Cambridge International AS & A Level

**Cambridge Assessment International Education**
Cambridge International Advanced Subsidiary and Advanced Level

**ECONOMICS** **9708/41**

Paper 4 Data Response and Essays **October/November 2019**

**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.

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## Section A

Answer this question.

**1 Growth and the uncertain economic system**

Competition and a market economy support industrialisation and create higher living standards. The collapse of the world financial markets in 2008 was a failure of such a system and the ideas that underpinned it, not of individual policymakers. There was a misunderstanding of how the world economy worked.

Many of the problems that concern governments – poverty, rising inequality, crumbling infrastructure – would be eased by rates of growth that before the financial crisis seemed quite normal. But the rate of economic growth has declined across the developed world. Some blame this on a slowing of innovation and productivity. Others say that the struggle to revive the world economy is a result of the disequilibrium that led to the crisis.

Before the crisis, consumer spending was at unsustainably high levels in the United States (US), the United Kingdom and some other countries in Europe. It was at unsustainably low levels in Germany and China. The imbalance between countries increased – with resulting large trade deficits or surpluses. These imbalances were not irrational, they were the result of people struggling to behave rationally in a world of uncertainty and competition – all part of the market economy.

Bad investments were made in housing in the US and some European countries, in construction in China and in the export sector in Germany. The most obvious symptom of the disequilibrium was the extraordinarily low interest rates. Central banks were trapped into a policy of low interest rates because of a belief that the solution to weak demand was further monetary stimulus. They were in a 'prisoner's dilemma': if any central bank raised interest rates, they would have risked a slowing of growth in their own country and given others an advantage.

So, with interest rates close to zero and fiscal policy constrained by high government debt the objective of economic policy in a growing number of countries was to lower the exchange rate.

The experience of stubbornly weak growth around the world since the crisis has led to a new pessimism about the ability of market economies to generate prosperity. By 2015 world recovery was slower than expected. Whatever can be said about the recovery since the 2008 crisis, it has been neither strong nor sustainable. There has been a continuing shortfall of demand and output from pre-crisis levels. Lost output and employment have revealed the true cost of the crisis and shaken confidence in our understanding of how economies behave. Many countries now see that they have taken monetary policy as far as it can go.

*Source: Sunday Telegraph, 28 February 2016*

**(a)** What is economic growth and does it necessarily remove poverty and inequality? [4]

**(b)** In the circumstances described in the article why might a country decide that lowering its exchange rate would help its economy? [5]

**(c)** What evidence is there in the article that monetary policy had failed to improve the economies after the crisis? [5]

**(d)** Explain what is meant by a 'prisoner's dilemma' and analyse why the term was applied in the article to a market economy. [6]

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## Section B

Answer **two** questions from this section.

**2** 'Competition is an essential element of an efficient market economy. If there is a monopoly then there is no competition. Monopolies exist in all economies and, therefore, all economies must be inefficient.'

Discuss this opinion. [25]

**3** **(a)** Explain what is meant by a consumer's equilibrium and how it is related to the demand for a product. [12]

**(b)** Indifference curve analysis refers to income and substitution effects. Explain what these effects are and discuss whether they might be the major influence for a manufacturer intending to change the price of a product. [13]

**4** **(a)** What relation is there, if any, between the law of diminishing returns and internal and external economies of scale? [12]

**(b)** 'It is a general rule that firms maximise profits. They do so where the average revenue from the sale of a product is equal to its marginal cost of production.'

Do you agree with this statement? [13]

**5** **(a)** Explain why economists use a Lorenz curve and a Gini co-efficient and comment on likely government policy implications if a country's Gini co-efficient increased from 0.34 to 0.68. [12]

**(b)** With the help of a diagram analyse what is likely to happen to a worker's transfer earnings and economic rent if a perfectly competitive labour market is replaced by a monopsony. [13]

**6** 'The Human Development Index (HDI) is a more useful indicator of changes in living standards than changes in Gross Domestic Product (GDP) but it still does not provide an entirely accurate assessment of whether living standards have improved over a given time period.'

Critically evaluate this statement. [25]

**7** **(a)** Discuss the effects of an expansionary monetary policy on the demand for money. [12]

**(b)** How far do you agree with the view that an expansionary fiscal policy will reduce the level of unemployment in the short run but it will cause inflation to accelerate and unemployment to rise in the long run? [13]

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