Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/43**

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

2 hours 15 minutes

1601790449

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 Economic links between developed and developing economies

In the developing world the working-age population is expected to increase. It was predicted in 2016 that in 2017 more than 1.1 million new workers would join the labour force each month. Sub-Saharan Africa was expected to experience the most rapid labour-force growth, but many developing countries in Asia and the Middle East would be close behind.

It was also forecast that by 2030, developing and emerging economies will have added 1.7 million workers a month to their labour force. China, by comparison, added an average of 1.1 million workers a month from 1978 to 2011. Therefore, to absorb these workers developing nations must create jobs at a faster rate than China experienced during one of its fastest periods of economic growth (8–10% a year).

Capital inflows to developing countries rose in 2016 after almost a decade of decline caused by the global financial crisis of 2007–8. Capital flows are needed to finance manufacturing and infrastructure. The rise in capital flows could provide not only welcome economic growth for developing economies by providing facilities for more employment but also benefit developed economies.

But there is a risk that these mutually beneficial gains will not occur.

First, despite the recent increase, capital flows to developing economies remained low, as shown in Fig. 1.1.

Secondly, some domestic policies of developed countries do not help. In the United States (US) policies to protect its manufacturing industries, such as iron and steel, and measures to halt the flow of economic migrant labour have created uncertainties in the global economy. There is a disincentive to invest in the developing world and a redirection of savings into the US economy.

Some economists argue that if the mutual benefits from the developed world to developing and emerging economies do not occur the alternative will be even greater economic migration as millions of young people from Egypt, India, Nigeria, Pakistan, Mexico and the Philippines, enter the labour force without the prospect of meaningful employment and make their way to rich countries, legally or otherwise in search of work.

Source: adapted from The Economist, The World in 2017, December 2016

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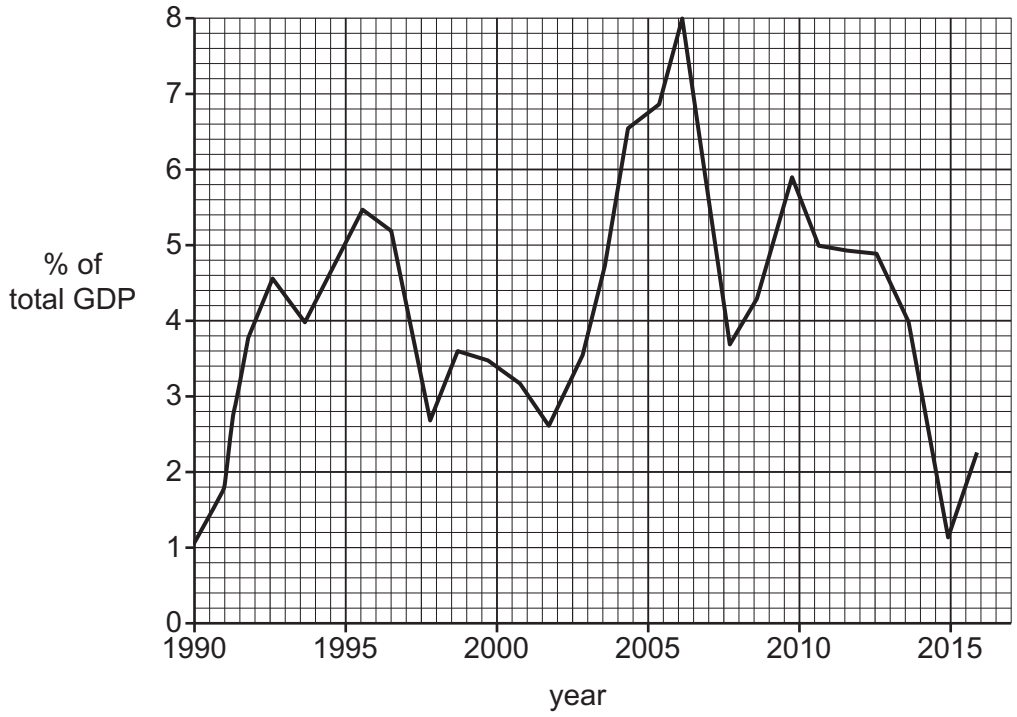


Fig. 1.1 Total private capital flows to 25 emerging economies (including China) as a % of total GDP, 1990–2016

(a) The article mentions economic growth. What is meant by economic growth? [3]

(b) Explain how economic growth is linked to a country's level of development. [4]

(c) Explain why economic migrants are mainly from the developing economies. [4]

(d) Discuss, using the information, whether links between developed economies and developing economies are necessarily 'mutually beneficial'. [9]

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[Turn over

Section B

Answer **two** questions.

2 **(a)** Explain what is meant by 'Pareto optimality' and whether it is correct to say that an optimal allocation of resources would result if a good's price equalled its marginal cost. [12]

(b) Discuss why an optimal allocation of resources might fail to occur in practice and consider what could be done about this failure. [13]

3 **(a)** Examine the analysis behind the downward sloping demand curve for a normal good. [12]

(b) Use indifference curve analysis to discuss why a manufacturer might be interested in a consumer's reaction to an equal rise in price for a normal good and a Giffen good. [13]

4 **(a)** With the aid of a diagram, consider what is likely to happen to the level of profit earned by a firm if barriers to entry are introduced in a perfect market. [12]

(b) Discuss why an industry might experience falling long-run average costs and comment on whether consumers might benefit from such a situation. [13]

5 Marginal revenue productivity theory analyses why wage rates differ in imperfect markets.

Explain this analysis using a diagram and consider if a trade union negotiated a higher wage than determined by the market, whether the outcome would necessarily be the same as that in perfect competition. [25]

6 **(a)** Explain the causes of demand deficient (cyclical) unemployment and consider which is the most important. [12]

(b) Critically evaluate the use of Keynesian demand management policies to solve the problem of unemployment. [13]

7 'The rate of interest is one of the most important macroeconomic variables because changes in the rate of interest have a significant impact on each of the key macroeconomic aims.'

To what extent do you agree with this statement? [25]

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