Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays (Supplement) **May/June 2015**

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 **4** printed pages and **1** Insert.

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Section A

Answer this question.

1 A fuel shortage slows India's economic growth

India has struggled to provide enough electricity to power its industry. New power stations have been built but the country cannot get enough fuel, mainly coal, to run the power stations. About 55% of India's electricity is generated by the use of coal. India has one of the world's largest reserves of coal but has not been able to exploit it. The state-owned Coal India, which has a monopoly control of 80% of production, is required by government policy to sell coal at a 70% discount below the market price.

There has been almost no new investment in coal production by either the Government or the private sector according to industrialists who struggle with the daily loss of electric power. Coal production increased by 1% in 2012 while electricity-generating capacity increased by 11%. Some coal is imported but this has now become very expensive as India's chief supplier, Indonesia, has doubled prices of its coal.

Attempts to open new areas to mining have met with strong opposition from environmental regulators who have blocked the plans because, it is claimed, the development would destroy dense forests.

The electricity sector's problems have contributed to a second year of decreasing economic growth for India. The growth rate was 10% in 2010 but only an estimated 7% in 2012. A complex system of price controls has resulted in retail electricity prices being lower than the cost of producing power, which has caused large losses at state-owned electricity-generating industries.

Businesses report that frequent losses of electric power have forced them to lower production and spend significantly more on diesel fuel to run back-up generators. Analysts say that the reduced rate of economic growth could have been avoided if policymakers had addressed the problems of electricity shortage, weak infrastructure and restrictive regulations.

The gap between demand and supply for electricity increased between 2010 and 2012 as shown by Table 1.

Table 1: Electricity use in India, 2010–12

	Excess of electricity units demanded over units supplied 2010–2011	Excess of electricity units demanded over units supplied 2011–2012
Normal use	8.5%	10.3%
Peak use	9.8%	12.9%

Source: Adapted from The New York Times

(a) Define economic growth and identify **two** reasons for India's decreasing economic growth. [4]

(b) Analyse whether the increase in electricity-generating capacity in 2012 overcame the problems reported by businesses. [3]

(c) Consider whether the above evidence about Coal India conflicts with the economic analysis of a monopoly. [5]

(d) Use evidence from the information given to analyse whether the government policy towards Coal India has been only disadvantageous to businesses and to economic growth in India. [8]

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Section B

Answer any **two** questions.

2 International conferences have been held to discuss the effects of global warming and to persuade governments to agree to improve efficiency in the use of resources by limiting the amount of harmful gases produced by their country.

Explain what is meant by an efficient use of resources and discuss whether efficiency can only be achieved if governments are involved. [25]

3 With a perfect market and a given income, economic analysis explains how a rational consumer decides the quantities of which products to demand. It cannot, though, explain what happens when incomes change or when businesses in imperfect markets manipulate prices.

Discuss whether you agree with this opinion about the economic analysis of consumer behaviour. [25]

4 **(a)** How does economic analysis explain the level of wage rates in a perfectly competitive labour market? [12]

(b) Here are two press statements.

'A government announced that it would limit the top level of pay for senior executives in private industries by imposing a maximum wage.'

'The trade union for transport workers decided to call a strike unless its members were awarded a higher rate of pay.'

Source: The Telegraph Business, March and October 2012

Discuss how the economic analysis of wage determination would be changed by the announcement of the government and the decision of the trade union. [13]

5 **(a)** Explain why manufacturers differentiate their products and describe the characteristics of **two** market structures where product differentiation occurs. [12]

(b) Analyse and consider the extent of the link between marginal cost, diminishing returns and economies of scale. [13]

6 In 2013, a new aircraft, the Boeing 787 Dreamliner, was assembled in the United States (US). United Airlines, an American private company, ordered 50 of these aircraft, each costing over US$200 million.

(a) Imagine that the US was a closed economy with no government intervention. Analyse why the increase in national income from this investment in new aircraft might be different than if it were an open, mixed economy. [12]

(b) Discuss the policies that a government might use to influence the level of investment in an economy. [13]

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[Turn over

7 In 2012, a table for Gross Domestic Product (GDP) per head showed that only three of the world's ten richest countries had populations above 7 million. These were the United States: 315 million; the United Arab Emirates: 8.2 million; and Switzerland: 8 million.

(a) Explain how GDP is calculated and show how GDP at market prices is different from net national income at factor cost (basic prices). [12]

(b) Classifications often distinguish between developed (rich) and developing (poor) countries. Consider in what sense a developing country is said to be 'poor' and discuss whether the best way to become developed (rich) would be to reduce the size of its population. [13]

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