Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **October/November 2016**

2 hours 15 minutes

No Additional Materials are required.

2656042979

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.

DC (CW) 119593/1
© UCLES 2016

CAMBRIDGE International Examinations

[Turn over

Section A

Answer this question.

1 Unemployment and Government Policy

When considering alternative government policies in time of recession, it is worth remembering that in the 1930s US recession it was feared that what Keynes called 'equilibrium at less than full employment' might become permanent.

Moreover, technological unemployment could also remain a permanent feature of the labour market, especially among the less skilled and the elderly.

In 2013 there was another recession in the US. Unemployment stood at 6.7% of the workforce rather than above 20% as it had been in the 1930s. However, the economic recession was far from over in 2014. The US economy was 8% smaller than had been forecast for it. This led to a repeat of the question of whether stagnation is inevitable and whether unemployment would be a permanent feature.

The policies of the US government to solve the recession of 2013–14 included raising the minimum wage to US$10.10 an hour, increasing benefits to the unemployed and increasing the money supply. There was, however, little enthusiasm from some economists for more government action in the form of government spending. They did not support a programme of creating public sector jobs to combat unemployment, saying it was bureaucratic. Even if the right investment could be decided, they feared the new jobs would demand skills that the unemployed simply did not have.

However, not everybody agreed. Others gave the example that in 2009, 39 states used US$1.3 billion to create more than 260 000 jobs by subsidising private employers. Many of these jobs went to people who were difficult to employ, including those who had been unemployed for a long time. When the programme ended in 2010, 37% of the workers covered by the subsidy kept their jobs. Those who favoured such public expenditure said that the private sector, if left to its own devices, would not have hired such workers.

Supporters of public expenditure also said there were great benefits from government investment in public works in a time of recession; in previous recessions, roads, bridges and public buildings were built. And, if such investments took place again, it was argued, they would not be very expensive. The cost of government borrowing was below the rate of inflation and the investment would help reduce the nation's debt.

To them it seemed foolish for the US central bank to stimulate the economy by encouraging increased lending with low interest rates: that would be similar to the credit expansion that had led to a financial crisis a few years before. They thought it would be better to rely on fiscal policy.

Source: *New York Herald Tribune*, 30 January 2014

(a) Briefly explain the difference between monetary policy and fiscal policy, and identify an example of each policy from the article. [4]

(b) Explain what is meant by 'technological unemployment' and suggest why it could be permanent among the less skilled and elderly. [3]

(c) The article refers to 'equilibrium at less than full employment'. Explain with the help of an aggregate demand and aggregate supply diagram how an economy can be in equilibrium at less than full employment. [5]

(d) Contrast the opposing views in the article about the policies a government should adopt in a time of recession and consider what evidence is given to support each policy. [8]

© UCLES 2016

Section B

Answer any **two** questions.

2 Adam Smith's eighteenth century idea of an 'invisible hand' where the free market allocates resources effectively and efficiently is false because the 'invisible hand' cannot work in a complex modern economy.

Do you agree with this argument? [25]

3 **(a)** Explain the meaning of an indifference curve and show to what extent indifference curves can be used to determine a consumer's demand curve for a product. [12]

(b) Consider whether indifference curves can be used to analyse the effects of a fall in the price of a good on the demand for both a normal good and a Giffen good. [13]

4 In 2014, the average monthly salary in South Africa for an executive business manager in the private sector was 60 000 rand; for a public sector nurse, 13 700 rand; for a cleaner, 3 600 rand. These differences in wage rates can be entirely explained by the economic theory of the labour market.

Discuss whether you agree with this conclusion. [25]

5 **(a)** Explain how an equilibrium position is determined for a firm and for an industry in perfect competition in the short run and in the long run. [12]

(b) Outline the conditions that make price discrimination in a monopoly market possible and discuss whether such discrimination is ever beneficial. [13]

6 **(a)** Explain **three** major government macroeconomic policy aims and describe why there may be a conflict in trying to achieve them at the same time. [12]

(b) Governments are sometimes concerned with microeconomic issues, for example, planning applications for large projects such as airports which have environmental implications. Discuss how a government's decision on a microeconomic issue might have macroeconomic implications. [13]

7 **(a)** Explain what is most in need of development in a developing economy. [12]

(b) Discuss how easy it is to compare the standard of living between developing and developed countries. [13]

© UCLES 2016

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.