Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **May/June 2020**

2 hours 15 minutes

2616564398

You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **three** questions in total:
  Section A: answer Question 1.
  Section B: answer **two** questions.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.
- You may use a calculator.
- You may answer with reference to any economy you have studied where relevant to the question.

INFORMATION

- The total mark for this paper is 70.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **4** pages. Blank pages are indicated.

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Section A

Answer this question.

1 **In pursuit of well-being**

It has been said that the mark of success of a government is raising the quality of life or the well-being of the people in the country. This is sometimes measured by the Human Development Index (HDI). Table 1.1 shows the rank order of selected countries by the HDI and compares it with the rank by Gross Domestic Product (GDP) of that country.

In order to understand how people make decisions, governments in the United States (US), the United Kingdom (UK) and Australia established Behavioural Insights Teams. They came to be known as the Nudge Units as they used nudge theories from behavioural economics.

It was hoped that this approach would help to achieve an increase in well-being as well as in economic growth and GDP. Nudge policies were used, with some success, to get people back to work, encourage them to pay their taxes on time and give them good reasons to save for future pensions or to study for improved qualifications.

They were not, however, sufficient to eliminate government budget deficits which remained at a high level. There was an ever-rising demand for public services but this was not matched by an equal rise in tax revenues so the deficit increased.

Eliminating the government budget deficit continued to be a problem. One method of dealing with the problem was to increase taxation. However, tax rates were already high and even higher tax rates would not result in the increase in revenue that was needed. An alternative option was to increase government borrowing. There might be a strong case to support economic growth, but increasing the deficit in order to achieve this could risk causing another financial crisis.

A third option was to reduce government expenditure on public services. This could be achieved without causing a reduction in the quality of the service and a reduction in well-being if increases in productivity took place. Without continued increases in productivity, however, further cuts in spending could have serious long-term detrimental effects, especially in health provision and education.

Table 1.1 Rank of selected countries by HDI and GDP in 2017

	Rank	HDI		Rank	GDP (millions US$)	
Norway	1	0.89		29	391 959	
Australia	3	0.86		13	1 359 723	
Germany	5	0.85		4	3 423 287	
UK	13	0.83		5	2 496 757	
Thailand	70	0.58		26	432 898	
Botswana	103	0.43		115	15 564	
Pakistan	117	0.38		43	251 487	
Eswatini	121	0.36		157	3 938	

Sources: RSA Issue 1, 2017

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(a) What is meant by *nudge theory*? [2]

(b) Consider whether the information provides any evidence that nudge theory could increase an economy's GDP. [6]

(c) Distinguish between demand-side and supply-side policies and identify and explain **one** demand-side policy and **one** supply-side policy from the information. [6]

(d) The information is entitled 'In pursuit of well-being'. Discuss whether the information supports the idea that GDP is a good measure of well-being. [6]

Section B

Answer **two** questions.

2 Discuss whether competitive markets in the private sector are the best way to achieve an efficient allocation of resources. [25]

3 **(a)** Explain what is meant by a 'consumer's equilibrium position' in indifference curve theory and how it can be used to form a demand curve. [12]

(b) One of the world's first filmed singing commercials advertised a soft drink. It stated that, for the same price, consumers would get twice as much of that drink than that of its major rival. This made it cheaper and was similar to a price reduction. Its rival responded by an advertising campaign stating that its own drink was superior to the first firm's inferior product.

Discuss whether it is possible to use diagrams from indifference curve theory to illustrate how a consumer might react to these two advertising campaigns. [13]

4 'A firm is fully aware of market conditions and its best rational interest would be achieved by pursuing the clearly defined objective of maximising profits.'

Consider whether this statement has any merit in different market structures. [25]

5 After negotiation, the workers in an industry obtained from employers higher wage rates. The employers' spokesperson said 'the cost of the deal would have to be met through improved productivity or by reductions in other costs'.

Analyse whether this deal can be incorporated into the economic theory of wages and consider the possible outcome for employment of such a deal. [25]

6 **(a)** Explain what economists mean by an inflationary gap and discuss why this is considered to be an economic problem. Use a diagram(s) to support your answer. [12]

(b) How far would you agree that the use of monetary policy is the most effective way to solve the problem of an inflationary gap? [13]

7 **(a)** 'Developing countries have low levels of productivity and a high dependency ratio.'

Explain the meaning of these **two** characteristics and consider whether they are linked. [12]

(b) Assess the view that foreign direct investment remains the key to economic growth in developing countries. [13]

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