Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/43**

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 **4** printed pages and **1** Insert.

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Section A

Answer this question.

1 Production, living standards and market failure

Today, the average person lives better than they did fifty years ago. Two reasons are given for this. The first is capital accumulation, the idea that if people save more, production increases. Secondly, we are better at managing resources; we have learned to get more outputs from given inputs. Table 1.1 shows the changes in GDP by continent.

Table 1.1: Average annual real GDP growth rates (%) by continent

	1962-71	1972–81	1982–91	1992–2001	2002–11	Average annual rate (1962–2014)
Africa	4.5	3.6	2.6	3.1	5.5	3.9
Americas	4.8	3.9	2.5	3.4	2.3	3.3
Asia Pacific	7.9	4.9	5.1	4.9	6.3	5.8
Europe	5.1	2.8	2.4	1.4	2.2	2.7

Education and learning have played a central role in these increases in GDP.

However, there have been fundamental changes in the labour market. It used to be that people often had the same job for years. Now job turnover is high and employers are less willing to invest in formal education. There needs to be systematic intervention by the government. Markets alone will not do a good job of creating a learning society.

It was government support that enabled the decoding of the human genome. But a US company realised that if it could patent a test for a certain gene, it could profit. It succeeded in getting patents for a test on two breast cancer genes. It exercised its monopoly power. When Yale University discovered a better test for the genes the company said they could not use it. But the company's tests were inferior and people suffered through misdiagnosis. Private returns have nothing to do with social returns.

The values that have allowed western capitalism to thrive – individualism, competition, consumption – now threaten its future.

Values that were considered less important need now to be cultivated to promote social efficiency: sustainability, community, co-operation and reflection. In the market, this can only be achieved by government intervention to adjust economic disincentives and incentives to take account of external costs and benefits. The lessons of the prisoners' dilemma might be relevant.

Economic disincentives include taxes on carbon emissions to limit negative externalities. Economic incentives that include subsidies and pollution permits can be used to encourage the development of sustainable technologies and practices.

Source: RSA Journal, Issue 3, 2014

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(a) The article says that an increase in saving would increase production. Would an economist necessarily agree with this statement? [5]

(b) Explain what is meant by market failure and consider whether there are examples of market failure in the article. [5]

(c) Suggest why the article says that the lessons of the prisoners' dilemma might be relevant. [4]

(d) Discuss, with the help of the information, whether the article is correct in asserting that the 'average person lives better than they did fifty years ago'. [6]

Section B

Answer **two** questions from this section.

2 **(a)** Explain the meaning of and whether there is a link

(i) between Pareto optimality and equality;

(ii) between free markets and equity. [12]

(b) Consider the methods a government can use to increase efficiency in resource allocation. [13]

3 **(a)** Critically discuss the explanation in economic theory of how a rational consumer exercises choice and how it links to a demand curve. [12]

(b) Analyse how a consumer's equilibrium might change if the government increased a sales tax (goods and services tax) on a normal good, an inferior good and a Giffen good. [13]

4 **(a)** Contrast the features of a perfect competitive market with those of an oligopoly and compare the aims of the firms in each of these market structures. [12]

(b) Discuss what you would expect to happen to the output of the industry and the level of profit if perfect competition were replaced by a monopoly. [13]

5 Analyse and discuss whether the economic theory of wages can explain why there are inequalities in wage rates in a country. [25]

6 **(a)** Explain the speculative motive for the demand for money and consider its significance in relation to monetary policy. [12]

(b) Discuss the view that monetary policy can be used effectively to control demand-pull inflation but not to control cost-push inflation. [13]

7 'There have been many attempts to measure changes in living standards both within and between countries. Although some have been more useful than others, none of these alternative measures has produced a sufficiently accurate, reliable indicator of changes in living standards.'

How far would you agree with this statement? [25]

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