UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/43**

Paper 4 Data Response and Essays (Supplement) **October/November 2010**

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

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READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A
Answer **Question 1**.
Section B
Answer any **two** questions.

You may answer with reference to your own economy or other economies that you have studied where relevant to the question.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **3** printed pages and **1** blank page.

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Section A

Answer this question.

1 The Quality of Food and Consumer Choice

New discoveries about the link between diet and health have led to increased demand for higher-quality foods. Government policies on labelling also influence how the markets for food develop. Labelling increases consumers' knowledge, which affects their purchasing patterns. Food producers have responded to these changes by drawing attention to the health aspects of their products.

On the demand side of the market, consumers choose food in order to obtain utility, part of which comes from their belief in the value of food to maintain or improve their health. The healthier the food, the more benefit to the consumer. However, as with demand in general, consumers will reduce the amount they are willing to pay for each additional unit of a food.

On the supply side of the market, producers provide higher-quality food if it is profitable to do so or if they are required to do so. Often, to increase quality needs extra research, which is costly. In general the marginal cost of providing an increase in food quality is likely to be represented by an upward-sloping curve. Producers may cover these extra costs by product differentiation.

All this assumes that both buyers and sellers are fully informed about the nature of the product and that market price reflects all the costs borne and benefits enjoyed by society. However, it should be remembered that

- sellers are better informed about quality than consumers,
- consumers may have misunderstandings about the risks of different foods and
- information about food quality may have the characteristics of a public good.

(a) The article says that consumers will reduce the amount they are willing to pay for each additional unit of a product. Why do they do this? [4]

(b) Explain what is meant by product differentiation and how it might benefit producers. [3]

(c) Two food products are offered for sale. The producers of one carry out research to make it safer and increase its price to pay for the research. The producers of the other try to keep their share of the market by lowering its price.

Show the effects of these changes using a budget line diagram. [4]

(d) The article says that producers have responded to changes in demand and now draw attention to the health aspects of their food products

Does the evidence indicate that the market will always achieve the best allocation of resources in food production? [9]

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Section B

Answer **two** questions.

2 **(a)** Explain the significance of the distinction between fixed and variable cost for the pricing and output decisions of a firm. [12]

(b) Discuss whether the pricing and output decisions of a firm are determined solely by an estimate of revenue and cost. [13]

3 It is suggested that there are so many benefits from large-scale production that all firms should be encouraged to grow in size and there should be no government restriction on such growth. Do you agree with this opinion? [25]

4 Do you agree that the higher wages paid in some occupations occur just because some trade unions have a stronger bargaining position than others? [25]

5 **(a)** Explain what you consider to be **three** economic issues in the country in which you live and analyse which is the most significant. [12]

(b) Discuss what measures might be recommended to try to deal with the most significant issue. [13]

6 Hurricanes can occur in some parts of the world. Major flooding is caused, crops are ruined and the wind destroys homes and factories. People's standard of living is severely affected. Some blame climate change for unusual weather conditions.

(a) Explain how a country might measure its standard of living. [12]

(b) Discuss how far a country's standard of living is determined by factors beyond its control. [13]

7 **(a)** Some African countries are richer in natural resources in the form of minerals and land than some developed countries. Why then are these same African countries referred to as developing countries? [12]

(b) Use the concept of the multiplier to discuss how an increase in investment in a developed country might affect both the developed country and developing countries. [13]

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Section A Question 1 © *The Quality of Food and Consumer Choice*; http://www.jstor.org/stable/1243501; 30 March 2009.

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