Cambridge International AS & A Level

**Cambridge International Examinations**
Cambridge International Advanced Subsidiary and Advanced Level

**ECONOMICS** **9708/42**

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.

This document consists of **4** printed pages and **1** Insert.


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## Section A

Answer this question.

**1** **Economic recovery pains**

Since the world financial crisis of 2008 the United Kingdom (UK) economy has recovered more quickly than some other advanced economies but the recovery has been uneven.

In 2010 the UK government aimed to reduce a huge government debt by cutting government expenditure and by increasing economic growth through encouraging more private sector activity. By 2014 total unemployment in the UK fell below two million for the first time since 2008. This economic recovery was due especially to an increase in jobs in the private sector, mainly in service industries. This increase outweighed the loss of jobs, such as hospital workers, in the public sector. A government spokesperson said 'every job created is a family made more secure and a step towards a stronger economy.'

Monetary policy was also aimed at economic recovery. The central bank fixed interest rates at their lowest ever level of 0.5%. It expanded the money supply through quantitative easing. To do so the central bank purchased huge quantities of government bonds to increase liquidity in the economy through the commercial banking system.

However, some critics of the government's macroeconomic aims were of the opinion that recovery in the economy was uneven. In 2014 only the services sector output exceeded its pre-2008 peak. Industrial production, construction and agriculture each failed to reach pre-2008 levels of output. Further, for UK households, there was a reduction in real household incomes and, although unemployment decreased, UK households faced a fall in living standards.

Households feared that interest rates would rise and they were also wary that inflation could fall further and there might be deflation. Businesses were concerned that their main export markets in Europe would decline if the UK pound (£) continued to strengthen against the euro due to the UK's relatively stronger economic growth.

**Table 1 Selected UK economic indicators for 2008 and 2014**

| **Economic indicators** | **2008** | **2014** |
|---|---|---|
| GDP | £1.632 trillion | £1.656 trillion |
| GDP growth (2nd quarter) | 0.9% | 0.2% |
| | | |
| Real household disposable income per head (2nd quarter) | £4 320 | £4 263 |
| Household debt to income ratio (March) | 162.9% | 136.3% |
| | | |
| Average house price (August) | £209 000 | £274 000 |
| Annual wage growth (August) | 3.2% | 0.7% |
| Annual inflation (September) | 5.2% | 1.2% |
| Interest rate (October) | 4.5% | 0.5% |

*Source: Office of National Statistics*

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In spite of some positive economic indicators in Table 1, there was uncertainty whether the recovery could be sustained. During the last quarter of 2014, for example, the annual rate of GDP growth was 3% but this fell sharply to 2.4% in the first quarter of 2015.

*Source: Adapted from The Times, 16 October 2014, and The Guardian, 29 April 2015*

**(a)** Identify **three** changes in the economic indicators in Table 1 that could be used to explain why households should have benefitted from the economic recovery. [3]

**(b)** Use evidence in the information to explain why some households 'faced a fall in living standards' even though unemployment continued to decrease. [4]

**(c)** Analyse why entrepreneurs in the private sector would have been encouraged to create more jobs during the economic recovery. [5]

**(d)** Identify **two** economic policies in the information and consider to what extent there is evidence to indicate that while these policies may lead to a recovery of the economy the benefits are uneven. [8]

## Section B

Answer **two** questions.

**2** **(a)** A country moved from a point **within** its production possibility curve to a point **on** its production possibility curve.

Explain what is meant by economic efficiency. Analyse what happened to economic efficiency in that country as a result of this movement. [12]

**(b)** Discuss whether government intervention in the economy is a necessary and sufficient condition for overcoming inefficiency in resource allocation. [13]

**3** **(a)** Analyse how indifference curve theory explains why a consumer will normally buy more of a good at a lower price than at a higher price. [12]

**(b)** Discuss why there might be exceptions to this normal response, distinguishing the income effect from the substitution effect. Consider the relevance of these exceptions to firms and the government. [13]

**4** For some products there has been an increasing dominance of large firms in the last five years. For example, in the telecommunications industry most countries now have four or five operators, some have only two. In other markets many small firms exist.

**(a)** Explain possible reasons why in some markets there are many small firms while in others the market is dominated by a few large firms. [12]

**(b)** Discuss who might benefit and who might lose when a market becomes dominated by a few large firms. [13]

**5** The merit of the economic theory of wage determination is that it clearly shows what the best level of wage rates should be and thus is evidence that there is no need for either the government or trades unions to fix wages.

Discuss this assertion. [25]

**6** Whether a country can be classified as developed depends on the value of its GDP and the higher the GDP the better it is for the country.

Consider this opinion. [25]

**7** In many countries there is a concern about the rate of unemployment.

**(a)** Consider what are likely to be the main causes of unemployment. [12]

**(b)** Discuss whether a reduction in unemployment should always be the main aim of government policy. [13]

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