UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/42**

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

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

2182602505

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

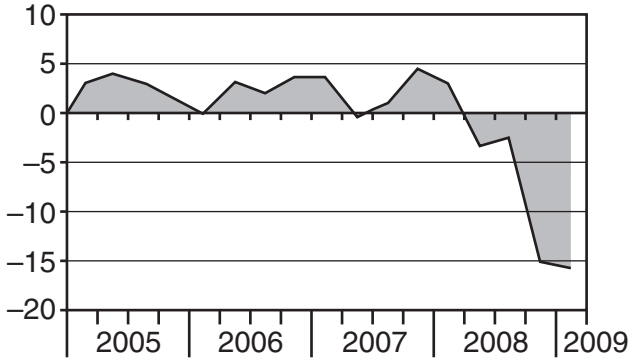
Answer this question.

1 A comparison of the Japanese and UK economies

By the start of 2009, Japan's economy had suffered its worse contraction for over 50 years. The world's second-largest economy saw a fall of 15.2% in Gross Domestic Product (GDP) between 2008 and 2009. Japan's economy is dependent on exports, which fell by a record 26% in the last quarter of 2008, forcing companies to cut production as they had much spare capacity. Business investment declined by 10.4% during 2008. Weaker domestic consumer demand was also a cause in the fall of GDP in 2008 but this declined by only 1.1%, much less than business investment demand. However, by March 2009 industrial production started to increase and there were hopes that the economy would start to grow again.

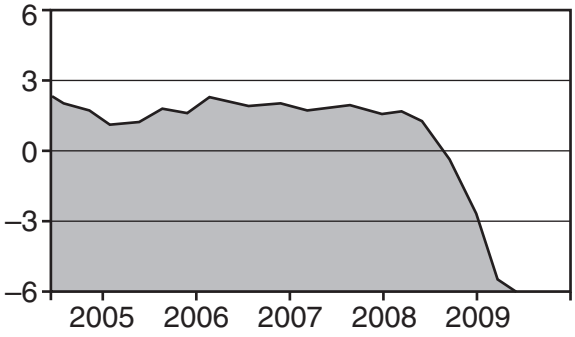
In the UK, between 2008 and 2009, GDP fell by 5.7%. It was thought that it would take some time to reverse the recession. Export orders continued to decline sharply and this, an industry leader said, 'is a particular concern as we are not seeing much of a boom in exports from the weakness of sterling'. Also, manufacturers had cut costs, reduced the number of people employed and experienced reduced profits. However, they still had excess stocks and it was not thought likely that investment would increase quickly. Consumer spending declined as consumers were unsure of the future. With rising unemployment, likely tax increases and a lack of credit facilities from the banks, the decrease in spending was hardly surprising. The inability of consumers to obtain credit caused a decline in house building, which had further negative effects on employment in the construction industry.

Fig. 1: Annual % change in Japan's GDP



Source: Japan Cabinet Office

Fig. 2: Annual % change in UK's GDP



Source: Thomson Datastream

(a) Why is GDP an important economic indicator? [3]

(b) Use Figures 1 and 2 to compare the change in the GDP of the UK and Japan between 2005 and 2009. [4]

(c) The article states the sharp decline in export orders 'is a particular concern as we are not seeing much of a boom in exports from the weakness of sterling.'

Analyse what this means. [5]

(d) Discuss whether the evidence suggests that the changes in GDP in Japan and the UK were caused by similar events. [8]

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Section B

Answer **two** questions.

2 **(a)** Explain the link between a consumer's expenditure and the equi-marginal principle of utility. [12]

(b) Analyse what is meant by economic efficiency and assess whether efficiency is always achieved in a market. [13]

3 **(a)** Consider whether small firms should be encouraged in an economy. [12]

(b) Economic theory states that large firms have lower average costs than small firms. Discuss whether this statement is necessarily true. [13]

4 The market is the fairest means of wage determination.
To what extent do you support this opinion? [25]

5 **(a)** Explain what is meant by government macroeconomic policies and government microeconomic policies. Illustrate your answer with **two** types of policy from each. [12]

(b) Consider how government economic policies might be used to help a country out of a recession. [13]

6 **(a)** For what purposes do people demand money? [12]

(b) Assess, using the concept of liquidity preference, the possible links between an increase in the supply of money, the rate of interest and investment. [13]

7 Some economies are said to be developing while others are developed. Explain the difference between the two and discuss whether the problems of a developing economy would be solved if it achieves developed status. [25]

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Copyright Acknowledgements:

Question 1	© Business Section; The Daily Telegraph; 21 May 2009.
Question 1	© Focus Section; The Sunday Times; 26 July 2009.
Question 1	© Japan Economy Watch; http:japanjapan.blogspot.com; 26 May 2009.

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