Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/42**

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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CAMBRIDGE International Examinations

Section A

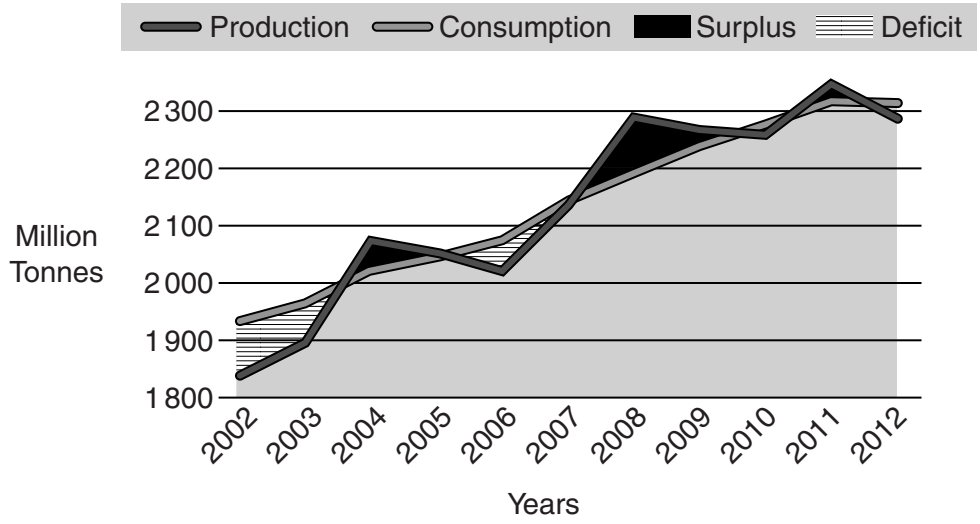
Answer this question.

1 **Food scarcity: a world crisis**

In 2012, families in poorer countries were forced to have days without food each week. A report by a large children's charity claimed that such days were now a part of life for up to 24% of families in India, 27% in Nigeria and 14% in Peru.

One of the reasons for this was the changing condition of demand and supply in world cereal markets as shown in Fig. 1.

Fig. 1: World cereal market



Source: Adapted from The Observer, 14/10/2012

Droughts and heatwaves in 2012 reduced production in some of the world's leading cereal producers such as the United States (US), Ukraine and Australia. This shortage was combined with the increase in demand for corn to make biofuels. In 2012, more corn was used for ethanol production to fuel cars in the US than was used for animal feed. As a consequence, prices of meat and dairy products rose as farmers found it more expensive to feed cattle, pigs and poultry. This was particularly noticeable, as a general rise in incomes resulted in an increased consumption of meat. Stocks of cereals were used to reduce the shortages.

During 2012, the world cereal harvest was expected to be 3% lower than that of 2011. More significantly, it was expected to be 4% lower in per capita terms because the world's population increased by 80 million in 2012.

The changes in the cereal market affected developing and developed economies in different ways. On average, people living in the US spend 9% of their income on food, while those living in the developing world spend between 50% and 70% of their income on food. World cereal prices rose between 10% and 25% in 2012, but in countries affected by drought in Africa, such as Mozambique, they more than doubled.

A charity organisation has forecasted that rice and wheat prices will double again in the next 20 years with disastrous consequences for the poor.

Sources: Adapted from The Observer and The Independent, October 2012

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(a) Identify **three** reasons why there was a problem with the world cereal market in 2012. [3]

(b) Explain whether the changes in the world cereal market would have been likely to increase the profits of all farmers. [4]

(c) To what extent does evidence in the article support the argument that developing and developed countries are affected differently by rising cereal prices? [5]

(d) Choose **two** government macroeconomic aims and consider how the changes in the world cereal market in 2012 might have affected a government's ability to achieve those aims. [8]

Section B

Answer any **two** questions.

2 **(a)** Describe how consumer theory suggests a rise in income will cause a consumer's demand to change for a normal good and for an inferior good. [12]

(b) Explain the difference between structural, cyclical and seasonal unemployment and discuss whether a general rise in income in a country would have the same effect on each of these types of unemployment. [13]

3 **(a)** A firm in a perfectly competitive market and a firm with a monopoly both seek to maximise their profit. Explain, with the help of a diagram, why the levels of price and output might be different in the two markets. [12]

(b) Discuss whether it is always true that a firm, rather than maximising its profits while remaining small, will seek to grow in size. [13]

4 'Wage determination in the factor market is just like price determination in the product market. It is entirely dependent on the forces of supply and demand.'

Do you agree with this statement? [25]

5 'Lack of consumer spending causes recessions. Recessions do not improve a country's standard of living. It is always better, therefore, to encourage consumer spending for this improves a country's standard of living.'

(a) What is a recession and is it always caused by a lack of consumer spending? [12]

(b) Discuss what policies a government may use to try and end a recession. [13]

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6 The table shows figures for annual GDP growth rates at market prices for three developing countries, Bangladesh, Ethiopia and Malawi, and three developed countries, Greece, UK and USA.

	GDP growth rates (%)		
	2009	2010	2011
Bangladesh	5.7	6.1	6.7
Ethiopia	8.8	9.9	7.3
Greece	–3.1	–4.9	–7.1
Malawi	9.0	6.5	4.3
UK	–4.0	1.8	0.8
USA	–3.5	3.0	1.7

Source: The World Bank

(a) Describe what is meant by economic growth and consider if it is always advantageous. [12]

(b) Explain what is meant by a developing country and a developed country and consider whether the table supports the idea that GDP growth rates are a good indicator of development. [13]

7 'The free market is not the way to achieve a sustainable, efficient use of economic resources. Even the famous economist Adam Smith recognised that there was a need for some government involvement.'

Discuss whether government involvement in the economy might overcome the weaknesses of the free market system. [25]

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