Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **October/November 2020**

2 hours 15 minutes

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You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **three** questions in total:
  - Section A: answer Question 1.
  - Section B: answer **two** questions.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.
- You may use a calculator.
- You may answer with reference to any economy you have studied where relevant to the question.

INFORMATION

- The total mark for this paper is 70.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **4** pages. Blank pages are indicated.

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Section A

Answer this question.

1 Divergences in economic performance

A report considered the determinants of long-term economic growth and rated economies on their global competitiveness using an index from 7 to 1. Labour productivity is one influence on the competitiveness of an economy and labour productivity also determines the level of prosperity that a country can achieve. Switzerland, Singapore and the United States (US) were the world's three most competitive economies (see Table 1.1). Countries in the Euro Area were also ranked in the report. The Euro Area is a monetary union of 19 countries that have adopted the euro as their common currency.

Table 1.1 Data related to global competitiveness of selected countries, 2016–17

Country	Global competitiveness		Labour productivity GDP per hour (US$)	Current account balance	
	rank	index		(US$bn)	(% GDP)
Switzerland	1	5.81	64.2	+66.1	+9.4
Singapore	2	5.72	41.6 *(2013)*	+63.0	+21.5
US	3	5.70	68.3	–476.6	–2.6
Euro Area:					
Netherlands	4	5.57	65.4	+59.7	+8.5
Germany	5	5.57	65.5	+296.2	+8.8
Belgium	17	5.25	69.7	+4.8	+0.7
Spain	32	4.68	51.0	+23.5	+1.6
Italy	44	4.50	51.9	+47.8	+2.4
Greece	86	4.00	35.3	–0.2	–0.2

In the Euro Area a strong economy such as Germany has benefited much more from the use of the euro single currency than weaker economies such as Spain and Greece. As these weaker economies do not have their own currencies, they have been forced to adjust their domestic economic policies to tackle balance of payments problems by decreasing wages and reducing government spending instead of devaluation.

The unemployment rate in the weaker economies of the Euro Area remains higher than in the stronger economies. For example, in Spain it was 18.4% in 2016 with 40% of young people out of work. By contrast the unemployment rate in Germany was 3.9%, an all-time low in 2016. Although unemployment across countries in the entire Euro Area decreased from 2013 to 2016, prices have shown a strong upward trend in 2016 which may result in reduced consumer spending. In future this may cause increases in interest rates in an attempt to control inflation.

Sources: The Times, 1 February 2017; World Economic Forum Global Competitiveness Report, 2016; http://time.com

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(a) Explain what is meant by labour productivity and whether the information confirms that countries with higher labour productivity are always more competitive than countries with lower labour productivity. [5]

(b) **(i)** State **three** general macroeconomic aims a government might have. [3]

(ii) Is there evidence in the information that suggests Germany is achieving any of these macroeconomic aims? [4]

(c) The article describes the effects of a single euro currency on the changes in the domestic policies of Spain and Greece.

Discuss the possible effects on the Spanish and Greek economies that these policy changes might have. [8]

Section B

Answer **two** questions.

2 'The existence of externalities is neither a necessary nor a sufficient condition for government intervention to achieve efficiency in the economy.'

Do you support this opinion? [25]

3 **(a)** Compare and contrast the derivation of a consumer's demand curve using Marshall's marginal utility analysis with a consumer's demand curve derived by indifference curves. [12]

(b) Discuss how the effect of a rise in a sales tax (goods and services tax) can be analysed using indifference curve analysis. [13]

4 **(a)** Consider whether in oligopoly the theory proposes that the market price is rigid. [12]

(b) 'Mergers of firms in the same industry are against the public interest. It is better that firms remain small.'

Discuss this opinion. [13]

5 **(a)** In some industries the wage rate is often omitted when a job is advertised.

Explain the role of the marginal revenue product in determining the wage rate in a perfectly competitive firm and consider whether the labour market is likely to be perfect or imperfect if the wage rate is omitted from an advertisement. [12]

(b) Discuss, with the aid of a diagram, whether it is possible for a trades union to increase its members' wage rate without reducing the level of employment. [13]

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6 'The use of quantitative easing (QE) has the same effect on the economy as the use of Keynesian fiscal demand management policy. Both policies create employment in the short run at the expense of inflation in the long run.'

How far would you support this view? [25]

7 **(a)** Explain the economic costs of unemployment and consider which is the most important. [12]

(b) 'Government intervention in supply-side policies will not have a significant impact on unemployment whereas supply-side policies that increase aggregate demand because of a freer market will significantly reduce the level of unemployment.'

Discuss this statement. [13]

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