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 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 **Inequalities of wealth**

In 2015, the vast and growing gap between rich and poor was revealed in a report from the charity Oxfam.

Oxfam said that between 2010 and 2015, the total wealth of the world's poorest 50% had fallen. In the same period, the wealth of the world's richest people had increased. In 2010, the 388 richest people in the world owned the same wealth as the poorest 50%. This fell to 80 people in 2014 and to only 62 people by 2015.

The report recommended that governments should do three things: make greater attempts to prevent tax avoidance; invest more in public services; and ensure there are higher wages for the low paid.

On taxes, the report emphasised the need to end the use of tax havens to hide large amounts of money. It estimated that the use of tax havens by multinational companies denies developing countries at least US$100 billion a year in tax revenue. In tax havens, which include the Cayman Islands, Dubai, Hong Kong, Liberia, Luxembourg, Singapore and Switzerland, taxes are either non-existent or levied at a low rate.

The Cayman Islands, in the Caribbean, refers to itself as an 'international financial centre'. Almost 20 000 international companies are registered there. An official explained its function is to assist global capitalism to work. For example, if an American company and a Japanese company agree a business deal in their own countries they would pay tax. They would be more likely to agree the deal if it were done through a company in the Cayman Islands where no tax is paid.

It is not only the developed world which makes use of tax havens. Oxfam reported that as much as 30% of all African financial wealth was thought to be held in tax havens. The estimated loss of US$14 billion in tax revenues would be enough to pay for healthcare that could save the lives of 4 million children a year and employ enough teachers to get every African child into school.

To help the lowest income earners in society, government social welfare spending has become more important than ever. As well as preventing tax avoidance, a traditional cure for the problems from rising inequality has been to redistribute income through taxation from the richest to the poorest. However, this can lead to resentment and can impede economic growth.

A better cure would be to encourage innovation that would benefit everybody. A combination of the internet and computer revolutions is transforming the world economy which has led to economic growth. Inevitably the leaders of these kinds of enterprises have become some of the world's richest entrepreneurs.

Sources: The Times, 18 January 2016, The Guardian, 18 January 2016, The Guardian, 19 January 2016, The Independent, 20 January 2016, and taxhaven.org, accessed 20 January 2016.

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(a) Distinguish between income and wealth. [2]

(b) Explain the difference between equity and equality and consider whether the report's three recommendations are based on equity or equality. [6]

(c) Use the evidence in the article to consider the effect on business activity of using tax havens. [6]

(d) Discuss the economic consequences for governments whose citizens and businesses avoid paying tax on a high proportion of their incomes or profits. [6]

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[Turn over

Section B

Answer **two** questions.

2 **(a)** Explain why the concept of the margin is significant in the economic theory of consumer behaviour. [12]

(b) Discuss whether the calculation of a marginal cost or an average cost is more significant in reaching conclusions about economic efficiency. [13]

3 In recent years the prices of many electronic products have fallen as sales have increased. Research to improve the products is expensive but there are large economies of scale in production.

Discuss what is likely to happen to the costs, prices of products and market structure in industries where there are large economies of scale. [25]

4 Economic theory is often very precise in its explanation but not very useful in its application to reality.

(a) Explain why, in perfectly competitive labour markets, the economic theory of wage determination is very precise. [12]

(b) Discuss whether in reality such precision is found in the imperfect market structures of actual labour markets. [13]

5 **(a)** Explain what economists mean by a 'deflationary gap' and discuss why this could be considered problematic for an economy. Use a diagram to illustrate your answer. [12]

(b) How far would you agree that the use of budget deficits is the most effective way to solve the problem of a deflationary gap? [13]

6 **(a)** Explain the quantity theory of money. Consider its relevance to economic policies that might be used to control inflation. [12]

(b) The Phillips curve suggests that inflation can only be controlled at the expense of higher levels of unemployment.

To what extent do you agree with this view? [13]

7 Economic development can only be achieved by economic growth and this depends solely on higher levels of government investment.

To what extent would you agree with this statement? [25]

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