UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays (Supplement) **October/November 2011**

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

1750403436

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.

DC (SM/SW) 36516/2
© UCLES 2011

Section A

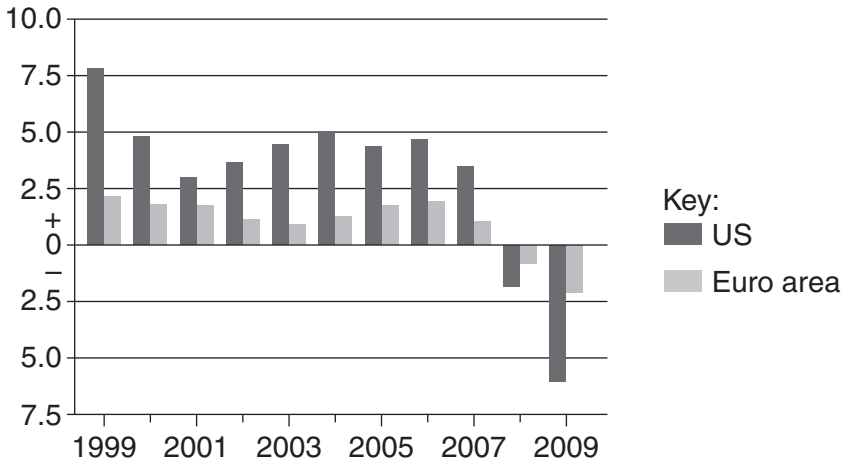
Answer this question.

1 **Unemployment and Spending**

In 2009 a recession occurred in America and Europe where unemployment rose. As well as seeing their incomes fall as employers cut wages and jobs, households also saw the value of their homes and savings shrink dramatically. This led to a swift reaction from consumers who reduced spending and increased savings, and planned to live within their income.

The change in consumer spending habits, as shown in Fig. 1, in both America and the European countries in the Euro area, caught retailers and manufacturers by surprise. In response companies tried to increase revenues by using advertising and sales promotions, often without success.

Fig. 1: Annual % change in volume of retail sales



Sources: US Census Bureau; Eurostat

There was a trend towards buying environmentally-friendly products and healthy foods although consumers became less willing to buy them at the higher prices at which they were normally sold. Producers launched lower-priced products to avoid losing customers.

Interestingly, while sales of luxuries such as long-haul holidays declined, consumers looked for something less expensive to make them feel good. Purchases of cosmetic items, such as skincare products and fragrances, increased in the recession. Paying by cash, instead of by credit card, gained popularity. 80% of consumers surveyed said they preferred to pay by cash rather than by credit card.

Consumers also began to place more trust in recommendations, searching for information on products in reviews on websites, rather than buying by brand name alone. The recession has made consumers more likely to demand value for money.

© UCLES 2011

(a) In which year in the US did retail sales stop increasing? [1]

(b) Compare the trend in sales between the US and the Euro area between 1999 and 2001. [3]

(c) Draw a budget line diagram and explain how it might be used to illustrate

(i) lowering the price of a product and

(ii) a fall in income. [4]

(d) Briefly explain the equi-marginal principle of utility and consider whether it still applies if consumers pay more by cash and less by credit card. [4]

(e) Unemployment is often said to be a disadvantage for all businesses. Assess whether the article provides evidence to support this opinion. [8]

© UCLES 2011

[Turn over

Section B

Answer **two** questions.

2 The removal of imperfections in the market leads to an increase in efficiency in the allocation of resources. Discuss whether you agree with this view. [25]

3 **(a)** Explain what is meant by normal and abnormal profit and when such profits might occur. [12]

(b) Discuss what economic theory suggests are the characteristics and possible behaviour of firms in an oligopolistic market. [13]

4 Assess the opinion that the difference in the supply of labour is the only reason explaining the difference in wage rates between occupations. [25]

5 **(a)** Two economic indicators are Gross Domestic Product (GDP) at market prices and Net National Income (NNI) at factor cost. Explain what is meant by an economic indicator and the differences between the two indicators mentioned. [12]

(b) Discuss whether GDP is the best indicator which can be used to compare the standard of living in a developing country with that in a developed country. [13]

6 **(a)** Explain the main macroeconomic aims a government might have and analyse which would be the most important for your country. [12]

(b) Discuss whether it is possible to aim for all the main macroeconomic objectives without causing conflicting outcomes. [13]

7 It is reported that some countries are concerned about the expected increase in the proportion of older people beyond working age and also about the rise in the number of immigrants.

(a) Explain how these expected changes might have an impact on the private and public expenditure in such countries. [12]

(b) Evaluate the policies a government might use to influence the distribution of income in an economy. [13]

Copyright Acknowledgements:

Question 1 *Consumer Psychology*; www.economist.com/displaystory.dfm?story_id=13415207 accessed on 31/08/09 19.30; *The Guardian* 29/08/09 p.3

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.