Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/42**

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

2 hours 15 minutes

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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 The impact of economic concentration

By locating closely together manufacturers can often gain economic benefits. The makers of industrial machines save on transport and communication costs when they are close to the firms that supply their raw materials and components. A group of similar manufacturers attracts a large number of workers with similar skills. Educational and training facilities in the area will develop courses and research skills that support the local industry. Similar benefits also occur in service industries, for example with the concentration of information technology in Silicon Valley and finance in New York, Hong Kong and London, where groups of accountants, merchant bankers and specialist lawyers in mergers and acquisitions all exist in close proximity.

The scope for concentration depends on the size of the market. The recent trend towards globalisation has increased the size of the available market. This has allowed some internet retailing firms to overcome competition from other countries. But the overall impact has been the delivery of a wide range of goods and services at low prices that have benefited consumers everywhere. This suggests that globalisation has not been a 'zero-sum' game.

But concentration has not always been beneficial. Silicon Valley has significant traffic congestion and many local people are priced out of the housing market. Seven of the ten most polluted cities in China are in Hebei Province, a centre for the iron and steel industry. This concentration has caused large amounts of air, water and land pollution. The competing demand for a limited number of workers has also led to wage increases.

Geographical concentration of an industry can lead to problems when demand for the product changes. This has been evident in the United States (US) where the city of Detroit has experienced unemployment rates as high as 25% (see Fig. 1.1) and a fall in its population by over 60% because of the decline in Detroit's motor industry caused by vehicle imports and the movement of production to US states where trade unions are not as strong.

Source: The Economist, 21 October 2017

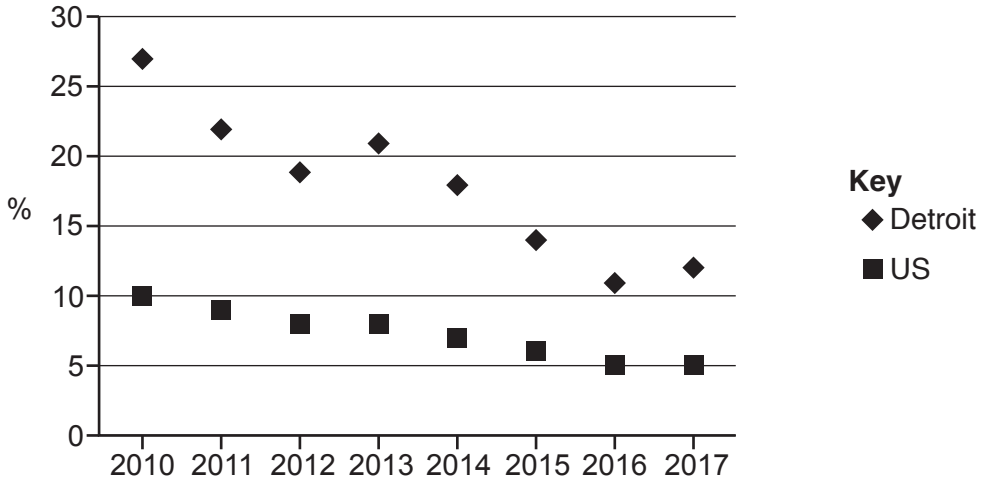


Fig. 1.1: Unemployment rates in the US and Detroit, 2010–2017

Source: US Bureau of Labor Statistics, accessed 12 May 2018

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(a) Explain the meaning of *zero-sum* in game theory. [2]

(b) Use the information to explain how external economies of scale develop. Show, with the aid of a diagram, how this would affect a firm's average costs. [5]

(c) There is a fall in demand for the product of a geographically concentrated industry. Analyse the economic implications of this for the area where the industry is located. [6]

(d) Consider how the negative externalities from concentrated industrial production can be reduced. [7]

Section B

Answer **two** questions.

2 **(a)** Use indifference curve analysis to explain the derivation of an individual demand curve for a normal good. [12]

(b) Discuss, using indifference curve analysis, whether the demand for a good always increases when its price falls. [13]

3 **(a)** Explain how the fixed and variable costs of a perfectly competitive firm affect its survival in the short and long run. [12]

(b) Explain what is meant by the principal-agent problem and consider its importance in relation to the objectives for a firm. [13]

4 'Government intervention in the microeconomy always improves efficiency.'

Discuss the validity of this claim. [25]

5 In January 2018 tax reductions were introduced in the US, and the Federal Reserve Bank (the US central bank) announced it would raise interest rates later in the year.

Discuss how these policies may cause conflicts for a government in trying to achieve its macroeconomic aims. [25]

6 **(a)** Compare the characteristics of developed and developing countries. [12]

(b) Discuss whether gross domestic product (GDP) is the best measure of a country's standard of living. [13]

7 **(a)** Explain the Keynesian theory of the determination of the rate of interest. [12]

(b) Discuss the impact on the economy of the introduction of quantitative easing (QE) by the central bank. [13]

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