UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/42**

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

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

0081901484

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 objectives of firms**

Unilever, a multinational global food manufacturer, with many branded products, has announced a partnership with Oxfam, the international relief agency, to help farmers in developing countries. Unilever welcomed the partnership and said that their objective was 'to double the size of our business while halving our environmental impact. We want to do this by maximising the positive social impact of our business. A major element of this is to promote better livelihoods by incorporating 500 000 small farms in developing countries and small-scale distributors into our supply chain. This way we hope to have a positive impact on the lives of people living in poverty.'

Historically, companies in the food and drink industry have tried to improve efficiency and minimise costs by reducing the number of international suppliers they use. However, Oxfam said that firms are now starting to consider new ethical business models about how they source their produce. There is a need to move away from a short-term focus on profit margins and consider long-term objectives.

In 2011 a drugs company, GlaxoSmithKline, (GSK), manufactured a new medicine which had a higher market price than a rival medicine from another company. The medicine was expensive to research and produce. The expected annual revenue for the company from the sale of the medicine was estimated to be around US$314m; the annual cost of hospital treatment with the medicine for just one patient was around US$23 000. A government negotiated a new type of deal with GSK. The company agreed that it would supply public sector hospitals with the medicine at the same price as its rival's product. It would also return some of the revenue it received from the hospitals if its product proved to be less successful than the rival product. The government said it was introducing a 'value-based pricing model'. A spokesperson for GSK said 'we are moving in the direction where price is determined by value and value is determined by evidence'.

(Source: The Sunday Telegraph)

(a) In what type of market structure is Unilever likely to be operating? Explain your answer. [3]

(b) Why might it be thought that there could be a conflict between Unilever's stated objective and its policy concerning its suppliers? [5]

(c) GSK's new drug was expensive to research and develop. Why might a company conduct research and development (R&D) if it is so expensive? [4]

(d) Discuss whether there is enough evidence in the information to conclude that the objective of Unilever and GSK is not that of profit maximisation. [8]

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Section B

Answer **two** questions.

2 **(a)** Use the theory of marginal utility to analyse how a consumer will normally buy more of a product at a lower price than at a higher price and explain how this theory can be used to derive a market demand curve. [12]

(b) Economic texts examine market equilibrium. Discuss whether it is the consumer or the producer who determines the equilibrium market price and whether consumers have the same power in all types of market structure. [13]

3 **(a)** Analyse whether in a perfectly competitive labour market it is true that a profit maximising firm will employ labour only up to the point where the marginal revenue product of labour is at its maximum. [12]

(b) Discuss whether the marginal revenue productivity theory of wages is useful in explaining wage determination in an imperfect market where there is a trade union. [13]

4 In the economic recession of 2011 many private sector firms were still able to announce that they were successful and had made substantial profits. Large bonuses were paid to directors and shareholders received large dividends.

Discuss whether it is better for an economy if the allocation of resources is left entirely to the private sector operating through the market system. [25]

5 **(a)** Explain, using the concept of the multiplier, the possible link between a fall in interest rates and an increase in national income. [12]

(b) Discuss whether the use of fiscal policy is the only effective means of stimulating economic growth. [13]

6 While the overall aim may be to improve the economy, governments find that their macroeconomic policies sometimes conflict with each other. Explain why some government economic policies may conflict with each other and discuss which should be given priority. [25]

7 A country has a high level of unemployment and a low level of GDP. Discuss whether this situation is a good indication that the country is a developing country. [25]

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Copyright Acknowledgements:

Question 1 © ADAPTED: Jonathan Sibun; *Glaxo offers NHS rebate if latest cancer drug fails to outperform Pfizer's rival*; Business Section; Sunday Telegraph; 26 December 2010.
Question 1 © ADAPTED: Kamal Ahmed; *Unilever seals Oxfam deal*; Business Section; Sunday Telegraph; 26 December 2010.

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