Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays **May/June 2021**

2 hours 15 minutes

0420401845

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. Any blank pages are indicated.

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Section A

Answer this question.

1 Competition in passenger aircraft manufacturing

Two companies produce all of the world's passenger aircraft with a seating capacity of over 150 passengers. The supply of these is about 1600 aircraft a year and is divided almost equally between the two competing companies, who both benefit from extremely strong brand identity and customer loyalty.

The aircraft are made in two versions: single-aisle aircraft that carry 200 passengers and double-aisle aircraft that carry 300 to 350 passengers.

In 2018 both companies took over other firms which produced a range of aircraft seating between 40 and 150 passengers. The owners of the other firms had difficulties in financing and developing their new aircraft.

Recent competition in the aircraft manufacturing industry has aimed at improving fuel efficiency, developing longer non-stop flying ranges and developing very large aircraft with a capacity of 500 passengers. The companies have been successful in achieving the first two aims.

The third aim of developing very large aircraft was intended to move larger numbers of passengers between 'hub' airports, where they would transfer to smaller aircraft for onwards transport to regional airports. Whilst it has achieved increased passenger capacity, this development has not been a success for the airlines that bought these very large aircraft. The need for these was undermined by the success of the first two competitive developments.

The nature of the aircraft manufacturing industry is that it involves significant fixed costs. The research and development (R&D) costs of a new aircraft can rise to US$26 billion.

Currently the two companies are concerned that China, in its drive to increase the value of its exports, will enter the aircraft manufacturing industry in the next 10 to 15 years and add a new level of competition.

Source: adapted from The Economist, 5 February 2019 and 27 April 2019

(a) Using the information, explain the market structure that exists in aircraft manufacturing. [2]

(b) Explain why the two companies might be concerned about the potential entry of China into the aircraft manufacturing industry. [4]

(c) 'The nature of the aircraft manufacturing industry is that it involves significant fixed costs.'

(i) Using an example from the information, explain the meaning of fixed costs. [2]

(ii) With the aid of a diagram, explain the link between an increase in an aircraft manufacturer's level of output and its average fixed costs. [4]

(d) Discuss whether economic theory can explain how two companies will compete with each other when they dominate a market. [8]

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Section B

Answer **two** questions.

2 **(a)** What is meant by 'efficiency' in relation to the use of resources? [12]

(b) 'Market failure can always be overcome to increase economic efficiency.'

How far do you agree with this statement? [13]

3 **(a)** Use indifference curve analysis to explain how an individual's demand curve for an inferior good is derived. [12]

(b) Discuss the relative importance of marginal cost and average variable cost in determining short-run production decisions. [13]

4 Evaluate whether the theory of wage determination can account for wage differentials (i) between a director and a general worker in the same company and (ii) between two workers doing the same job in different companies. [25]

5 Discuss the extent to which the Human Development Index (HDI) and the Measure of Economic Welfare (MEW) provide better measures of living standards than Gross National Income (GNI). [25]

6 **(a)** Explain the causes of unemployment and consider which is most likely to occur in a developing country. [12]

(b) Discuss whether solving the problem of unemployment should be the main policy objective for the government of a developing country. [13]

7 **(a)** Explain what is meant by quantitative easing (QE) and consider whether it is an effective policy to be used in a recession. [12]

(b) 'Policies to achieve economic growth will inevitably cause a government budget deficit.'

How far do you agree with this statement? [13]

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