Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/42**

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 Housing and Economic Growth in the UK

In 2013 a press article reported that 'there has been a marked improvement in the housing market'. Potential buyers of housing had been encouraged because the central bank had fixed interest rates at an all-time low and also by a government scheme designed to give help to people wishing to buy property. The scheme meant that buyers did not have to find such a large deposit.

This caused a positive outcome for the construction industry, with investment and employment rising. However, it pushed up property prices.

In 2013 the average price of a house was seven times the average wage. A study recommended that the central bank should take steps to prevent house prices rising by more than 5% a year and should limit the amount people could borrow relative to their incomes. There should be regional variations to this limit, as property prices do not increase at the same rate in every region.

However, a deputy governor of the central bank said that limiting price rises would not solve the cause of the problem, which was the lack of new property development. He found it surprising that the study chose to focus exclusively on the demand side when the underlying problem was one of supply.

An economist said that the most effective intervention a government can make in the housing market is to relax the planning system and make it easier and cheaper to build more homes. Increased supply, leading to lower prices, would encourage demand. Others said that 'although there is talk of a large rise in the price of houses, it is not uniform throughout the country and trying to influence the basic laws of supply and demand is not the right way of tackling the problem.'

The buying of housing gives rise to increased consumer spending and some argue that this helps the economy. Although policies by the government and the central bank had increased consumer demand and spending, such expenditure is quite different from the export-led growth model preferred by the government. Analysts suggested that the demand and supply conditions causing the current situation cannot last forever. When they end, the effect on the housing market (which by then will have many people with very high debts) will be very bad for the economy. This can be seen in countries such as Spain and the Netherlands, where property values are in decline.

Source: *The Times*, 14 September 2013

(a) Identify **two** government policies in the article that could encourage an increase in aggregate demand. [2]

(b) The article states that there has been a 'marked improvement in the housing market'.

Using the article and your own knowledge, explain how an economy might benefit from an 'improvement in the housing market'. [5]

(c) Using the evidence in the article, assess whether it contradicts the view that an increase in house prices is an improvement for an economy. [6]

(d) The article contrasts a model of an increase in growth through consumer spending with a model of an increase in growth through exports.

Choose **two** macroeconomic aims of a government and discuss how the two growth models might have different effects on those aims. [7]

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Section B

Answer any **two** questions.

2 'Government economic policy is based on the idea that people cannot be trusted to choose what is good for them but instead sometimes choose things that are harmful to themselves or detrimental to the environment (or both). Therefore a free market cannot allocate resources efficiently.'

Do you support this argument? [25]

3 With the help of diagrams, use indifference analysis to:

(a) explain what is meant in economic theory by consumer equilibrium and how it is related to a consumer's demand curve. [12]

(b) discuss how this equilibrium might be affected by a government fiscal policy that raises taxes on goods. [13]

4 **(a)** 'In perfect competition in the short run, wage rates in some occupations will be higher than in others.'

Explain the economic analysis underlying this. [12]

(b) Do you agree that in an imperfect labour market any activity by trades unions designed to increase wage rates would inevitably lead to unemployment in that market? [13]

5 The traditional theory of the firm assumes a single objective for the firm, namely the maximisation of profit.

(a) Explain whether a firm with this objective necessarily always makes a profit. [12]

(b) Discuss how the objective in the traditional theory may be varied in different market structures. [13]

6 Imagine you have been asked to produce a report about the quality of life in your country. Discuss what would be important to include in your report and what economic indicators you would use in order to reach a conclusion. [25]

7 **(a)** Explain how the age and employment structure of a population in a developing country may differ from those of a developed country. [12]

(b) Consider whether a developing country is likely to experience different types of unemployment compared with a developed country. [13]

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