Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/43**

Paper 4 A Level Data Response and Essays **October/November 2024**

2 hours

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 **one** question.
  - Section C: answer **one** question.
- 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 60.
- 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 all parts of Question 1.

1 The threat from large firms

In 2021, one of the largest United States (US) technology companies averaged sales of US$1.2 billion a day. It took less than four seconds to earn US$52 000, the average American yearly salary. Three of the largest technology companies reported record breaking sales and profits. Five of the largest companies made combined profits of over US$68 billion.

They were helped by the Covid-19 pandemic that caused a huge increase in online working and shopping. The ability to work and shop online was greatly welcomed by many who were forced to stay at home.

Critics, however, worry that if this trend to large firms continues the future will be controlled by a handful of super-rich, super-powerful companies. They will dominate economic activity. This is not just bad for the economy; it is bad for consumers and bad for competition. Also, economic concentration causes unacceptable inequality. One powerful firm tried to prevent workers joining a trade union.

Their huge cash reserves mean that they could undercut possible new entrants and prevent competition. Investors will be wary of investing in possible competitors and new owners would be prepared to sell out to the dominant firms rather than try and compete.

The size of the firm gives it political power to fight any official or government intervention. Governments are beginning to be aware of this. The chair of the US body that deals with competition law said there was a range of potential risks created by the large companies. The government is aware of their ability to avoid paying taxes and their ability to dominate allows them to expand into markets for similar products.

Ten years ago, a co-founder of one of the large firms said ‘Joseph Schumpeter, the economist who used the term creative destruction would be proud’. But now that co-founder is not so sure. ‘We went from being pirates to being the navy. People may love pirates when they are young and small, but nobody likes a navy that acts like a pirate. Today’s technology giants are just like that’.

Source: The Guardian, *31 July 2021*

(a) (i) Distinguish between limit pricing and predatory pricing. [4]

(ii) Explain whether there is any evidence in the article of these two types of pricing policy. [2]

(b) Assess **three** possible positive effects on the macroeconomy of the huge increase in the size of the five largest technology companies. [6]

(c) The article says the growth of large firms is bad for consumers, bad for competition, and causes inequality.

Consider whether this statement can be supported by the article and by economic theory. [8]

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Section B

Answer **one** question.

EITHER

2 Negative externalities of production cause market failure.

With the help of a diagram, assess the extent to which the introduction of indirect taxation is likely to address this cause of market failure. [20]

OR

3 Wages in a perfectly competitive labour market will always be higher than wages in a monopsony labour market.

With the help of a diagram, evaluate this statement. [20]

Section C

Answer **one** question.

EITHER

4 Central banks can control the money supply. An increase in the money supply will cause inflation, therefore central banks can control inflation.

Evaluate this statement. [20]

OR

5 Some high-income countries have introduced a policy of high tariffs on some imports to reduce the negative effects of globalisation on their economies.

With the help of a diagram, evaluate this policy. [20]

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