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 2017**

2 hours 15 minutes

No Additional Materials are required.



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 **Pay and the rate of inflation**

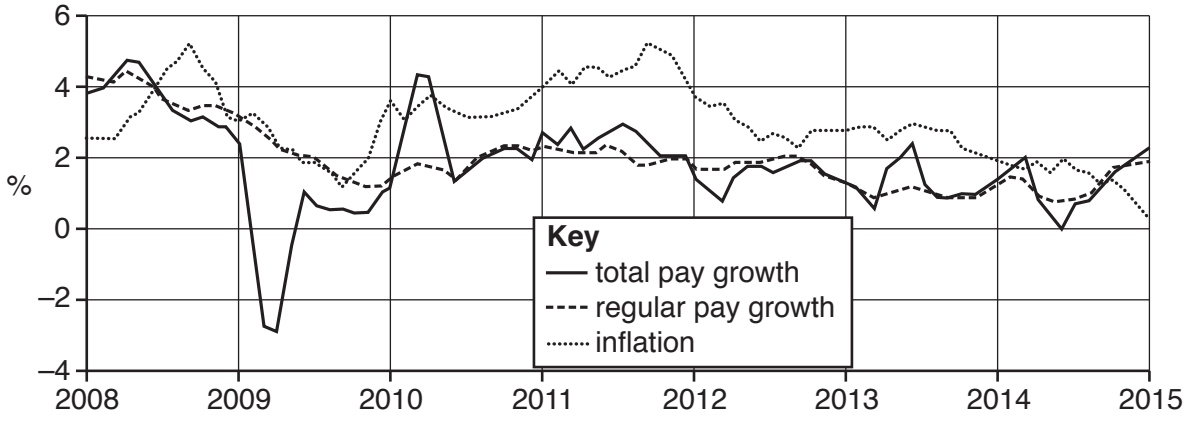
In the United Kingdom (UK) in the last three months of 2014 the employment rate was at a record high (73.2%) and total pay had its highest increase since before the world financial crisis. Total pay (regular pay plus bonuses) rose by an average of 2.1% between October and December 2014. This was partly because of a large growth in bonus payments in the private sector. Average weekly regular pay rose by 1.7% in that period.

Private sector total pay rose by an average of 2.5% while workers who were employed in the public sector saw average total pay growth of only 0.7% because of government controls over pay and an absence of bonuses.

By comparison, annual inflation fell to 0.5% in December 2014 and to 0.3% in January 2015. The Prime Minister said that high employment, stronger productivity and low inflation rates are key matters helping economic recovery and an increase in living standards. However, while total hours worked grew by 0.8% in the last three months of 2014, GDP growth was 0.5% implying that output per head fell over the quarter and the increased employment was not boosting labour productivity. This is not good for a long-term improvement in living standards even if inflation is very low.

The chief executive of an oil company said that oil companies will have to adapt to a new era of lower prices and a greater emphasis on reducing carbon emissions in order to survive. This is already happening by way of short-term market forces as costs of production come down but long-term structural changes will be needed. His remarks came after two international oil companies announced large reductions in both fixed and variable costs as oil prices fell by 50% in the last six months of 2014 amid a surplus of supply and reduced demand.

Fig. 1 UK Pay growth and inflation 2008–2015



Source: Daily Telegraph, 19 February 2015

(a) The article says that public sector workers had an average increase in pay of 0.7% compared with a 2.5% increase for private sector workers. State **two** reasons given in the information for this. [2]

(b) "In 2014, despite the rise in earnings, both regular pay and real total pay have gradually fallen since 2008."

Use Fig. 1 to determine whether or not this is true. [5]

(c) In January 2015 the workforce of an oil company demanded a pay increase.

How could the company use the evidence from the information to oppose the demand? [5]

(d) Discuss why inflation and the rate of growth of total pay are significant economic indicators. [8]

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Section B

Answer **two** questions.

2 Firms should be allowed to produce in the manner they wish and consumers allowed to buy what they believe they want.

Discuss whether this is the best means of ensuring an efficient use of an economy's resources. [25]

3 **(a)** Explain how utility theory can be used to determine the downward slope of a demand curve. [12]

(b) Discuss, using indifference curve analysis, why a decrease in a sales tax on all goods and services might have a different impact on demand for a normal good than for an inferior good. [13]

4 **(a)** Why is it important for a firm seeking to maximise profits to distinguish between the concepts of diminishing returns and economies of scale? [12]

(b) Analyse and discuss how the market price and quantity supplied might change if a profit maximising firm in a perfectly competitive market were able to achieve a monopoly status in that market. [13]

5 Analyse the difference shown by marginal revenue productivity theory between wage determination in perfect and imperfect labour markets. Discuss the proposition that, in imperfect markets, a trade union can only increase the wage rate by allowing a reduction in employment. [25]

6 All countries hope to cause their economies to expand and develop through economic growth.

(a) Explain what is meant by economic growth. Consider why, if all countries are developing, some are called developed countries. [12]

(b) Would you agree that for a developed country with unused resources economic growth is only ever beneficial? [13]

7 **(a)** Estimates in 2015 put the GDP of New Zealand at US$191 billion, Peru at US$190 billion and Romania at US$189 billion. Are these figures a sufficient indication that the standard of living in the three countries was very similar? [12]

(b) Distinguish between monetary policy and fiscal policy. Discuss whether fiscal policy may be used to influence the standard of living in a country. [13]

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