Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **May/June 2022**

2 hours 15 minutes

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.

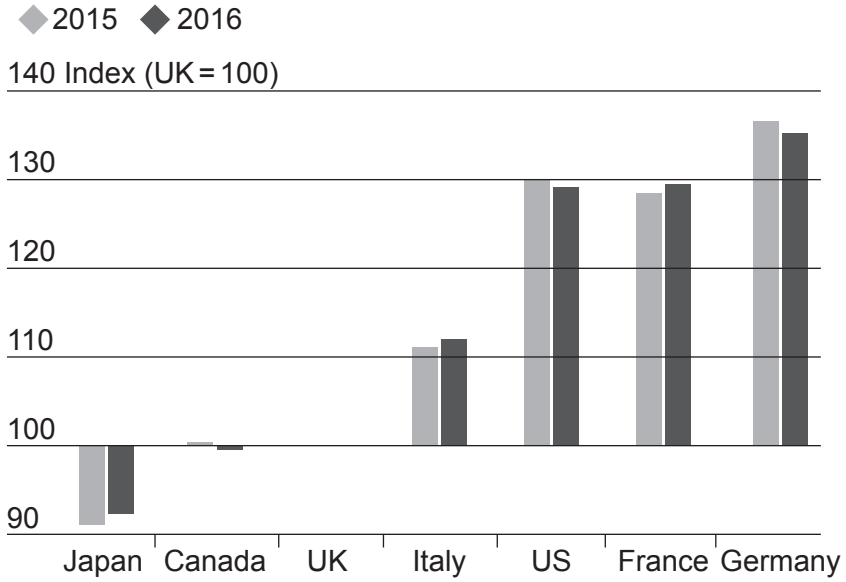
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Section A

Answer this question.

1 **Productivity in the G7 countries**

The G7 is a group of countries that have some of the world's major advanced economies. Productivity in the G7 countries varies, as shown in Fig. 1.1 below, with United Kingdom (UK) performance as the base index of 100.



Source: The Sunday Times*, 24 June 2018*

Fig. 1.1: Gross domestic product per hour worked, G7 countries, for 2015 and 2016

Productivity in the UK was one of the worst in the G7. Poor management practices and lower levels of skills in the workforce were the main reasons for the UK's position. In low wage, high employment sectors of the UK economy, the performance compared unfavourably with five of the G7 countries. In retailing, the UK was 40% lower than the performance in the United States (US). In hospitality industries the UK had a 45% lower rate than France.

Tackling poor productivity is about innovation, investment and improving infrastructure as well as labour skills.

The Federal Reserve Bank of the US suggested that innovation is one of the keys to productivity differences among the G7 countries. Innovation can occur using different factor inputs such as IT hardware and software, investment in staff training, research and development (R&D) and marketing. In 2015, the US had the most advanced software and IT services industries in the world accounting for a third of the global IT market. In 2018, the industry accounted for 12% of private sector employment and contributed 7.1% of GNP. Three of the top ten IT companies in the world were based in the US.

In 2014, in the UK, businesses spent US$26 billion on R&D, notably on digital technology and biomedical research projects that are world-renowned. However over the past 25 years R&D in the UK has only averaged between 1% and 1.3% of GNP and falls behind Japan with 3.4%, Germany 2.9%, the US 2.7% and France 2.2%.

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There were concerns about the UK government reducing spending but in 2018 it made a commitment to a large investment programme in transport and communications to provide a boost to productivity. At that time one threat to the UK economy was its decision to leave the European Union's single market. The decision created uncertainties for investors and the balance of foreign direct investment (FDI) showed that there were more investments abroad than there were foreign investments in the UK. This made some UK industries, such as car production, vulnerable. The central bank in the UK has stated that foreign owned car manufacturers in the UK invest heavily in R&D and their presence boosts the productivity of labour. It was thought this may change in the future.

Sources: The Sunday Times 24 June 2018, David Smith (Economic Outlook). 'We don't need a new target but we must raise our game'.
The Times 27 June 2018, David Smith. 'Inward Investment so important to Britain is now at risk'.
Office for National Statistics, Britain, 2016

(a) Explain what is meant by productivity. [2]

(b) The information suggests that innovation and R&D are important in ensuring high productivity. Is this statement consistent with the evidence in Fig. 1.1? [4]

(c) Use the information to comment on productivity in the US and indicate which factors contributed to its performance. [6]

(d) Use the information to discuss whether or not it is likely that the UK's productivity within the G7 countries will improve. [8]

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[Turn over

Section B

Answer **two** questions.

2 **(a)** Explain what economists mean by a public good and discuss why the provision of such a good is associated with market failure. [12]

(b) Discuss the extent to which monopoly producers and the consumers of their products might benefit from the existence of barriers to entry. [13]

3 **(a)** Firms in perfect competition and firms in monopolistic competition will only achieve normal profits in the long run. This means that firms in both these types of market structure are equally efficient.

Discuss, with the help of diagrams, the extent to which you agree with this statement. [12]

(b) Interdependence is a key characteristic of oligopoly firms. This creates a problem regarding the pricing decisions made by such firms.

Explain this statement and discuss the extent to which game theory can help to solve this problem. [13]

4 **(a)** Discuss the costs and benefits of a trade union intervening to influence the wages of workers in a specific occupation. [12]

(b) The introduction of a national minimum wage will always benefit employees at the expense of employers.

Discuss the extent to which you agree with this statement. [13]

5 With the help of a circular flow diagram discuss how a policy of export-led growth might affect the standard of living in a developing economy. [25]

6 **(a)** Explain what is meant by a transmissions mechanism of monetary policy and consider why it might not work in practice. [12]

(b) Discuss the role and importance of the commercial banks in a developed economy. [13]

7 Keynesians argue that increasing budget deficits will solve the problem of unemployment. Monetarists argue that supply side policies are more effective in reducing unemployment.

Consider which view is more likely to be correct. [25]

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