Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **May/June 2016**

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.

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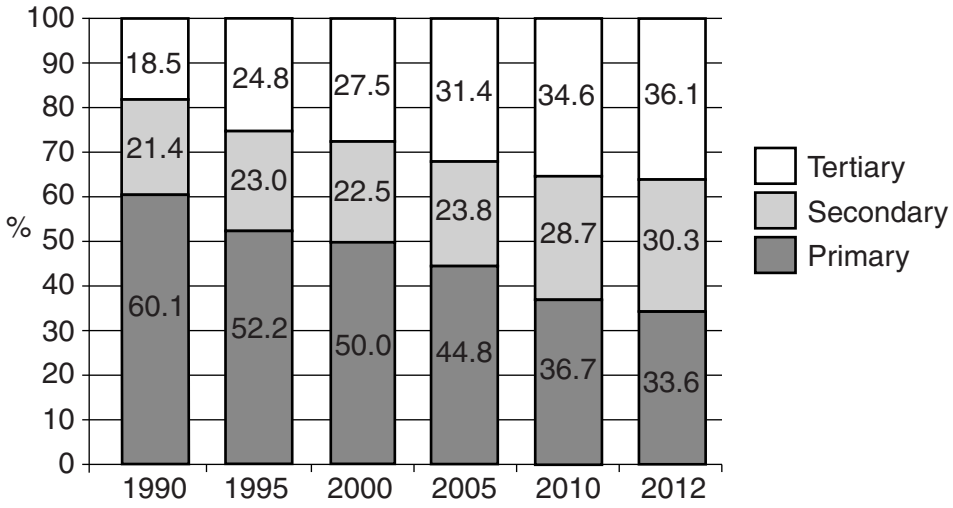
Section A

Answer this question.

1 Changes in the Chinese economy

China is an emerging economy. The proportions of workers employed by sector between 1990 and 2012 are shown in Fig. 1.

Fig. 1: Working population in China by sector 1990–2012



Iron ore is used for steel making. By 2013, China was the largest iron ore importer in the world. The main suppliers were Australia, Brazil, India and South Africa. China also needed other raw materials such as aluminium and copper. As a proportion of GDP, China bought four to ten times more of these than other countries and was responsible for much of the global increase in their demand during the two decades before 2013.

The iron and steel industry in China was stimulated by strong domestic demand, particularly from the construction, manufacturing and automotive industries, all of which had expanded production.

But during 2013 the outlook for China's economy was less bright. There was a sharper than expected fall in export growth in China, while imports actually fell. Growth in industrial output was also slower and this, together with increased output from new iron ore mines in Australia, seemed likely to cause a reduction in iron ore prices. It was thought that the potential change in industrial output in China, the world's second-largest economy, would worsen the outlook not only for mining companies but also for other producers worldwide.

Statistics for the annual rate of inflation in China indicated that in 2013 prices of key products such as iron ore fell, causing the rate of inflation to fall and creating the prospect of price deflation. An economist said 'falling prices are bad for the economy.' Some economists feared that the future growth of building and urbanisation would be at a significantly slower rate. The result, it was thought, would be that any economic growth would be more likely to be caused by consumption and not by investment.

This change to consumption from investment would mean that the demand for raw material inputs would fall significantly, as previous demand was a consequence of China's growth through an investment approach. Of course, items such as cars, washing machines and computers all require a substantial amount of raw materials, so the demand for some inputs would still increase.

Sources: China Labour Bulletin, accessed 29 April 2014, and *Daily Telegraph, 10 June 2013*

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(a) Identify the trends in working population in China and consider whether they are what might be expected in an emerging economy. [5]

(b) The article states that 'falling prices are bad for the economy'. Analyse whether falling prices necessarily harm an economy. [5]

(c) Does the article give enough evidence to lead you to conclude that the changes in the Chinese economy would be bad for countries that trade with China? [4]

(d) Using the article and your own knowledge, discuss what difference an investment approach to growth and a consumption approach to growth might make to an emerging economy such as China. [6]

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[Turn over

Section B

Answer any **two** questions.

2 'In a complex modern economy there is no possibility of a perfect market system. A concentration of market power always results and does not serve the public interest.'

Do you agree with this opinion? [25]

3 **(a)** Given the prices of two goods, how does economic theory analyse what is meant by 'consumer equilibrium'? [12]

(b) Suppose the price of one of the goods falls. Use indifference curve analysis to discuss whether consumers would always buy more of the good when its price falls. [13]

4 'Wage rate inequalities are inevitable and can be justified.'

Discuss whether this statement can be supported by economic theory. [25]

5 **(a)** Explain what is meant by diminishing returns and economies of scale, and consider whether diminishing returns can occur only in perfect competition and economies of scale in imperfect competition. [12]

(b) 'The theory of the firm that assumes perfect knowledge and the aim of profit maximisation can be found only in perfect competition. In monopoly those assumptions do not apply.'

Consider whether you agree with this statement. [13]

6 **(a)** Explain what is meant by the equilibrium level of national income, and consider whether it is possible to have such an equilibrium and unemployment at the same time. [12]

(b) At a time of an election a government makes a promise that, if re-elected, it would aim to increase the growth rate of the national income.

Discuss whether an increase in the growth rate is necessarily beneficial. [13]

7 Discuss which issues are at the heart of the debate about the quality of life in a country and what indicators might be used to assess them. [25]

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