Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/43**

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 The Hidden Cost of Palm Oil

Worldwide production of palm oil has been increasing for many years. Between 1995 and 2015, annual production quadrupled. The amount of land taken to produce palm oil is vast. It accounts for 10% of all global cropland.

Over 3 billion people in 150 countries now use products containing palm oil. The worldwide demand has raised incomes, especially in the rural areas of Malaysia and Indonesia that produce 85% of the output of palm oil. After the global economic crisis of 1998, the region had been suffering from a significant decline in the exports of manufactured goods. This had a detrimental effect on the balance of payments and resulted in external debt.

Nations producing palm oil view it as a means of reducing poverty, while international finance organisations regard it as an engine of growth for developing economies. The International Monetary Fund (IMF) encouraged Malaysia and Indonesia to cultivate natural resources and to produce more palm oil in spite of an awareness of high external costs. Dutch banks provided more than US$12 billion in loans to Indonesian producers. Palm oil is Indonesia's main export earner.

Widespread adoption of palm oil began when, in 1995, one of the world's major multinational companies decided to use it in its global food manufacturing industries instead of animal fats and other vegetable oils, which were then said to be unhealthy. It invested heavily in expanding palm oil plantations in Malaysia and achieved considerable cost savings because palm oil has a much higher yield per hectare than other vegetable oils.

Palm oil's versatility is not limited to food. It is used in 70% of personal care products (toiletries) such as soap, shampoo and make-up. It is also increasingly used as biodiesel fuel.

As the palm oil industry expanded, conservationists began to raise the alarm about the devastating effects from carbon emissions and on wildlife habitats. Fires set to clear forests and create land for more palm plantations are the major source of greenhouse gas emissions in Indonesia. The financial incentive to produce more palm oil is helping to warm the planet, while destroying the only habitat of some rare animals.

In 2019, one supermarket promised to remove palm oil from all its own-brand foods. Norway banned imports for biodiesel production. The European Parliament proposed that public subsidies for biodiesel should be removed by 2021. If this proposal is enacted it will affect the demand for biodiesel and may force palm oil producing countries to reduce deforestation programmes, leading to improved environmental sustainability.

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Fig. 1.1 illustrates the palm oil uses in Europe.

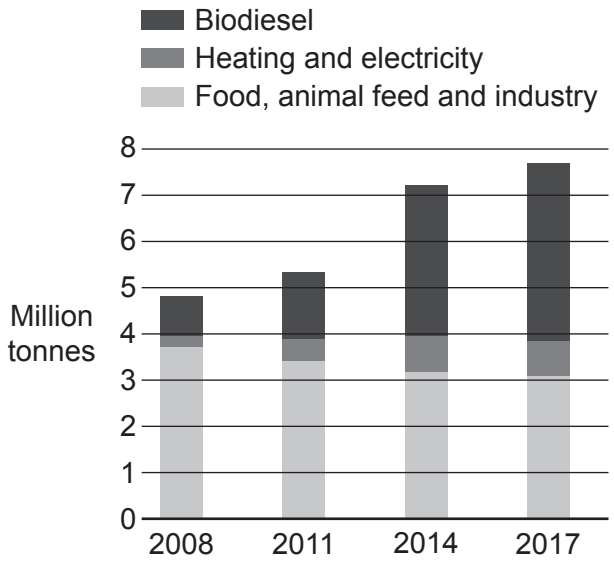


Fig. 1.1: Palm oil uses in Europe

Sources: 1. Article: The Hidden Cost of Palm Oil by Paul Tullis: The Guardian 19 Feb 2019
2. www.tranpsortenvironment.org/what-we-do/biofuels

(a) Identify the trends in demand for different uses of palm oil as shown in Fig. 1.1. [3]

(b) Analyse why developing countries that produce palm oil view it as a means of poverty reduction. [4]

(c) Explain how a change in fiscal policy proposed by the European Parliament for 2021 regarding biodiesel could affect the economies of palm oil producing countries such as Malaysia and Indonesia. [5]

(d) To what extent do you agree with the advice of the IMF to encourage Indonesia to expand its production of palm oil? [8]

Section B

Answer **two** questions.

2 **(a)** Consider why it is important for a government to use cost benefit analysis when deciding how much of a public good to provide. [12]

(b) Pareto optimality can only be achieved when an economy is both productively and allocatively efficient. This will create a more equitable society.

Discuss the extent to which you agree with this statement. [13]

3 **(a)** High market concentration ratios are closely linked to oligopoly market structures.

Explain what this means and consider its importance in relation to the pricing policy of an oligopoly firm. [12]

(b) Limit pricing may sometimes be used by a monopoly. It creates a barrier to entry which benefits consumers in the short run but increases costs to the consumer in the long run.

Discuss this statement. [13]

4 **(a)** Discuss the effectiveness of government policies which increase the net advantage of labour on the long–term supply of labour in an economy. [12]

(b) Compare the impact of an increase in labour productivity on a firm in a monopsony labour market with an increase in labour productivity on a firm operating in a perfectly competitive labour market. [13]

5 **(a)** Consider, with the help of a circular flow diagram, why an export-led growth policy is likely to be successful when a developed economy is in a recession. [12]

(b) The introduction of new technology will increase efficiency but will also cause an increase in unemployment.

Discuss the extent to which you agree with this statement. [13]

6 Developing economies have a high proportion of economically inactive people relative to the size of the labour force (a high dependency ratio). This is the main reason why the standard of living is low in developing economies.

Evaluate this statement. [25]

7 A government's decision to move from a fixed exchange rate to a free market floating exchange rate will solve the problem of unemployment in the short run but will cause higher rates of inflation in the long run.

Evaluate this statement. [25]

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