Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/42**

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

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 **The Economic Outlook for Japan**

In 2017, the forecast of the Bank of Japan (the country's central bank) was that Japan's economy was likely to enjoy moderate growth. Domestic demand was likely to increase due to spending in both the corporate and household sectors. Expansionary monetary policy and fiscal spending by the government had produced a large-scale stimulus.

As part of the Japanese government's economic strategy, progress was expected in overcoming deflation through quantitative easing. Supply-side measures included regulatory and institutional reforms; increased labour participation by women and the elderly, and support for firms in their efforts to improve productivity.

The Bank of Japan stated that business investment was likely to continue to increase, supported by expansionary monetary policy, heightened growth expectations, and increases in demand related to the Olympic Games to be held in Japan in 2020. Private consumption was expected to continue to increase as employee incomes continued to improve. Public investment was projected to increase during 2017, due mainly to government measures and was expected to remain at a relatively high level after 2017.

Meanwhile, other advanced economies were expected to continue to grow steadily and a recovery in emerging economies was expected as a result of their own policy measures and the growth in the advanced economies. Japan's exports were expected to rise as a result of an improvement in the economies of its trading partners and the depreciation of Japan's currency, the yen.

There was also an upward revision of GDP following a change in the calculation of GDP statistics. The projected financial conditions suggested that real interest rates were likely to remain very low.

Source: Bank of Japan, Outlook for Economic Activity and Prices, January 2017

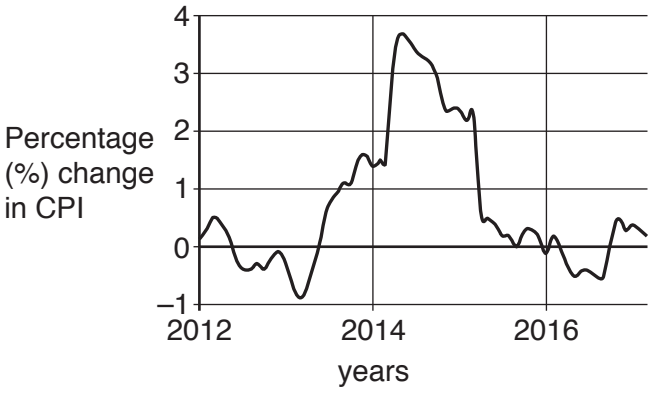


Fig. 1.1: Japan's inflation rate, 2012–2016

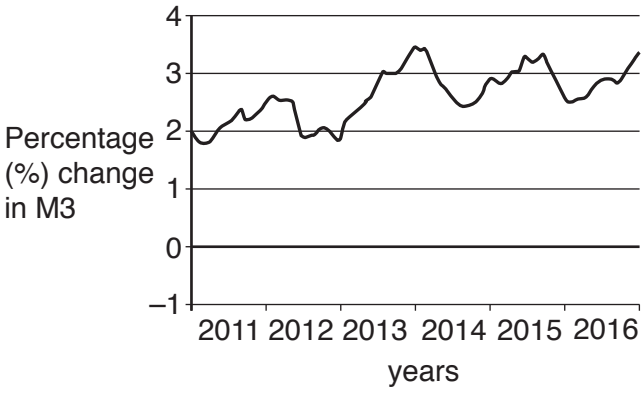


Fig. 1.2: Changes in Japan's money supply (M3), 2011–2016

Source: Trading Economics, 2017 and Bank of Japan Annual Review, 2017

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(a) Identify **two** positive influences on Japan's economic growth. [2]

(b) To what extent do Fig. 1.1 and Fig. 1.2 support Friedman's view that 'inflation is always and everywhere a monetary phenomenon'? [5]

(c) Explain the likely impact of quantitative easing on the Japanese economy. [6]

(d) Discuss the possible effects on the Japanese economy of the changes in supply-side policy and international economic events described in the article. [7]

Section B

Answer **two** questions.

2 'Free markets make the most efficient use of resources and are the foundation of a successful economy.' To what extent do you agree with this? [25]

3 **(a)** Explain what is meant by a normal good and comment on the link between total utility, marginal utility and a consumer's demand curve for that good. [12]

(b) Discuss how a government's policies toward income and wealth distribution can affect a consumer's demand. [13]

4 **(a)** Explain how a firm maximises its profit in perfect competition. [12]

(b) Discuss whether profit maximisation is the best strategy in the long run for firms in different market structures. [13]

5 **(a)** Explain the relevance of economic rent and transfer earnings when comparing the wages of skilled workers and unskilled workers. [12]

(b) Discuss whether workers always benefit when their trade union achieves an increase in wages. [13]

6 Evaluate how the relative size of injections into and leakages from the circular flow of income can affect the ability of a government to achieve its macroeconomic aims. [25]

7 Discuss whether countries at different stages of development should use different methods of measuring living standards. [25]

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