Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays (Supplement) **October/November 2014**

2 hours 15 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

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.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **3** printed pages, **1** blank page and **1** insert.

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Section A

Answer this question.

1 Integration and market supply

Article 1. Cisco is a telecommunications company that profited from the rapid growth of the Internet in the 1990s by producing a wide range of equipment that became vital for companies providing internet services. It is now a world leader in this area.

In 2012 Cisco announced its intention to acquire Lightwire Inc. another telecommunications company. Cisco said that the acquisition would result in the integration of two comparable businesses. It would allow it to meet customers' demands for smaller and more powerful equipment and at the same time customers' capital and operating costs could be reduced. Cisco said Lightwire's employees would become Cisco employees.

Source: http://newsroom.cisco.com

Article 2. In Australia two big supermarket chains control up to 80% of grocery sales. They wish to increase the percentage of products carrying their own supermarket label (own-brand) from the current 20% of stock to over 40%. Analysts say this aim implies that supermarkets will engage in integration by taking over their suppliers and they are concerned about the effect on the 225 000 workers who manufacture alternative brands. They are also concerned about the effects it will have on consumers, competition and on Australia's capabilities as a food exporting nation.

Many manufacturers rely on the two dominant supermarkets as a means of getting their products to consumers. The supermarkets have adopted an aggressive attitude towards the manufacturers, for example, by forcing them to accept lower profits for their products. It is argued that stronger supervision by Australia's Competition and Consumer Commission is required to monitor the supermarkets to ensure fairness and prevent a misuse of market power.

Some manufacturers, as well as making their own products, also supply the supermarket with its own-brand products which are usually cheaper for the consumer. This provides both volume and certainty of sales for the manufacturer in the short run. However, it means that the manufacturer is effectively competing with itself, risking its long-term competitiveness and cutting its own long-term profit margins. This is because the supermarkets are less likely to stock the manufacturers' brands once their own-brand is established.

Analysts draw attention to the possible serious results of this for research and innovation. With reduced long-term profitability, Australian manufacturers would not invest in research. Without innovation the food processing sector will decline and also without such a sector Australia's food exports will fall. Australia's long-term food security will be weakened as it becomes more dependent on food imports.

Source: http://www.theage.com.au

(a) Distinguish between the type of integration likely to occur in Australian supermarkets and the integration intended by Cisco. [3]

(b) What is likely to happen to employment if both examples of integration occur? [3]

(c) The article concludes that Australia's long-term food security will be weakened. Analyse why this conclusion is made and discuss whether you support it. [4]

(d) Does the evidence in the article suggest that integration is beneficial? [10]

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Section B

Answer **two** questions.

2 'The purchases a consumer makes are based upon marginal utility. It is this alone that determines market equilibrium in perfect competition. Supply has no relevance.'

Is this true? [25]

3 Discuss the similarities and differences between a firm's likely price and output policy in perfect competition and oligopoly. [25]

4 A huge company with a turnover of $99.3 billion paid its chief executive $10.9 million in 2011. At the same time it was reported that the company did not pay what was regarded as a living wage to all its employees.

(a) Use economic analysis to help explain why there can be wide differences in wage rates. [12]

(b) Discuss how this analysis could be adapted if a trade union intervened in the process of wage determination. [13]

5 **(a)** Identify **two** government macroeconomic aims and analyse how a boom will bring beneficial changes for consumers and producers. [12]

Lord Skidelsky, Keynes's biographer, stated that Keynes believed that 'to cut government spending was completely the wrong policy in a slump'. *(Source: The Times.)*

(b) Discuss why cutting government spending might be considered to be the wrong policy in a slump. [13]

6 **(a)** Use liquidity preference theory to explain why there is a demand for money. [12]

My higher income will make me happier. It will make other people unhappy.

(b) Discuss whether the main aim of government policy should be to achieve a more equal distribution of income. [13]

7 **(a)** How effective is the measurement of economic growth as an indicator of how a developing country's standard of living compares with other countries? [12]

(b) Discuss whether economic growth would necessarily lead to a more efficient use of resources in developing countries. [13]

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Copyright Acknowledgements:

Question 1 *http://newsroom.cisco.com/press-release-content?type=webcontent&articleId=675179*
http://www.theage.com.au/national/accc-to-target-top-supermarkets accessed 25.03.12
Question 5 (a) *The Times. Times Modern 20.10.11 p5*

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