Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/43**

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.

This document consists of **4** printed pages and **1** Insert.

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Section A

Answer this question.

1 Airport Expansion

In 2014, a proposal by Heathrow Airport Authority (HAA) in London recommended building an extra runway at Heathrow, one of the world's busiest airports. HAA acknowledged that it was an initial proposal that needed more detailed work.

They claimed that, if built, the runway would deliver greater economic benefits and be a better option for economic growth for the UK than any other proposal for new airport capacity. HAA was not able to quantify the benefits with any precision but said they would range from £50 billion to £156 billion (US$84 billion to US$262 billion) with a 'central estimate' of over £100 billion (US$168 billion). The majority would benefit the wider economy by creating jobs, encouraging trade, boosting spending and improving public finances. The proposal would allow the airport to be connected to more emerging markets and enable 40 new destinations to be served directly, including some in India and China. Cargo volumes would double and UK competitiveness would increase.

HAA added that more efficient vehicles, an increased proportion of passengers travelling by public transport and new aircraft technology would mean that the extra flights would not exceed the European Union pollution limits.

In order to build the new runway, major motorways would need to be altered. Many homes would have to be demolished but the airport said they would pay the owners 25% above the property's market value. When it was built, car drivers wishing to take passengers to the airport would have to pay a congestion charge.

Those opposing the new runway said that thousands of people would be forced out of their homes and communities would be destroyed and, while waiting for a decision to be made, they would be unable to sell their homes. 240 000 people would suffer from airport noise.

HAA said the runway would cost £15.6 billion (US$26.2 billion) to build, with the government paying £1.2 billion (US$2.1 billion) towards the motorway alterations.

There were alternative proposals. The first was to build a completely new airport to the east of Heathrow. The second was to add another runway to an existing airport, Gatwick, to the south of Heathrow.

HAA argued that a completely new airport would take much longer to build and be more expensive than an extra runway and would mean higher fares for passengers.

The owners of Gatwick Airport insisted that the new runway at Heathrow was not in the best interest of passengers and that Gatwick would be better able to offer lower fares and connect to emerging markets with longer-range aircraft. They said that their plans were cheaper – £7.8 billion (US$13.1 billion) – and could be built quicker than the Heathrow option, with less disruption to motorways. Noise from another runway at Gatwick would also affect fewer people – 14 000, not 240 000.

Sources: Heathrow Airport website, accessed 24 May 2014, and *Evening Standard*, 13 May 2014

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(a) HAA said 'the new runway would benefit the wider economy'. Explain why its claim might be justified. [4]

(b) Explain why dropping off passengers could be classified as an externality and suggest one method of addressing this externality. [4]

(c) Airport infrastructure is privately owned and makes money for its owners. Consider why in this case the government would pay £1.2 billion towards the cost of motorway alterations. [5]

(d) Consider whether the information in the proposal by the HAA was mainly factual evidence or opinion and comment on whether you would support the proposal. [7]

Section B

Answer any **two** questions.

2 **(a)** Economists write about indifference analysis when studying consumer choice. Does this theory of consumer behaviour mean that a consumer is always indifferent when choosing between two products? [12]

(b) Discuss whether the use of a demand curve and budget lines are similar in the way they represent what will happen if the price of a good falls. [13]

3 In 2014 an American multinational pharmaceutical drug developer and supplier made a bid to take over a Swedish-British multinational drug company, but the board of that company refused to accept the bid for its shares.

(a) Consider whether increasing a company's scale of production will always reduce its costs. [12]

(b) Analyse what is meant by a contestable market and consider whether companies that supply drugs are likely to be in a contestable market. [13]

4 Some workers are paid a basic rate and then paid additional commission based on the number of products sold. In 2014, a European court ruled that a worker's holiday pay should be based on total pay including commissions and not just on the basic rate.

(a) Explain, according to economic analysis, the shape of a worker's supply curve and suggest how this court judgement might affect the number of hours worked. [12]

(b) Discuss whether a trades union can always increase the wage rate of its members without affecting the level of employment. [13]

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5 It was reported that India's policymakers seem to be fighting a losing battle with inflation. Some economists linked the persistent rise in prices to the pace of economic growth.

(a) Consider whether economic growth will always cause inflation. [12]

(b) Assess how appropriate it is to use economic growth as an indicator of how a country's standard of living compares with other countries. [13]

6 Equilibrium is a key concept in the study of economics. Explain what an equilibrium level of national income means and discuss the relative merits of policies a government might use to cause the equilibrium level to change in an open economy. [25]

7 Private sector developers have discovered potentially profitable supplies of gas and proposed a new method of extracting it that involves drilling in some areas of natural beauty. They say it is important that a country's resources are used efficiently.

Consider whether they might mean the same as economists when they talk about the efficient use of resources and whether it is possible in practice for private organisations to achieve such economic efficiency. [25]

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