Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **October/November 2022**

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.

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Section A

Answer this question.

1 **Romania's economy booms**

Romania, like other former planned economies in eastern Europe has increased the amount of private enterprise and foreign direct investment (FDI) in its economy. Romania's economy has boomed in recent years and compares favourably with economies in the European Union (EU) as indicated in Fig. 1.1.

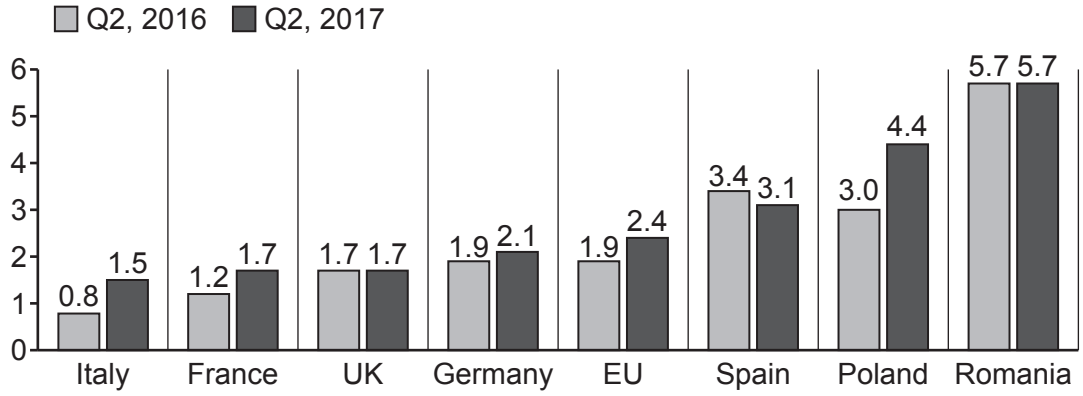


Fig. 1.1: GDP growth rates in selected European economies 2016, 2017

This economic boom has been characterised by the expansion of services and manufacturing sectors. In particular the high-tech industries have been very successful and are expected to double their contribution to GDP to 12% by 2025. The low wage rate in Romania was a benefit for foreign companies. For example, global car companies have, since 2008, invested US$1.4 billion in Romania's car factories that has increased employment.

After Romania joined the EU in 2007, many Romanian workers took advantage of the free movement of labour the EU allows. In 2008, 600 000 out of a population of 21.2m left Romania. In spite of its economic boom, Romania has failed to attract sufficient workers back and there is now a shortage of labour. The total population is lower than in 2008 at 19.4m. Unemployment was only 5.9% in 2017 compared with an average rate of 8.6% for the EU as a whole.

Since 2015, the government has taken measures to boost the economy. It reduced sales tax from 24% to 19%, which increased consumer demand. It also doubled the national minimum wage providing a boost for both private sector and public sector employment.

But there are also serious economic challenges. The gap between government income and spending has widened causing a rising budget deficit. The transport infrastructure remains poor. In a World Economic Forum report in 2016, Romania was ranked 128th out of 138 countries for the quality of its road network and 79th for its railway system.

Sources: 1. Romania is poor man of the EU no more as economy booms,
The Observer, 15 October 2017
2. Table 2.6 Private Sector Activity: 'Transition Economics Two Decades On',
Gerard Turley and Peter J. Luke, Routledge 2011

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(a) Use the information to indicate how Romania's economy performed in 2017 compared with the European Union as a whole. [3]

(b) Use the information to explain the reasons for Romania's rapid economic growth. [4]

(c) Describe the changes in Romania's workforce mentioned and consider whether they have been a benefit to Romania. [6]

(d) The information states that Romania had a budget deficit. Explain what is meant by a budget deficit and discuss whether the measures taken by the government in 2015 were likely to reduce this deficit. [7]

Section B

Answer **two** questions.

2 Explain what is meant by cost benefit analysis and consider how it might be used by a government to decide whether a new hospital should be built. [25]

3 **(a)** Monopoly firms will always aim to maximise profits and limit pricing is the only way to ensure that these profits are maintained in the long run.

Discuss the extent to which you agree with this statement. [12]

(b) Explain what economists mean by collusion and consider the view that collusion will occur only in a certain type of market structure. [13]

4 **(a)** Explain what is meant by the marginal revenue product theory and consider the relationship between this theory and a trades union's ability to gain higher wages for its members. [12]

(b) Distinguish between economic rent and transfer earnings and, with the help of diagrams, discuss why famous sports people receive much higher pay than street cleaners. [13]

5 **(a)** Explain, with the help of a diagram, the Keynesian theory of the liquidity trap and consider the importance of the liquidity trap to government policy makers when an economy is in a recession. [12]

(b) The most important aim of a central bank is to control the money supply while the most important aim of a commercial (retail) bank is to maximise profits.

Discuss the extent to which these two aims can be achieved together. [13]

6 Explain what economists mean by an increase in real GDP per capita and discuss the extent to which an increase in real GDP per capita will have a positive impact on economic development. [25]

7 A government's decision to increase its budget deficit as a proportion of the economy's GDP will depend significantly upon whether the economy's output gap is positive or negative.

With the help of a diagram explain and evaluate this statement. [25]

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