Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/43**

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 **3** printed pages, **1** blank page and **1** Insert.

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Section A

Answer this question.

1 **Big is bad**

At its best, capitalism should be all about competition and consumer choice. This leads to innovation, improved value and quality. It is in contrast to the state, which is about compulsory taxation and monopoly provision.

Big business is somewhere between capitalism and the state. Unfortunately, companies tend to merge until they have as much power as a cartel and operate against the public interest. Huge companies are difficult to manage; full-time executives do not know what is happening – as has been witnessed by the recent collapse of large banks that required support from huge amounts of taxpayers' money to survive.

Other large companies are conglomerates, lacking focus and any real purpose save carrying on for their own sake. They pay consultancies to devise 'mission statements' to give a pretended meaning to what they stand for. Staff feel detached from the overall undertaking.

Large companies miss interesting opportunities for growth in small markets. They talk about innovation but do it badly and so compensate by making acquisitions. For example, giant drug companies are paying large prices to acquire drug development firms because they have lost the confidence to discover new drugs themselves.

Small and medium-sized companies, by contrast, can adjust and take risks that large companies cannot. In sectors such as financial services and packaged consumer goods, large companies are facing competition. Barriers to entry are low, capital is plentiful and technology enables newcomers to undercut prices of established rivals.

Surveys suggest that young talented people want to work for themselves or smaller companies, not multinationals beset by internal management politics. New businesses have dynamism and vigour. They are more productive and more innovative. Fragmented markets and ever more diverse tastes of consumers threaten the dominance of the old brands. Economies of scale are a myth in many industries, especially newer sectors such as technology and services.

There is a belief that companies need to be huge to trade globally and that there are efficiencies from scale when trading internationally. These are exaggerated in the modern era. Small and medium-sized companies can be flexible and adaptable. With an improving economy and falling oil prices, smaller businesses have a great opportunity for improving profits and maintaining prices. Large firms remain uniform with dull, identical brands everywhere. It's time for the craft industries, the food specialists, the new banks and the break-up of the dominant corporations.

Source: Sunday Times, 12 April 2015

(a) Explain what is meant by a positive statement and a normative statement and consider whether the first paragraph should be classified as positive or normative. [4]

(b) Briefly describe what is meant by a cartel and explain why it is said to be against the public interest. [4]

(c) Analyse what is meant by the statement that 'there are efficiencies from scale when trading internationally'. [4]

(d) The article is headed 'Big is bad'. Discuss whether there is sufficient evidence provided to support that statement. [8]

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Section B

Answer **two** questions.

2 **(a)** Explain why an identical price fall would result in a different demand curve for a normal good from that for an inferior good. Use indifference curve analysis to support your answer. [12]

(b) 'The only criticism of demand theory is that the consumer is not rational.' Consider whether you agree with this statement. [13]

3 **(a)** Describe how a firm is said to operate in order to maximise profits. Consider whether it will cease to operate if total revenue fails to cover total cost. [12]

(b) Some large supermarkets publicise the fact that they 'price match' other major supermarkets, charging the same prices for the same brands of products as their competitors.

Analyse how firms are said to behave in oligopolistic markets. Discuss how far this is supported by the above statement. [13]

4 The French film industry is subsidised by the government. Some actors receive very high fees. In 2015 it was proposed that, as part of the fee is public money, some of the subsidy should be withdrawn.

Discuss what might happen to employment and wages if a subsidy for production were reduced. Use the economic theory of wage determination in perfect and imperfect labour markets to support your answer. [25]

5 **(a)** Analyse what might cause an increase in unemployment in an economy. [12]

(b) Discuss what impact an increase in unemployment is likely to have on an economy. [13]

6 The table shows economic growth rates of GDP for selected countries for 2013.

Switzerland	1.9%
Sweden	1.5%
Uganda	6.0%
Zimbabwe	4.5%

Source: worldbank.org

(a) Does this table mean that Zimbabwe and Uganda should be classified as developed countries and Switzerland and Sweden as developing countries? [12]

(b) Discuss why developing countries often aim to increase economic growth. [13]

7 In recent years, many countries have faced economic difficulties. At such a time, discovering the best means of allocating scarce resources becomes much more pressing.

Consider whether the study of economics has anything to offer to achieve an efficient allocation of resources in a country. [25]

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