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 2018**

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 Infrastructure is restricting Indonesia's economic development

One feature of Indonesia's economy that has been hampering its economic and social development is the lack of quality and quantity of its infrastructure, whether it is 'hard' like roads or 'soft' like education.

In recent years the Indonesian government has given infrastructure a relatively small allocation of public spending. In 2011 only 2.1% of the country's Gross Domestic Product (GDP) was reserved for infrastructure. In comparison, countries such as China and India spend almost 10% of their GDP on infrastructure. Since the late 1990s expansion of Indonesia's infrastructure has not matched macroeconomic expansion, and as a consequence economic growth has not reached its full potential. It is estimated that GDP could grow at 1%–2.5% more than the current annual rate.

Lack of adequate infrastructure causes distribution costs such as transport and warehousing to rise steeply, thus reducing Indonesia's competitiveness and attractiveness as an investment location. According to data published by the Indonesian Chamber of Commerce and Industry (Kadin Indonesia), around 17% of a typical company's total expenditure is absorbed by such costs. In other south-east Asian economies this is below 10%. In particular transport costs are high; by land as well as sea. Despite Indonesia's island geography, sea transport is yet to be developed substantially. Currently, sea transport is even more expensive than land transport. This results in inflationary pressures on domestically produced products. It partly explains why some domestically grown fruit is more expensive than imported fruit. It also leads to substantial regional price differences. Rice, for example, is much more expensive in eastern Indonesia than in Java or Sumatra. It also prevents businesses from expanding and profitable opportunities are lost.

Indonesia suffers from inadequacies in the country's electricity supply, despite the abundance of energy resources. Part of the problem is that the state-owned electricity distributor, which has a monopoly on electricity distribution, is heavily dependent on government subsidies as the cost of production is higher than the fixed maximum selling price.

Soft infrastructure such as education, healthcare and social welfare is also under-developed. The government has made efforts to improve these areas in recent years. A new healthcare system is about to be introduced covering all Indonesians and spending on education has increased markedly.

Source: indonesia-investments.com, accessed 17 April 2016

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(a) Identify **two** examples of 'soft' infrastructure mentioned in the article. [2]

(b) Explain, with the help of a diagram, the effect on consumers of fixing the maximum selling price for the electricity distributed by the state-owned monopoly. [6]

(c) Explain the effects on Indonesian firms of the problems identified in the transport of goods. [5]

(d) Discuss the likely impact on Indonesia's GDP of an improvement in its infrastructure. [7]

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[Turn over

Section B

Answer **two** questions.

2 **(a)** Explain, with the aid of a diagram, diminishing marginal utility and its link to indifference curves. [12]

(b) Discuss, using indifference curve analysis, how the impact of an increase in indirect taxation on the quantity demanded of a good depends on whether it is a normal or inferior good. [13]

3 A businessman claimed it was difficult to make decisions as his business was subject to uncertainty and interdependence.

Discuss the methods used by oligopoly firms to reduce uncertainty and interdependence and the extent to which these methods exploit the consumer. [25]

4 **(a)** Explain how a firm derives its demand curve for labour and consider how the structure of the product market in which the firm operates affects the firm's demand curve for labour. [12]

(b) Discuss whether it is possible for a trade union to negotiate higher wages and more employment. [13]

5 **(a)** Explain the difference between actual growth and potential growth. [12]

(b) To what extent do you agree that the costs of economic growth are greater than the benefits? [13]

6 In 2016, governments in some countries were concerned about inflation, whilst the governments of other countries were concerned about recession.

(a) Consider how the causes of recession may differ from the causes of inflation. [12]

(b) Examine the view that 'recession can only be solved by monetary policy'. [13]

7 A free market economy operates to the benefit of both consumer and producer to achieve the most efficient outcome, and therefore there is no role for a government to play in controlling the market.

Consider the extent to which this statement is correct. [25]

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