UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays (Supplement) **October/November 2013**

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

8178552153

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 **4** printed pages.

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Section A

Answer this question.

1 Banks, supermarkets and oligopoly market power

Some banks have been accused of having a control over the market that enabled them to get away with poor service, confusing products and dishonest claims about free banking. However, the banks maintained that their size created economies of scale, the benefits of which were passed on to consumers in the form of lower prices. A report stated that the banks' claim was not correct. Any benefits went mainly to shareholders and not to consumers. The banking industry, it said, had many of the characteristics of an oligopolistic market. The report said that charges for services were often difficult to determine and that obstacles which prevented customers switching accounts to rival banks meant that the banking industry was not competitive. *(Source: The Independent)*

Another industry dominated by a few large firms is food retailing. Morrisons is such a firm with 420 stores. It is the fourth biggest supermarket in the UK with a 12.3% market share in 2011 (its three main rivals had market shares of 30.3%, 16.9% and 16.5% based on the value of total sales). Unlike its bigger competitors, Morrisons owns many of the factories from which it gets its food. This vertical integration gives it an advantage over rivals. In addition, some of the products it sells are made in its supermarkets. It started to produce its own products in order to save costs. The stores have, for example, their own bakeries and butchers. The supermarket has plans to introduce home deliveries, on-line ordering and take-away meals. Its aim is to grow further. It recognises that it would take years to match the market share of its bigger rivals but it wants to be a 'more dangerous' competitor. (*Source: The Sunday Telegraph)*

Table 1: Sales and Market share of UK supermarkets and smaller shops

Supermarket and shops	Value of Sales December 2009 to February 2010 £m	Market Share % of total Sales 2010	Value of Sales December 2010 to February 2011 £m	Market Share % of total Sales 2011	% Sales change Dec. 2009–Feb. 2010 compared to Dec. 2010–Feb. 2011
Tesco	7102	30.4	7352	30.3	3.5
Asda	3973	17.0	4095	16.9	3.1
Sainsbury's	3799	16.3	3998	16.5	5.2
Morrisons	2865	12.3	2992	12.3	4.4
All other food shops	5630	24.0	5851	24.0	3.9
Total	23369	100.0	24288	100.0	3.9

(Source: http://www.kamcity.com)

(a) The supermarket claims that it benefits from integration. The banks maintain they have economies of scale. Distinguish between integration and economies of scale. [4]

(b) Analyse how any increased integration might affect the costs of a supermarket. [4]

(c) Comment on the performance of Morrisons between 2009–2011 compared with its larger competitors. [4]

(d) Is there enough evidence in the information to conclude that banking and food retailing are oligopolistic markets? [8]

Section B

Answer **two** questions.

2 Choice is an essential part of the analysis in economic texts.

(a) Explain how economic analysis suggests that consumers make a choice when buying products and how they react to price changes. [12]

(b) Discuss the possible choices a firm might face when deciding what business objective it should have. [13]

3 The economic theory of wages can explain wage determination in a perfect market. This, however, is of little use as all markets are imperfect and the theory has no relevance in such markets.

Discuss whether you agree with this statement. [25]

4 In 2011, an economic advisor recommended that low interest rates in a country should continue because of the uncertainty about the ability of the economy to grow. *(Source: The Independent)*

(a) Explain the possible link between interest rates and the economic growth of an economy. [12]

(b) Discuss what other policies a government might use to encourage economic growth. [13]

5 'The many difficulties involved in measuring living standards mean that it is never possible to be certain that the people in one country are better off than those in another country.'

How far do you agree with this comment? [25]

Please turn over for rest of the questions.

6 **(a)** Explain the possible causes of a rise in unemployment. [12]

(b) In 2011, a government announced that it would reduce the number of people employed in the public sector and that pensions would be paid at age 65 rather than age 60.

Discuss how, according to the liquidity preference theory, a person's demand for money might be affected by the above announcement. [13]

7 The increase in air travel has led to the pressure to build larger or extra airports. Airports create jobs, provide the facilities for international trade and bring income to the country. They also can cause noise pollution and sometimes destroy areas of natural beauty.

(a) Explain what is meant by efficiency in the use and the exploitation of resources. [12]

(b) Discuss whether the creation of income through such projects as the building of airports should be left to the private sector. [13]

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Question 1 Table 1 © http://kamcity.com.
Question 4 © *The Independent* 4.4.11.

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