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 2018**

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 What's to be done about rising inequality?

There is great inequality of income and wealth in the United States (US), that many believe is not equitable. It seems, even to some of those who benefit from this inequality, that something should be done to reduce it. What are the strongest reasons for trying to bring about greater equality of income and wealth?

One obvious reason for redistributing resources from the rich to the poor is simply that this is a way of making the poor better off. Many people in the world are poor, and the improvement in their lives that richer people could bring about by giving money is enormous by comparison with the small sacrifice that this would involve. Redistributing assets increases the well-being of the poor more than it decreases that of the rich.

A justification for reducing inequality through non-voluntary means, such as taxation, needs to explain why redistribution of this kind is not just arbitrary.

The possibility of making the poor better off is not the only reason for seeking to reduce the world's rising level of economic inequality. Many people in the US believe that high and rising levels of inequality are objectionable.

It is worth inquiring into why this might be so.

1. Economic inequality can give wealthier people an unacceptable degree of control over the lives of others, for example over where and how they can work, what they can buy and in general what their lives will be like.

2. Economic inequality can undermine the fairness of political institutions. If those who hold political offices depend on large private contributions for their election campaigns, they may be more responsive to the interests and demands of wealthy contributors, and those who are not rich will not be fairly represented.

3. Economic inequality undermines the fairness of the economic system itself by making it difficult, if not impossible, to create equality of opportunity. For example, it means that some children will enter the workforce much better prepared than others and people with few assets find it harder to access a loan to start a business or to pay for higher education.

Source: Reasons we should fix economic inequality, TM Scanlon, accessed 19 April 2016

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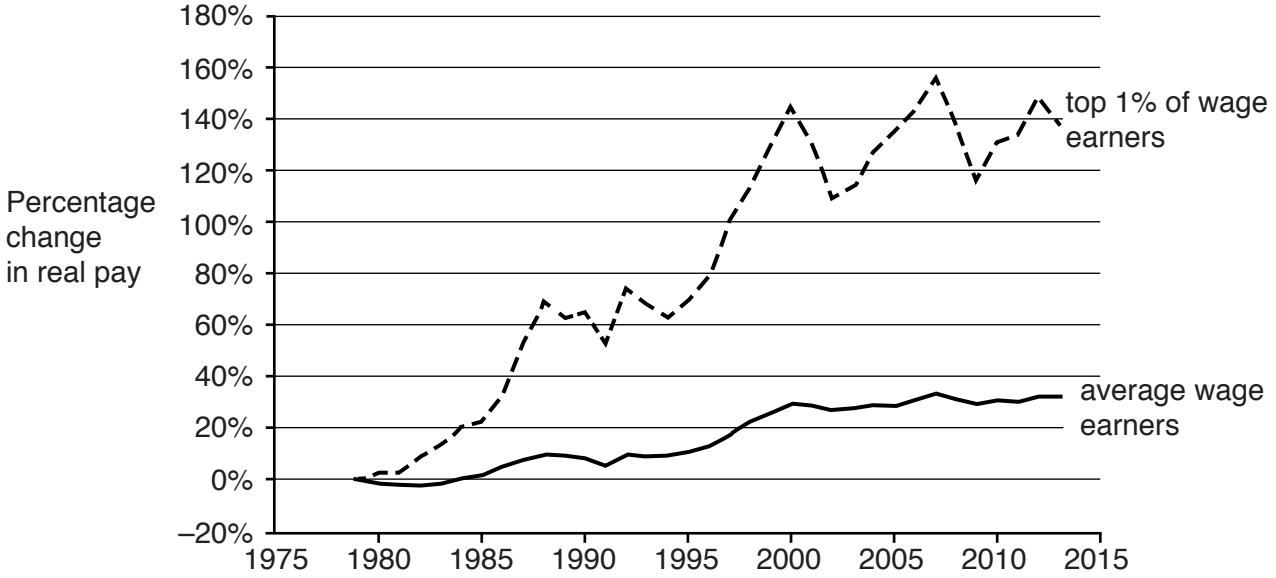


Fig. 1.1: Change in real annual pay in the US, 1979–2013

Source: Adapted from EPI analysis of data from Kopczuk, Saez and Song (2010) and Social Administration wage statistics. (Accessed 19 April 2016)

(a) The article says that many in the US believe that inequality is not equitable.

What is the difference between equality and equity? [2]

(b) Explain, using the article, **two** ways in which inequality is considered harmful. [4]

(c) Consider whether the changes in real annual pay shown in Fig. 1.1 support the idea of rising inequality in the US. [6]

(d) The article refers to a reduction of inequality through taxation. Discuss the effectiveness of fiscal policy in redistributing income. [8]

Section B

Answer **two** questions.

2 Discuss whether economic efficiency is always achievable in a market economy. [25]

3 **(a)** Analyse the factors which determine the price of a firm's product and its output in monopolistic competition. [12]

(b) Assess the effect on output and price if a monopoly firm maximises its sales revenue rather than its profit. Consider who will benefit the most from this change. [13]

4 Consider whether wages are only determined by the market forces of supply and demand. [25]

5 Robots are increasingly used in various areas of production.

(a) Explain the type of unemployment which may arise as a result of the increased use of robots. Consider the contribution this may make to total unemployment in an economy. [12]

(b) Discuss whether GDP is always a good measure of living standards. [13]

6 A country with an open economy has an increasing demand for its exports and a fall in the supply of labour.

(a) Explain the effects of these changes on the general price level and national output in that economy. [12]

(b) Consider the effectiveness of using only monetary policy in this situation. [13]

7 **(a)** Explain how developing countries differ from developed countries. [12]

(b) Assess the extent to which a multinational company's investment in a developing country leads to economic growth. [13]

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