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 2018**

2 hours 15 minutes

No Additional Materials are required.



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 **Sustainable electricity**

The UK government favoured the production of cheap, sustainable electricity and subsidised the large companies that operate wind farms. The wind farms cost a lot to build and maintain. However, as the wind is free, the companies pay nothing for fuel and can sell electricity at very low prices – when the wind is blowing. This destroys any incentive to build power stations that combine the use of wind and gas because when the wind blows the gas unit is switched off and the return on the investment in gas is zero or negative. This has meant that the gradual replacement of coal-fired power by more efficient gas-fired power is not progressing and, as a result, there is no significant cut in carbon dioxide emissions.

Prices charged for electricity not produced by wind farms have been rising because government support for the electricity industry has been directed to the wind farms. Expensive electricity production has driven industries abroad which has resulted in a loss of income and jobs. By 2020 it is estimated that small businesses will be paying 77% more per unit for electricity. The poor and the elderly have been hit hardest by high electricity bills. Some say that the support of wind farms has caused the destruction of landscapes.

Source: The Times, 9 November 2015

Sustainable agriculture

In Africa, industrial methods of agriculture deplete the soil, pollute water tables and fail to benefit small-scale farmers. Agro-ecological methods – aimed at producing food without damaging natural resources – are by contrast more sustainable for the farmers and more nutritious for consumers. Advocates say these methods are profitable for small-scale farmers and more productive with high yields and cheap inputs. They say 'we need to develop local markets, create local diversity and increase the capacity of local economies'. Using them could have a huge effect on the 70% of Africans that rely on agriculture for their livelihoods. This was endorsed by a conference in Mali in 2015. Even large commercial farms are starting to adopt the agro-ecological methods.

Currently, six companies supply 60% of the world's commercial seed market and 11 companies supply 98% of the world's pesticide market. Supporters of agro-ecological methods claim that these huge multinationals can easily capture markets through their combined financial and political power and can restrict farmers' choice of what inputs to buy and which markets to supply. Those representing small farmers say that these markets are not competitive.

Large corporations deny this accusation that they restrict markets and exploit small-scale farmers. They say farmers have to make a new choice each year so whenever input suppliers have a new product they need to offer something that is reliable so that the customers will come back and buy more.

Source: African Business, August/September 2015

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(a) Identify, from the article, **three** problems the UK faces in the production of electricity. [3]

(b) Explain what is meant by equity and consider whether, according to the article, the subsidising of wind-power electricity production is likely to be equitable. [6]

(c) The article says that the African agricultural markets are not competitive. Explain what is meant by a competitive market and comment on whether you agree with the judgement. [5]

(d) Discuss whether there is evidence in the article that might lead you to conclude that large businesses are detrimental to an economy. [6]

Section B

Answer **two** questions.

2 'A society that cares about efficiency needs to provide government funds for social sciences that work on the assumption that efficiency matters'. (*Royal Society of Arts Journal, Issue 4, 2013*)

Explain what is meant by economic efficiency. Consider whether you agree that the only way to achieve economic efficiency is through public sector intervention in the economy. [25]

3 **(a)** Explain what is meant by consumer equilibrium and consider whether the assumptions underlying consumer equilibrium are realistic. [12]

(b) Analyse the differences between a normal good, an inferior good and a Giffen good. Discuss whether knowledge of these differences is all that is required by a company considering changing the price of its product. [13]

4 **(a)** Explain the economic theory of wage determination in perfectly competitive labour markets. [12]

(b) In 2016, a union representing doctors organised strikes to oppose new contracts and rates of pay that were proposed by the government. Hospital appointments were cancelled. The government agreed to change some of the proposals.

Does this statement prove that in imperfect labour markets wages are determined solely by trade unions and not by economic principles? [13]

5 Recession in some economies has caused high unemployment. At the same time high levels of national debt and substantial budget deficits have been experienced.

This means that governments can no longer use Keynesian demand management policies to solve the problem of unemployment.

To what extent do you agree with this conclusion? [25]

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6 **(a)** Examine the effects on the demand for money in an economy, when the money supply is increasing and more individuals are using credit and debit cards instead of cash to purchase goods and services. [12]

(b) Quantitative easing will lead to lower interest rates and it will depreciate the value of the national currency. This will automatically lead to high levels of inflation.

To what extent do you agree with this view? [13]

7 **(a)** Distinguish between economic growth and economic development and consider whether they are linked. [12]

(b) It is difficult to calculate the value of GDP and it does not provide an accurate measure of the welfare or happiness of a country's citizens, therefore it should not be used as an indicator of the standard of living.

Discuss whether you agree with this statement. [13]

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