Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ECONOMICS **9708/43**

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

2 hours 15 minutes

No Additional Materials are required.

6631670055

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.

DC (CW) 97082/3
© UCLES 2015

CAMBRIDGE International Examinations

[Turn over

Section A

Answer this question.

1 The economy as 'a machine'

The economy has been spoken about as if it were a machine. Its businesses are 'the engines of job creation'; they change 'inputs into outputs' and 'generate profits'. In this approach, markets are assumed to be productively efficient, consumers rational, incentives are obvious and outcomes certain. This means that any regulation of the market is undesirable because it hinders the workings of the machine.

However, there is no evidence that markets are always efficient and there is no evidence of a prosperous economy that does not also have strong regulation and an active government. Recessions and economic downturns should have caused this 'machine' idea of an efficient economy to be discredited. Yet, this view still influences economic policy.

What is required is a theoretical framework for the economy that recognises that economies are not simple and predictable but complex; that understands that intended outcomes do not always happen. Consumers' decisions are not precise but approximate. The economy should be thought of as 'a garden', not 'a machine'. In this idea the economy cannot be completely efficient but if managed effectively it can work reasonably well.

Consider regulation. In the 'machine' idea, regulation is an unfortunate interruption of the process of income generation. The machine should be left to run on its own. Perfectly free markets are the ideal. Less regulation will automatically lead to more prosperity. In the 'garden' idea it is recognised that the economy requires regulation. The control of harmful activities and the encouragement of beneficial activities will enable the economy to become more efficient.

Consider spending. Government spending should not be thought of as a single action which uses money as an engine uses fuel. Rather, it is part of a continuous process that circulates money through spending. Also, some of this spending helps to develop the economy because it will be spent on education, health and roads, although not all spending is equally useful.

It has been argued that the most prosperous economies are those that tax and spend the most. Less spending cannot revive a weak economy, but more spending can. Employment is not created by profits. It is a consequence of a circular process that starts with consumer demand and spending. The customer is the true job creator and resources are allocated according to their preferences.

Source: Adapted from the RSA Journal, Winter 2012

(a) The article says that markets are assumed to be productively efficient. What is meant by productive efficiency? [3]

(b) Summarise the **two** main ideas about the working of the economy in the article. [4]

(c) Analyse how more spending can 'revive a weak economy'. [6]

(d) Discuss whether the last sentence of the article conflicts with the earlier statements about the need for a government. [7]

© UCLES 2015

Section B

Answer any **two** questions.

2 Economic theory often uses the concept of the margin.

(a) Explain how the concept of the margin is used in consumer theory to derive a market demand curve. [12]

(b) Discuss whether the use of the concept of the margin is important for a firm in deciding its business objective. [13]

3 **(a)** Analyse, with the help of a diagram, the possible shape of the long-run average cost curve of a firm and explain whether it is likely to be the same for small and large firms. [12]

(b) Two airlines were recently accused of colluding to exploit the consumer. An investigation was established to see if this had happened.

Discuss why collusion can occur in one market structure but not in another market structure. [13]

4 Briefly consider the causes of unemployment and then use the economic theory of the determination of wage rates to discuss whether an increase in wage rates may substantially increase long term unemployment in some industries but not in others. [25]

5 In 2012, many smaller specialised city centre retailers struggled against competition from large supermarkets and online retailers. They were also badly affected by government fiscal policy.

(a) Explain how small retailers could be badly affected by government fiscal policy. [12]

(b) Economic theory suggests that competition is good. The statement from 2012 seems to imply that it is not. Discuss this difference of opinions and consider which you support. [13]

6 In a number of countries interest rates have remained low for a long time. Some people have been unhappy with the low rates but others have been pleased. However, high interest rates also cause different reactions.

(a) Explain why different groups of people may differ in their reaction to the level of interest rates. [12]

(b) Discuss whether a low interest rate can help a government achieve its macroeconomic aims. [13]

7 Economic development and the exploitation of resources can result in structural change and unemployment in some industries, increased environmental damage, overexploitation of fish stocks, increased inequalities in the distribution of income and pressure on resources causing inflation.

Explain what is meant by a developing economy and discuss whether it would be wise to conclude from the above opinion that developing countries should, therefore, not seek to become developed. [25]

© UCLES 2015

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.