Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays (Supplement) **October/November 2015**

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 **Economic growth and happiness**

Research in the United States has demonstrated that economic growth – and improved wages that usually accompany it – improves happiness and well-being. The richer we are, the happier we are. There is no maximum wealth level beyond which higher incomes cease to increase well-being.

The best way to promote happiness is, therefore, to maximise economic growth and ensure that as many as possible are able to enjoy higher incomes. Every tax change should be judged against how it will affect GDP. Increasing taxes on higher incomes will reduce disposable income and not increase well-being.

Recently, real wages have been falling. Faster growth is necessary to overcome this. Without faster growth, people will become poorer and, therefore, unhappier. Further, without growth, it will not be possible to keep spending more on essential services such as health care without cutting expenditure in other areas.

The results of the research are not good news for those who argue that what makes people happy is not what they earn in absolute terms, but what they earn compared with others. An opposing opinion suggests that it is wise to reduce differentials in earnings. For example, high earners, such as investment bankers, should be taxed more heavily.

The results are also not welcomed by those, including environmentalists, who say that it is stressful and unsustainable for economies to focus on increasing their GDP. There should be careful consideration of future economic development. The country should not develop certain resources in case they increase carbon emissions and result in allocative inefficiency.

An example of this is found in the UK. There is a proposal to build a new runway at London Airport. The new runway will enable the number of flights from the airport to be increased with an estimated net private benefit from the expansion which is said to be £5 billion over 70 years. Environmentalists say that the calculation ignores many costs, such as what will be the effect of extra road journeys to and from the airport each year; what will be the effect on house prices; and what will be the cost to the environment of increased emissions?

Increasing investment and the resulting increase in GDP do not always bring increased happiness and welfare.

Source: Adapted from London Evening Standard, 2012; Daily Telegraph, 2013

(a) Briefly explain how, according to the article, an increase in economic growth increases happiness. [4]

(b) With the help of a diagram, explain how an increase in indirect tax rates might affect a consumer's total utility. [4]

(c) Consider whether you support the opinion in the article that it is a good idea to increase taxes on the rich. [4]

(d) Discuss whether consumer welfare is always increased if economic growth increases. [8]

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Section B

Answer any **two** questions.

2 There was a period when many publicly owned enterprises were privatised. Investors said that privatisation would increase competition, encourage greater efficiency and raise profits.

(a) Explain what is meant by economic efficiency. [12]

(b) Discuss how the privatisation of an industry might affect economic efficiency. [13]

3 **(a)** Analyse the relationship between the cost curves of an individual firm and the supply curve of the industry. [12]

(b) In the long-run, average cost falls with increases in output and, therefore, larger firms are always to be preferred to smaller firms. Do you agree with this opinion? [13]

4 'The economic theory of wages has as its central idea the achievement of an equilibrium in a perfect market. It is difficult to find a perfect market and it is unrealistic to speak of an equilibrium when private enterprise is full of uncertainty.'

Discuss whether this statement means that in explaining wage determination the theory has nothing to offer. [25]

5 **(a)** Explain why the government's annual budget is an important instrument of economic policy. [12]

(b) Analyse whether there is a link between the reasons given by the liquidity preference theory as to why people demand money and the rate of interest. [13]

6 **(a)** Explain what are the main determinants of business investment. [12]

(b) 'If investment increases it will cause an increase in output. If output increases it will cause an increase in investment.'

Discuss whether both these statements can be true. [13]

7 'People in developed countries suffer from pollution and overcrowding. However, people in developing countries suffer from malnutrition and poverty.'

Discuss whether it is correct to distinguish between developed and developing countries in this way and consider how living standards can be compared between the two types of country. [25]

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