Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays **October/November 2021**

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. Any blank pages are indicated.

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Section A

Answer this question.

1 **Competition in the skies over Europe**

In the sixteen months to April 2019 thirteen airlines ceased trading in Europe. This reflected a global trend where small airlines found it increasingly difficult to compete against large airlines, which have continued to grow.

Large airlines charge a price for a flight that includes meals and entertainment for passengers. Smaller airlines charge a price for the flight only and passengers need to pay extra for other services such as meals.

Large airlines benefit from economies of scale. Without these cost-reductions some smaller airlines have gone bankrupt.

The reduction in the number of airlines has not reduced the overcapacity in the market because the aircrew and aircraft of the bankrupt airlines were acquired by the remaining companies, which have developed into super-airlines. This has left passengers with fewer airlines to choose from and more expensive fares. It was predicted that this would lead to an increase in the market share for the top five European airlines from 50% of the European market in 2019 to match the top five United States (US) airlines, which control 77% of the US market.

The development of super-airlines took place at the same time as increasing regulation of the airline market. For example, the European Union (EU) will only grant operating licences for flights between EU countries to an EU airline. This has prevented non-EU airlines from competing on EU routes.

For the super-airlines, large scale is the easy way to avoid the stresses and strains of open competition. For passengers this will lead to higher prices and poorer service.

Sources: adapted from Financial Times, 6 October 2017 and The Economist, 27 April 2019

(a) Using the information, explain the predicted effect of the development of super-airlines on the concentration ratio in the European airline market. [2]

(b) 'Large airlines benefit from economies of scale.'

With the use of an example and a diagram, explain how a large airline can benefit from economies of scale. [5]

(c) Explain what is meant by a contestable market and discuss how making the airline market more contestable could benefit passengers. [6]

(d) Identify the market structure for airlines in Europe in 2019 following the development of the super-airlines and discuss how airlines may compete in this market structure. [7]

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Section B

Answer **two** questions.

2 Discuss whether market failure can be successfully eliminated by governments. [25]

3 **(a)** Use marginal utility analysis to explain the derivation of the individual demand curve for a good. [12]

(b) Use indifference curve analysis to discuss whether the demand curve for a good will always slope downwards. [13]

4 **(a)** Explain the link between diminishing marginal returns and the shape of a firm's short-run marginal cost curve and short-run average total cost curve. [12]

(b) Discuss whether consumers or producers benefit more from the practice of price discrimination. [13]

5 Discuss the extent to which gross domestic product (GDP) is a useful measure of living standards and economic development. [25]

6 **(a)** Explain the difference between frictional unemployment and real wage (classical) unemployment. [12]

(b) Evaluate the policies available to a government to reduce the level of structural unemployment. [13]

7 **(a)** Explain the quantity theory of money and consider its relevance for a country's macroeconomic policy. [12]

(b) Discuss whether fiscal policy alone can promote a more equal distribution of income. [13]

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