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 2018**

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 **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 **Health and well-being**

European countries have some of the highest GDP per capita levels in the world. They also have some of the highest life expectancy figures at birth – averaging 81 years compared with 71 years for the world as a whole. Life expectancy has steadily increased due to improved healthcare, decreased deaths from heart disease, cancer, diabetes and chronic respiratory disease. But a World Health Organisation (WHO) report warned that all of that progress could be overturned within a generation if the unhealthy lifestyle of many Europeans is not addressed.

The report stated that Europe has the highest rates of smoking and alcohol consumption of any region in the world and is second for obesity after the Americas. This lifestyle will mean that life expectancy will decline over the next generation. Table 1.1 gives GDP per capita and health statistics for some European countries.

Table 1.1: GDP and health statistics for selected countries

Country	GDP per capita US dollars	% of adult population who smoke	% of population who are overweight	Average life expectancy at birth (years)
Germany	45615	32.9	54.8	80.9
Sweden	45143	24.1	55.9	81.8
United Kingdom	39136	22.3	63.4	81.0
France	38850	30.6	60.7	82.1
Italy	34757	24.9	58.8	82.9
Spain	33763	32.1	60.9	82.6
Greece	26098	46.8	60.5	81.3

Sources: World Bank, 2014 and WHO European Health Report, September 2015

The WHO suggested that governments should consider introducing sugar taxes, a minimum price for alcohol and also subsidies on fruit and vegetables.

To try and limit smoking, the United Kingdom (UK) Government has conducted advertising campaigns warning of the dangers of smoking and banned smoking in public places. It has also put high taxes on alcohol and cigarettes. However, it has refused to place a tax on all sugar consumption and there are no minimum prices for alcohol.

The WHO report attempted to measure well-being. Education, housing, health, sanitation and employment are all part of life satisfaction; how much money people have, it said, is not the major determinant. Happiness appears to require an annual income of US$10000, according to the WHO. People's sense of well-being is undermined if they earn less than that but does not increase if they earn more. "We do not quite understand why this is", said the WHO. "Why do people in poorer countries report higher satisfaction than in countries where incomes are higher?"

Source: The Guardian, 23 September 2015

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(a) With reference to Table 1.1, is there a positive correlation between smoking and life expectancy at birth? [3]

(b) Explain the possible effects on an economy if a government policy were to set a minimum price for a product such as alcohol. [4]

(c) Discuss whether the information supports the view that higher incomes increase consumer well-being. [6]

(d) Explain, according to indifference curve analysis, what happens to a consumer's satisfaction and demand as income rises. Consider whether the evidence in Table 1.1 about income levels, as shown by GDP per capita, and smoking, is sufficient to support that analysis. [7]

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[Turn over

Section B

Answer **two** questions.

2 **(a)** A dictionary defines efficiency as 'the power to produce the result intended'. Explain what is intended by achieving economic efficiency and why its attainment is considered important. [12]

(b) Discuss whether it is sometimes necessary to use the public sector to try to achieve economic efficiency rather than the private sector. [13]

3 **(a)** Explain the difference between perfect competition and monopoly and, with the help of diagrams, distinguish between normal profit and supernormal profit, considering whether supernormal profit is possible in perfect competition. [12]

(b) Firms do not always wish to maximise profits. Consider what alternative aims they might have and whether the idea of the Prisoner's Dilemma might be useful in their decision-making. [13]

4 Trade unions, minimum wage legislation and large powerful businesses invalidate the conclusions of the traditional economic theory of wage determination. The theory needs to be replaced.

How far do you agree with this assertion? [25]

5 **(a)** Distinguish between structural and frictional unemployment. Consider which would be likely to have the greater negative effect on an economy**.** [12]

(b) Assess the view that supply-side policies are the most effective way to solve the problem of structural unemployment**.** [13]

6 **(a)** Consider the extent to which the commercial banks can influence the money supply. [12]

(b) 'Quantitative easing has a limited effect on employment in the short run and is likely to cause inflation in the long run.'

Discuss whether there is any truth in this statement. [13]

7 'Both developed and developing economies can experience high levels of unemployment, high rates of inflation and large current account deficits. Therefore there is now no real difference between these two types of economy'.

How far would you agree with the view that this statement is misleading? [25]

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