eventually be likely to harm all shoppers, by reducing options and driving other businesses out of the market.

Source: London Evening Standard 2012; Daily Telegraph 2012

(a) **(i)** Explain what is meant by an economy of scale. [3]

(ii) Explain how economies of scale are likely to affect the price and output of a firm such as the supermarket. [4]

(b) In the article the supermarket states that it helps the economy. Is this usually an aim of large businesses? [5]

(c) The article says the supermarket 'acts as a monopsonist'. Analyse what this means and consider whether the article can be used as evidence to support the opinion that a monopsony is beneficial. [8]

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Section B

Answer **two** questions.

2 There is concern about conservation of the environment, prevention of waste and efficient use of resources. Economic theory is clear on how to allocate resources efficiently in a market but in reality such allocation is a problem.

Discuss this opinion. [25]

3 A consumer's demand is sometimes influenced by advertising and sometimes influenced by impulse buying. This means that the economic theories of consumer demand based on utility are of no relevance to a firm trying to determine its likely revenue.

Do you agree with this argument? [25]

4 **(a)** Explain how a profit-maximising firm will choose the quantity of labour it employs. [12]

(b) Governments sometimes aim to reduce the level of unemployment. Discuss whether this necessarily results in a conflict between this aim and other government macroeconomic aims. [13]

5 **(a)** Explain what is meant by a country's national income multiplier and **two** reasons why the value of the multiplier might fall. [12]

(b) Discuss how a fall in national income might affect a country's standard of living. [13]

6 **(a)** In a time of recession some people fear that their continued employment is uncertain. Explain how, according to liquidity preference theory, this might affect their demand for money. [12]

(b) Discuss how, in a closed economy, a fall in interest rates might affect consumers and producers. [13]

7 **(a)** It is sometimes claimed that the population of a developing country is always large. Is a large population the distinguishing feature of a developing country? [12]

(b) Discuss whether economic growth is necessarily beneficial to a developing economy. [13]

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Copyright Acknowledgements:

Question 1 London Evening Standard 02.02.12 p15; Telegraph 05.03.12 Business section p1

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