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 2017**

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 **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.

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Section A

Answer this question.

1 **The United States (US) Economy**

According to the Bureau of Economic Analysis, in the US in the first quarter of 2015, the real Gross Domestic Product (GDP) increased at an annual rate of 0.2% compared with an increase of 2.2% in the fourth quarter of 2014. The increase reflected positive contributions from consumption expenditure and company investment. These were partly offset by negative contributions from exports and government spending. Imports, which are a subtraction in the calculation of GDP, increased. Some selected changes in GDP contributions are shown in Table 1.

Table 1 Selected changes in US GDP components

% annual changes in selected components of US GDP	4th quarter 2014 %	1st quarter 2015 %
Consumption expenditure – Durable goods – Non-durable goods	+4.4 +6.2 +4.3	+1.9 +1.1 +0.3
Exports	+4.5	–7.2
Government expenditure and investment	+1.6	–1.5

The slower overall growth of GDP in the first quarter of 2015 may have been linked to changes in other countries. China's economic growth rate was reported to have dropped from over 10% to 7%; the Russian economy was affected by low oil prices and economic sanctions; Brazil was experiencing high inflation and low business confidence; Canada's economic growth rate was predicted to decrease because of lower oil prices.

In addition to changes in other countries, business spending in the US on equipment, machinery and buildings decreased. There was, however, some revival in consumer confidence. House prices rose on average by 5% and a rising demand for housing was expected to continue. The labour market appeared to be improving with unfilled job vacancies at their highest level since 2008. Larger companies were reported to be about to offer pay rises to their lower paid workers. Wage growth, however, has to be paid for somehow and executives said that they had little room for cutting other costs. This, together with fierce competition, made it difficult to increase prices: cuts in profits seemed more likely.

Source: Sunday Times, 3 May 2015

(a) What is meant by real Gross Domestic Product? [3]

(b) Analyse why the 'changes in other countries' may affect the rate of growth of GDP in the US. [4]

(c) Apply the circular flow of income model to the information in Table 1 to discuss why the increase in the US GDP in the first quarter of 2015 was lower than the increase in the last quarter of 2014. [6]

(d) Discuss whether there is any evidence in the information to suggest that the US could have expected a higher rate of growth in GDP in the first quarter of 2015 than that which occurred. [7]

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Section B

Answer **two** questions.

2 Discuss whether privatisation and an increase in competition would hinder or help the achievement of economic efficiency. [25]

3 Use indifference curves to distinguish between the income and substitution effects of a price change. Discuss whether the distinction might be important for a manufacturer. [25]

4 **(a)** Consider whether a firm's marginal cost and average variable cost are significant when a firm wishes to maximise profits. [12]

(b) Analyse how firms are said to behave in an oligopolistic market. Discuss how an understanding of 'the prisoner's dilemma' can help to demonstrate the concept of interdependence in an oligopolistic market. [13]

5 **(a)** Explain the relationship in a perfect market between a firm's demand for labour and the wage rate offered. [12]

(b) Discuss how a firm's demand for labour and the wage rate might change if the market were to become imperfect. [13]

6 'The measurement of living standards is problematic. It is never certain that people in one country are better off than those in another. The classification of countries into developing and developed is, therefore, never clear.'

Do you agree with this argument? [25]

7 **(a)** What differences are there, if any, between fiscal policies, monetary policies and supply side policies? [12]

(b) A Finance Minister wishes to reduce inequalities of income and wealth in the country. Discuss whether fiscal, monetary or supply side policies would be most likely to achieve this aim. [13]

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