UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/43**

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

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

3159206279

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.

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Section A

Answer this question.

1 Farmers, consumers and climate change

Some people have become concerned about the amount of poisonous gases and carbon emissions being produced. They say it will lead to a change in climate which will have an economic effect.

When buying products, consumers sometimes ask 'what country has it come from?' They are concerned about the long-term economic effects of the exploitation of resources. Some argue that carbon emissions caused by transport should be reduced. They think people should buy local products, even though they may be more expensive, and not buy those which have been sent long distances.

The situation is not as straightforward as they suggest. Research by one university shows, for example, that carbon emissions produced by growing flowers in the powerful Kenyan sun and flying them to the UK can be less than one-fifth of the carbon emissions from producing and transporting flowers from Holland. Holland is much nearer to the UK, but uses greenhouses that need to be lit and heated.

Transport does have an environmental and social cost but most of that cost comes from domestic road travel. Air-freight to the UK from Africa accounts for less than 0.1% of UK carbon emissions, and the £1m a day that UK shoppers spend on food from Africa is vital to ease the poverty of millions of Africans.

It is said that the world's poorest people in developing countries, least responsible for climate change, are most under threat. In Bangladesh, excess rains and floods mean that farmers can no longer grow their crops. One family said that for the past seven years crops failed because of the floods and they could not buy clothes or food, or pay for education.

In many African countries small farms are the largest private sector activity. They provide jobs and enable growth of rural businesses. Agriculture accounts for about 30% of Gross Domestic Product (GDP) in sub-Saharan Africa, at least 40% of its exports and up to 80% of employment. Agricultural production is subject to unpredictable weather, which creates economic uncertainty. A more stable farm economy could overcome that uncertainty by creating jobs and associated small-scale manufacturing such as food processing.

An African farmer said 'the idea of supporting African farming has been forgotten in favour of reducing the carbon emissions of the developed world by abandoning the trade with developing countries on which local people have come to depend. It is made worse by the fact that the local people do not eat the crops that are grown for export, so the food cannot be sold locally.'

(a) Explain what is meant by a developing country. [4]

(b) Explain why some suggest that consumers in a developed country should buy local products and not products from developing countries. [2]

(c) Marginal utility theory explains how a rational consumer behaves. Briefly explain this idea and consider whether buying a more expensive product contradicts this theory. [6]

(d) Is there any evidence in the article to support the opinion that the poorest people in developing countries are most under threat from climate change? [8]

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Section B

Answer **two** questions.

2 'There is little difference between perfect and imperfect markets. They all have profit maximisation as an aim, they all are subject to competition and they all exploit resources for the producers' benefit and not the consumers.'

To what extent do you agree with this statement? [25]

3 Car companies employ thousands of people and are an important part of the international trade of some countries. During the recession in 2009 some governments gave subsidies to consumers to encourage them to replace their old cars with new ones.

(a) Explain what effects an increase in consumer expenditure and an increase in government subsidies might have on national income. [12]

(b) Discuss whether diverting expenditure to the car industry might conflict with other macroeconomic government objectives. [13]

4 **(a)** In a perfectly competitive labour market, is the demand for a worker's services the main factor influencing the wage rate of that worker? [12]

(b) Analyse how the wage rate paid might change if labour and product markets move from being perfectly competitive to being imperfectly competitive. [13]

5 In 2009 the International Monetary Fund (IMF) said that 'it expected global economic growth to fall below zero making it the worst performance in most of our lifetimes.'

(a) Explain how economists measure a country's economic growth rate. [12]

(b) Assess the effectiveness of economic growth as an indicator of how a country's standard of living compares with other countries. [13]

6 **(a)** Explain the three reasons, according to the liquidity preference theory, why people demand money. [12]

(b) Use the liquidity preference theory to discuss the possible consequences of an increase in the supply of money. [15]

7 Economists talk about the need for resources to be used efficiently. Explain what they mean by this and discuss whether it is possible in practice to achieve such efficiency. [25]

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