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 2017**

**2 hours 15 minutes**

No Additional Materials are required.

*8697176859*

**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 **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 Changes in the world oil market and their effects

Founded in 1960, the Organisation of Petroleum Exporting Countries (OPEC), consisted of five countries all of whom produced oil. OPEC's success, with Saudi Arabia as its market leader, encouraged other oil exporting countries to join. There are now 12 OPEC member countries, including Iran, Nigeria and Venezuela. OPEC is responsible for over 35% of world oil production, working together to fix prices and control output.

OPEC has faced various external shocks. In recent years, the financial crisis 2008–2011 reduced global demand for oil. Also, since 2012, non-OPEC oil supplies have increased, as shown in Fig. 1, mainly due to the use of fracking – a process of extracting oil from rock using very expensive drilling equipment. This has happened in spite of opposition to fracking by environmentalists who accuse the fracking companies of causing minor earthquakes and polluting underground water sources.

The main oil producer using fracking is the United States (US) which has become almost self-sufficient in oil and consequently does not need to rely on OPEC. In 2014, the US even began to export its oil, especially to Europe as a rival to OPEC and Russia. This had an effect on the price of oil as shown on the chart in Fig. 2.

There have been both winners and losers from this change in production of oil. While all oil importing countries have become winners as the price of oil declines, undoubtedly the US has strengthened its economy the most. The fracking boom has increased consumer spending in the US, which has been a key element in the recovery of the US economy from the financial crisis.

The losers are OPEC's members that are dependent on oil as the main source of revenue. Nigeria greatly overestimated the price of oil and, as a result, it had to devalue its currency in November 2014, raise taxes on luxury items and cut government spending by 6%.

**Fig. 1 Supply of oil 2012–2015**

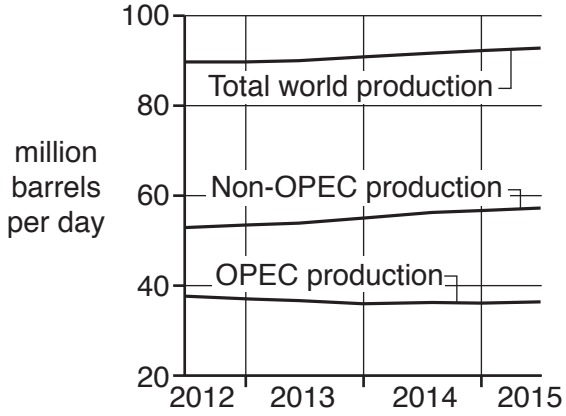
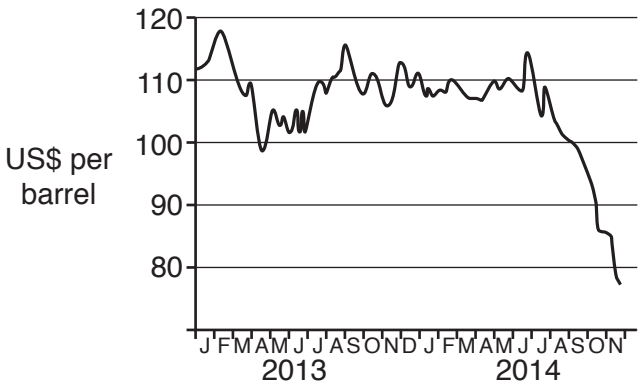



**Fig. 2 World price of oil 2013–2014**




Despite the fall in oil prices, in January 2015 Saudi Arabia refused to agree to demands from other OPEC members to cut oil supplies in order to keep prices high. Saudi Arabia was happy to allow oil prices to fall further in order to put US fracking companies out of business.

*Source: The Times, 5 December 2014 and 7 January 2015*

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**(a)** Define what is meant by a cartel and explain why a cartel might be formed. [3]

**(b)** What evidence is there in the information that OPEC is a cartel? [4]

**(c)** Given the information above, analyse with the help of an appropriate diagram whether the overall price change shown in Fig. 2 is consistent with what would be expected in the market for oil. [5]

**(d)** Is there any evidence in the information that might lead to the conclusion that the US economy is a winner in the short run but could become a loser in the long run? [8]

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**[Turn over**

## Section B

Answer **two** questions.

**2** **(a)** Compare the derivation of a demand curve for a product using the marginal utility theory with the derivation using indifference curve theory. [12]

**(b)** Discuss whether the existence of (i) inferior goods and (ii) advertising invalidates the underlying assumptions of those theories of demand. [13]

**3** **(a)** Explain the reasons why people demand money according to the liquidity preference theory. Consider which reason is the most important. [12]

**(b)** In 2015, after a period of low inflation and low interest rates a commentator wrote, 'If inflation suddenly increases it could result in a faster than expected rise in interest rates. The consumer spending boom will end.' *(Source: London Evening Standard, 26 January 2015)*

Discuss the possible reasons behind this suggested result. [13]

**4** Economic theory produces a precise equilibrium outcome, often in an idealised market situation, but in reality things are much less certain.

Discuss whether this opinion can be applied to the determination of wage rates. [25]

**5** **(a)** Explain why some countries are referred to as developing. Suggest why the expected increase in population in developing economies is thought to be a source for concern. [12]

**(b)** Discuss what the government of a developing country might do to enable its economy to become more developed. [13]

**6** Governments have a range of macroeconomic aims apart from economic growth.

**(a)** Explain the other main macroeconomic aims a government might have apart from economic growth. [12]

**(b)** Discuss whether there is always a consistent link between investment and economic growth. [13]

**7** 'Lack of efficiency in the use of resources is not due to the market's inability to function. It is due to government intervention in a system that is best left to its own workings.' *(Source: RSA Journal, Issue 4, 2013)*

Consider this opinion. [25]

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