Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/43**

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 **3** printed pages, **1** blank page and **1** Insert.

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Section A

Answer this question.

1 **Consumer exploitation?**

Economists often speak of price discrimination. Some would argue that price discrimination exploits consumers. Others say that it is related to demand and supply and is acceptable in a market economy.

When you buy a rail ticket the price you are asked to pay may well depend on the departure time, the route, the rail operator, whether you have a discount railcard, whether you buy an economy ticket or a first-class ticket and whether you buy the ticket on the Internet or at a ticket office.

Similar price variations occur when booking hotel rooms and when buying theatre tickets. In hotels, the same room is cheaper on some days of the week or at certain times of the year than others. In theatres, it is cheaper to buy a ticket for an afternoon performance than a ticket for a Saturday evening. It is also cheaper to sit in the seats further from the stage than in those seats nearer the stage.

Some football clubs also adopt a similar approach with what they call 'price-categorisation'. There are three categories of price depending upon whether the football team is playing another team with well-known players which is near the top of the league or whether the team is in the middle or near the bottom of the league. To charge more for a game against a top team is asking the buyer to believe that the game will be better than a game against a lower-placed team. However, excitement and entertainment are sometimes just as great with the lower-placed team. Football clubs also often charge lower ticket prices to children attending football matches with an adult.

The rail operator and the football club justify the charges by saying that they require the extra revenue in order to improve the facilities and infrastructure and cover increased costs. The railway track needs replacing; the football stadium needs continual maintenance. Some would argue, however, that it is simply an attempt to maximise profit. Interestingly, not all the more expensive tickets are sold as people do not buy them.

Source: Adapted from Telegraph Sport, January 2013

(a) What is meant by 'price discrimination'? [2]

(b) Identify **one** example of price discrimination and **one** example of non-price discrimination in the article. Explain the reason for each of your choices. [4]

(c) Draw and explain a diagram for price discrimination. [4]

(d) The article says that price discrimination 'is related to demand and supply and is acceptable in a market economy'. Is there any relationship between price discrimination and demand and supply? [4]

(e) The article says that 'price discrimination exploits consumers'. The implication is that it should not be allowed. Do you agree with this assertion? [6]

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Section B

Answer any **two** questions.

2 Economic theory often refers to the concept of equilibrium.

(a) Identify **two** areas of microeconomic theory that use the concept of equilibrium and explain how in each case that equilibrium is achieved. [12]

(b) Discuss whether economic efficiency is always at its highest if the equilibrium is achieved without any government involvement. [13]

3 'The aim of all firms is to grow in size, overcome diminishing returns and gain economies of scale.'

(a) Explain whether the idea of diminishing returns contradicts the concept of economies of scale. [12]

(b) Do you agree that, whatever the market structure, the main aim of a firm is to grow in size? [13]

4 During the recession of 2011–2012, competition among high street shops changed. Some well-known shops closed and the labour market became more imperfect.

Analyse what economic theory predicts will happen to the level of wages when competition is reduced in the labour market. [25]

5 **(a)** Briefly explain the differences between monetary policy, fiscal policy and supply-side policy and whether they overlap in their effects. [12]

(b) The Finance Minister of a country said that 'Monetary policy remains the main tool for responding to changes in the economic outlook at the moment'.

Source: The Telegraph Business section, February 2012

Discuss whether monetary policy is always the main tool for responding to changes in the economic outlook. [13]

6 'Labour is a resource; the use of resources increases economic wellbeing. The main aim of the government of a developing country keen to increase wellbeing should, therefore, be to support an increase in the population of its country.'

Discuss this argument and decide whether you agree with it. [25]

7 One macroeconomic indicator is the level of investment.

(a) What determines the level of investment? [12]

(b) Discuss how a large increase in the level of investment may affect an economy and whether such an increase is always beneficial. [13]

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