Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/42**

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 **4** printed pages and **1** Insert.

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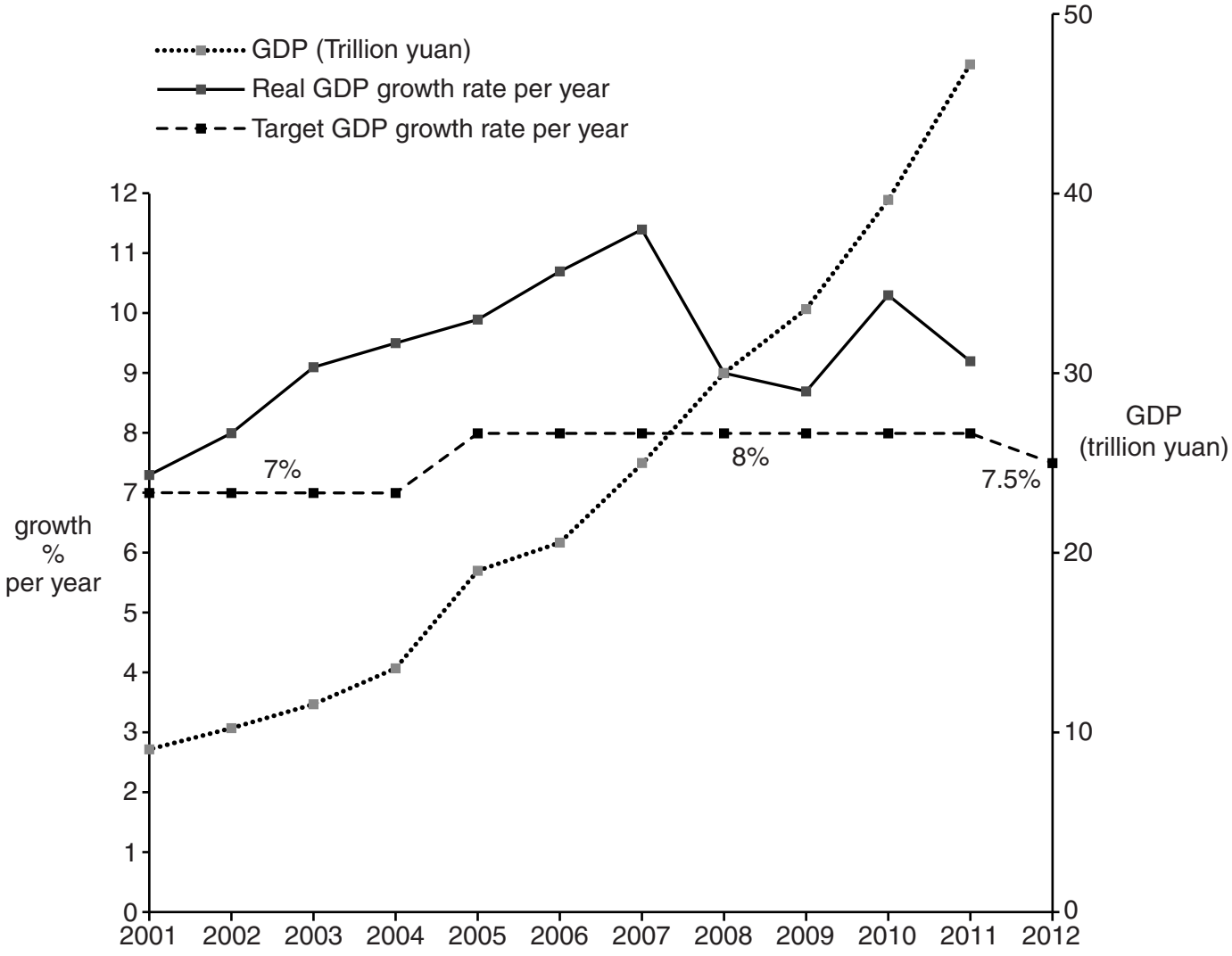
Section A

Answer this question.

1 **Economic growth in China**

In less than 30 years, China has seen a huge shift from being a mainly farming economy to a thriving manufacturing economy. Since 2007, economic growth has continued despite uncertain economic conditions and the global financial crisis. Some economists doubt China's ability to sustain such economic growth, which has been achieved at a cost to the environment.

Fig. 1: GDP growth for China since 2001



Source: Chinese Government work reports from 2001 to 2012, Su Jingbo/China Daily

As China's economy continues to grow, it has a new challenge: how will it deal with the shift of the population from being mainly rural to being mainly urban? In 2030, it is estimated that about 220 cities in China will have at least one million residents. This will increase the pressure on natural resources. Economic inefficiencies created by urban growth include air and water pollution, traffic congestion, poor housing and overcrowding.

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China's leaders have responded by reducing the target GDP growth rate. They have also concentrated on trying to improve the quality of China's economic growth and have focused on sustainable urban planning, low-carbon development, promoting improved public transit systems and improved water treatment.

National government policies can help correct market failures and set standards for environmental problems such as air pollution. They can establish partnerships between city authorities, businesses and the general public. Urban sustainability solutions do not just benefit the environment and people's quality of life; they are often highly profitable. Investment in rapid transit bus systems, for example, results in lower energy consumption and lower costs.

Source: The Daily Telegraph supplement, 2012

(a) Fig. 1 shows China's real GDP growth rate. Explain what this means. [3]

(b) How far does Fig. 1 support the suggestion in the extract that China's growth 'has continued despite uncertain economic conditions'? [4]

(c) The article refers to economic inefficiencies. Explain the distinction between an economically efficient situation and one which is inefficient. [5]

(d) Identify **two** market failures mentioned in the article and consider the methods that governments might use to help overcome these market failures. [8]

Section B

Answer any **two** questions.

2 Consumers decide what they wish to buy and as a result direct the market. Producers develop new products, which they then promote by advertising, in order to maximise profits. Without producers there would be no products to buy.

(a) Explain how economic theory predicts what a rational consumer decides to buy. [12]

(b) Discuss whether the market is dominated more by producers or by consumers. [13]

3 **(a)** Explain the meaning of, and the relationship between, diminishing returns, total product and marginal cost. Use a diagram to illustrate your answer. [12]

(b) 'Firms undertake vertical and horizontal integration to grow in size. They achieve beneficial economies of scale through growth.'

Consider whether economies of scale are always caused by integration and whether, therefore, there is no place for small firms in a modern economy. [13]

4 **(a)** Explain the motives for the demand for money according to the Keynesian liquidity preference theory. [12]

(b) A worker is a weekly paid shop assistant. She is then promoted to a manager in a larger store on a higher monthly salary. At the same time interest rates fall.

Discuss how these changes would affect the worker's demand for money. [13]

5 The government of your country wants to know how the economy compares with other countries' economies.

Discuss which economic indicators it should obtain and how reliable they might be as a basis for such a comparison. [25]

6 Businesses say that high interest rates are not desirable because they prevent investment. Government ministers say that high interest rates are sometimes necessary because they encourage saving and control inflation.

Discuss these two opinions and decide whether they are always true. [25]

7 **(a)** Distinguish between supernormal profit and economic rent and consider the circumstances when each occurs. [12]

(b) Discuss whether you agree with the opinion that a trade union might be able to achieve higher wages for its members but only by causing some unemployment. [13]

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