

A-Level Past Papers – Economics
A-Level Examinations October/November 2010

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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ECONOMICS

9708/11

Paper 1 Multiple Choice (Core)

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1 hour

Additional Materials: Multiple Choice Answer Sheet
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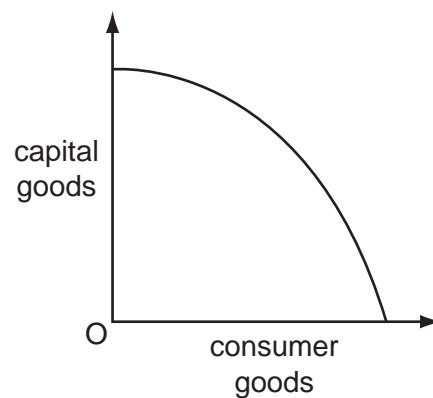
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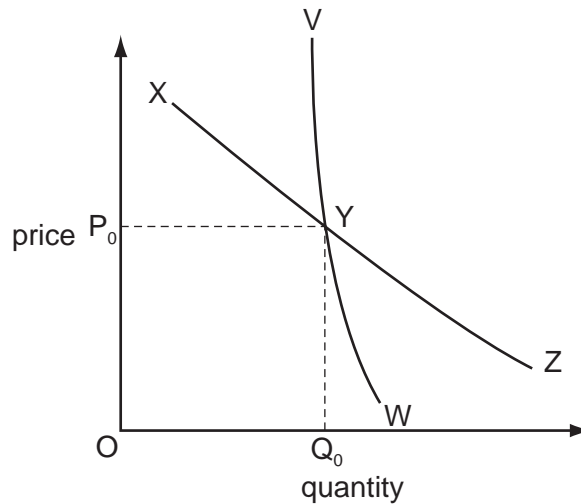
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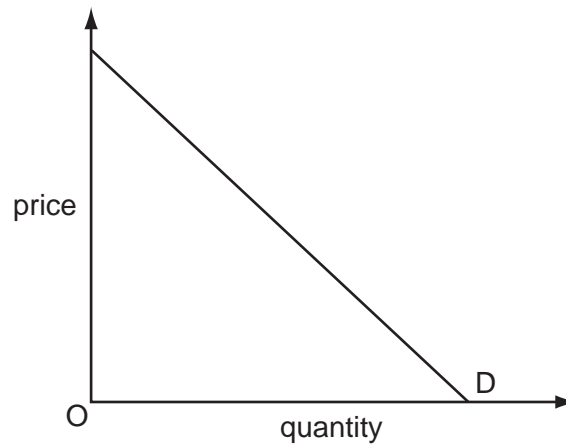
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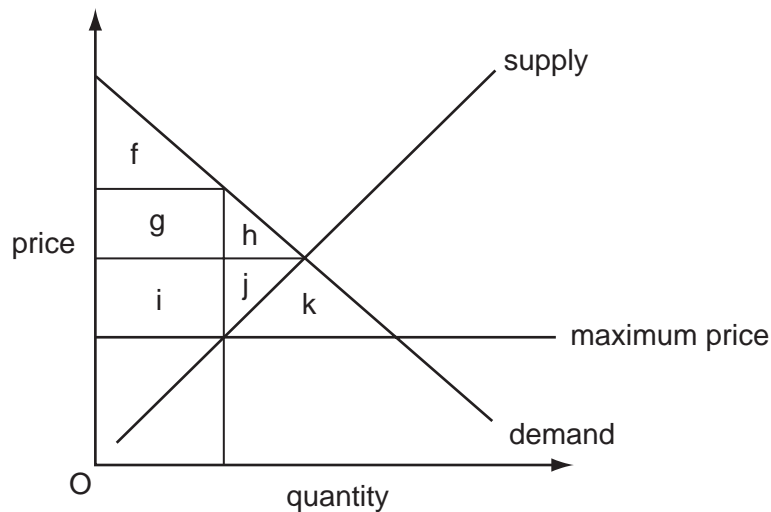
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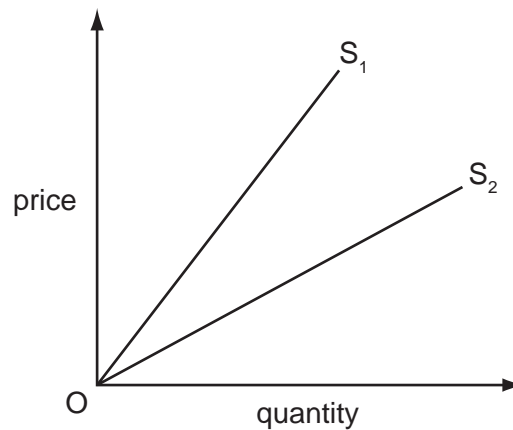


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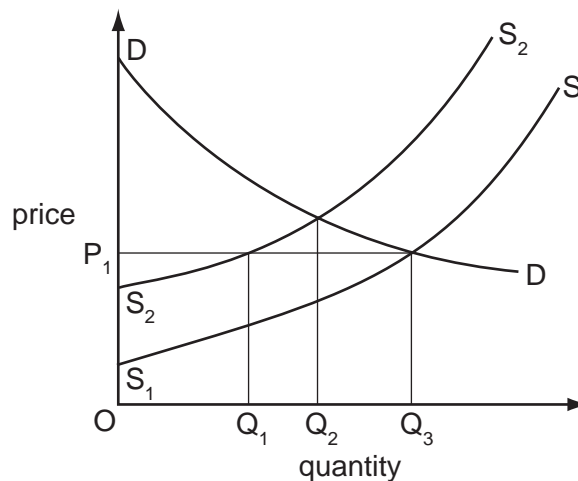
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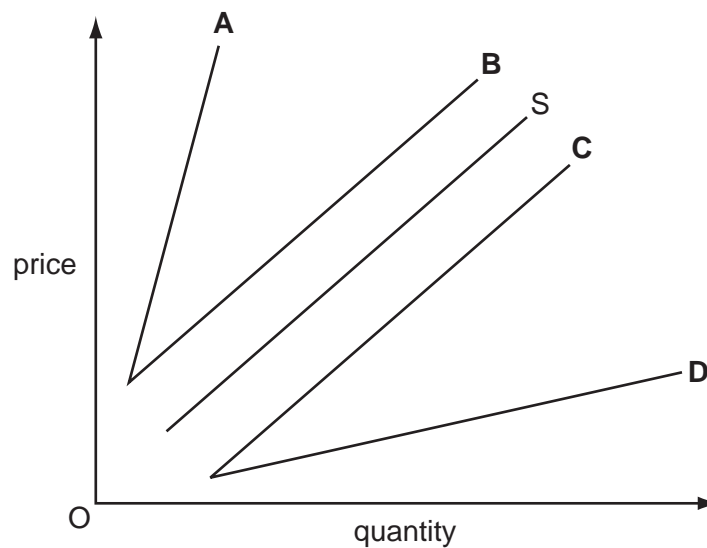
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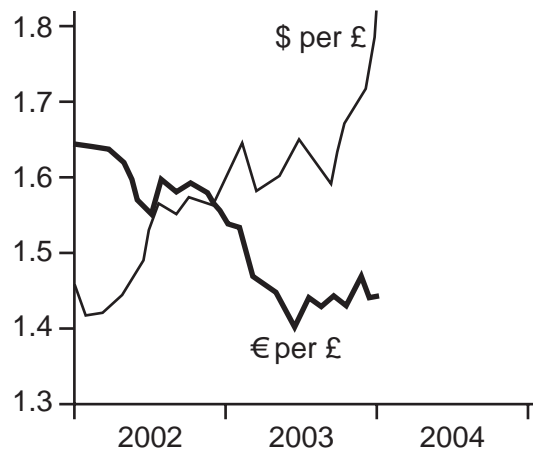
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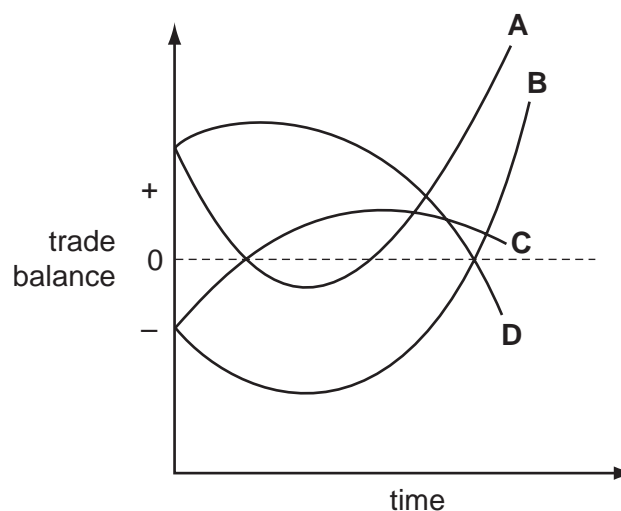


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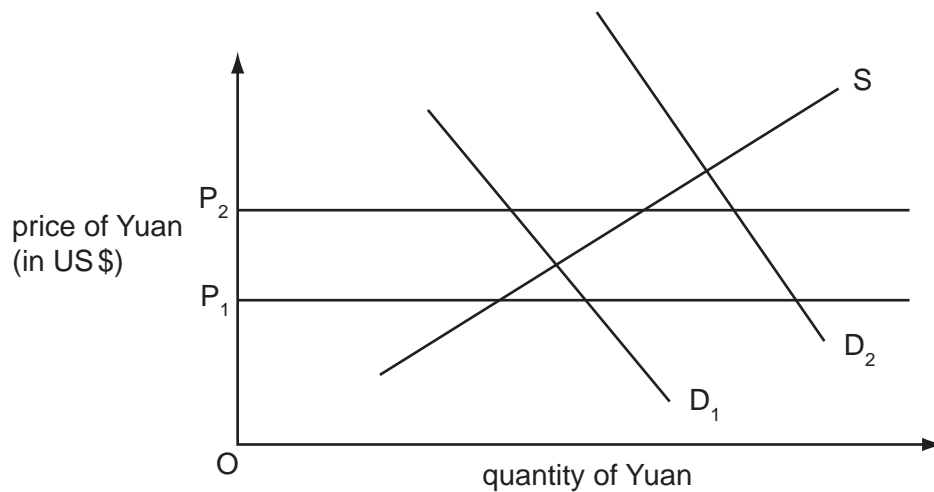
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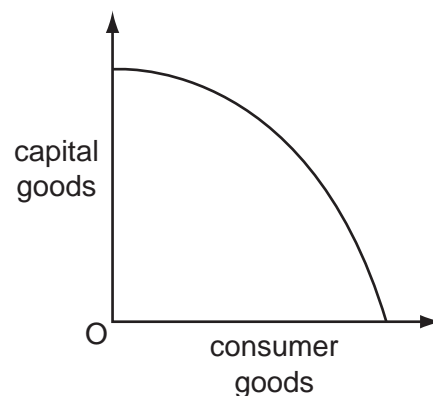
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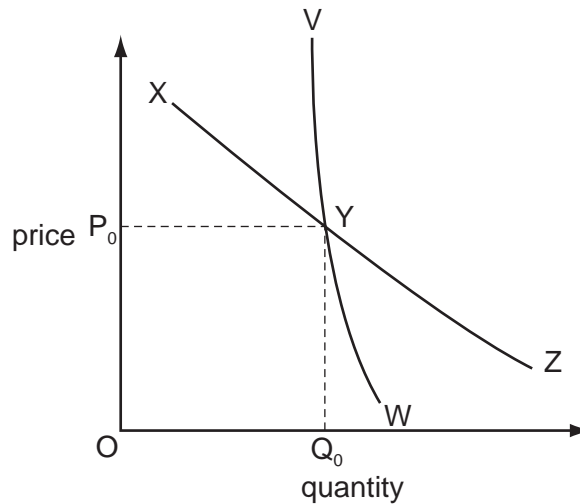
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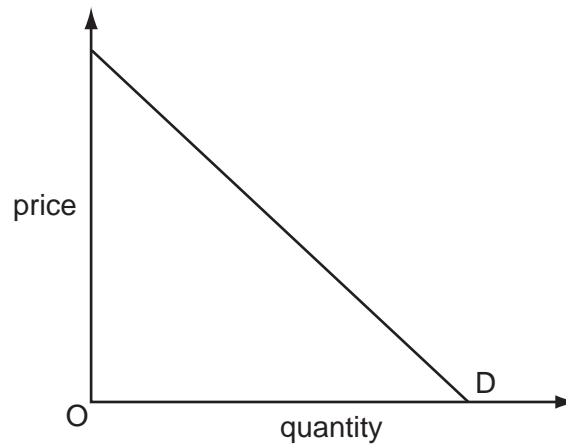
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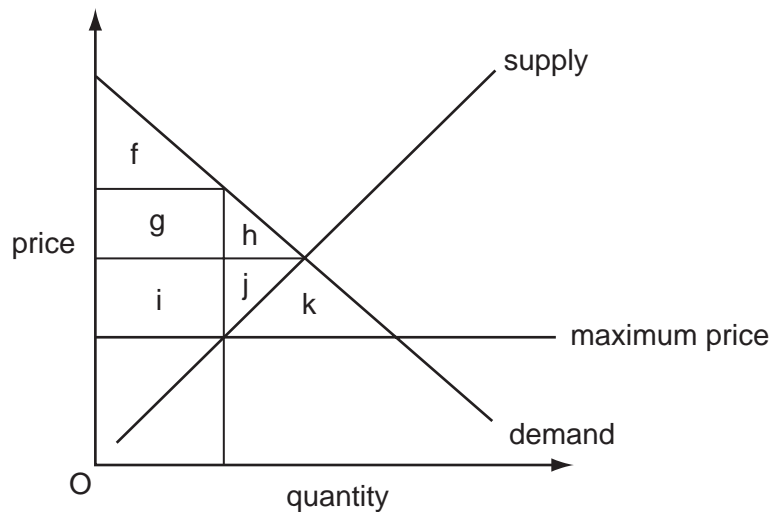
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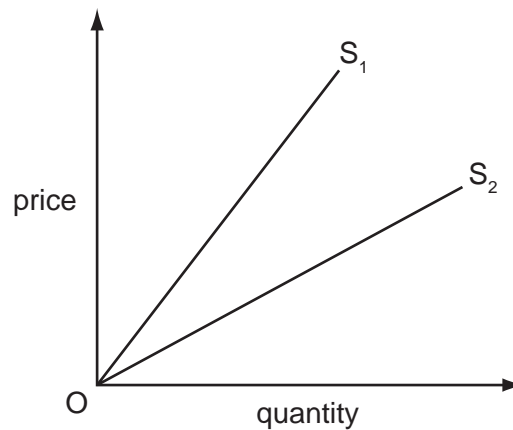


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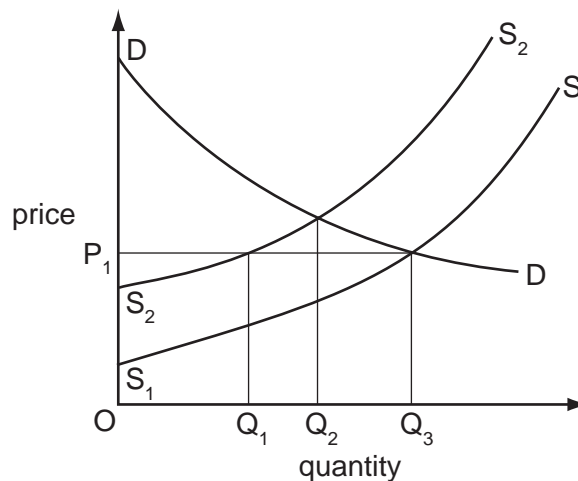
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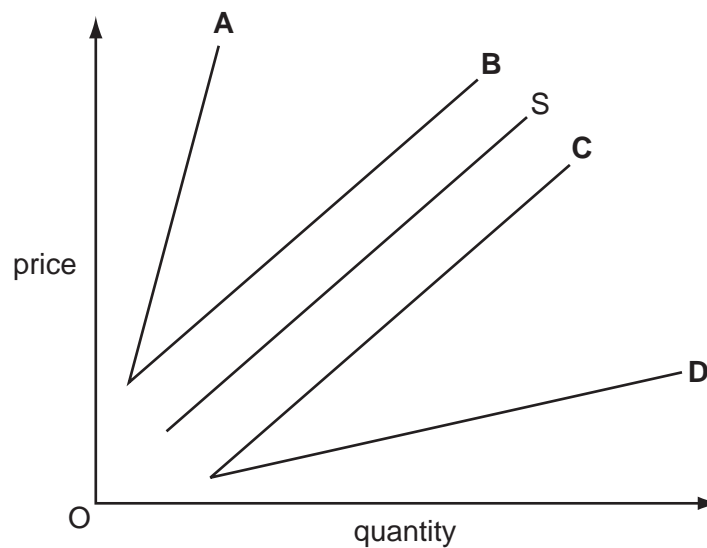
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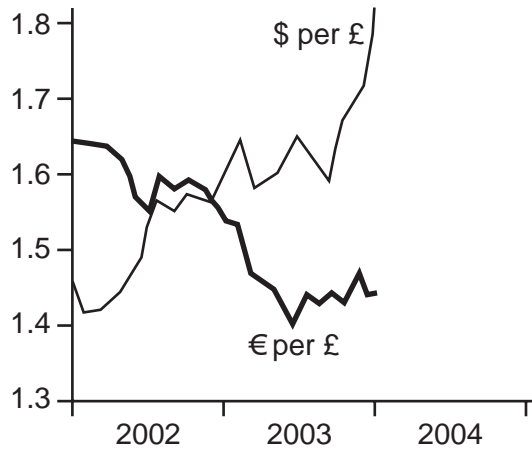
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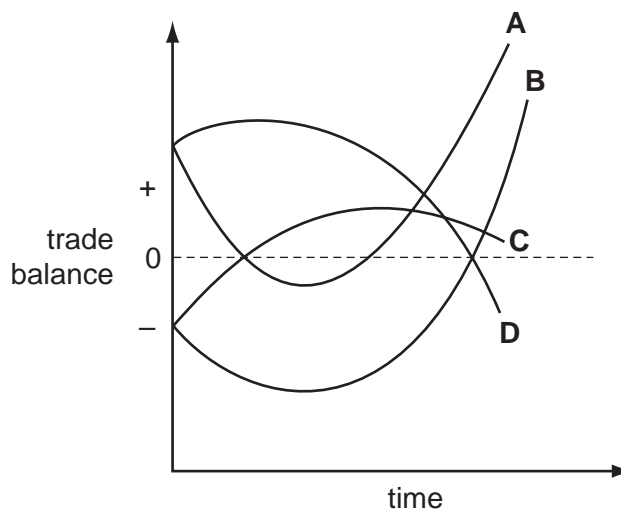


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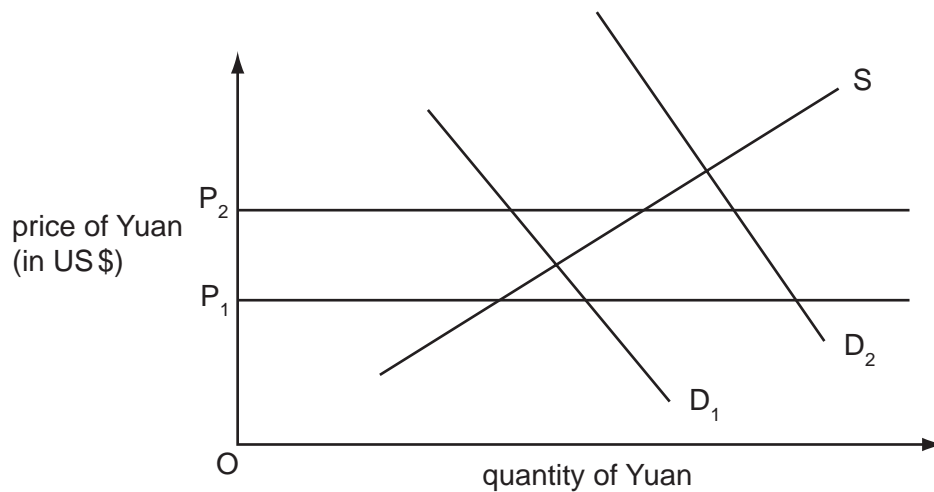
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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ECONOMICS

9708/13

Paper 1 Multiple Choice (Core)

October/November 2010

1 hour

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)



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Read the instructions on the Answer Sheet very carefully.

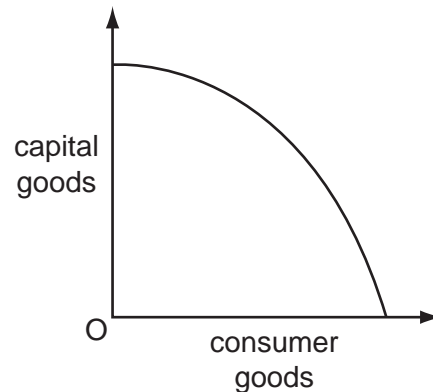
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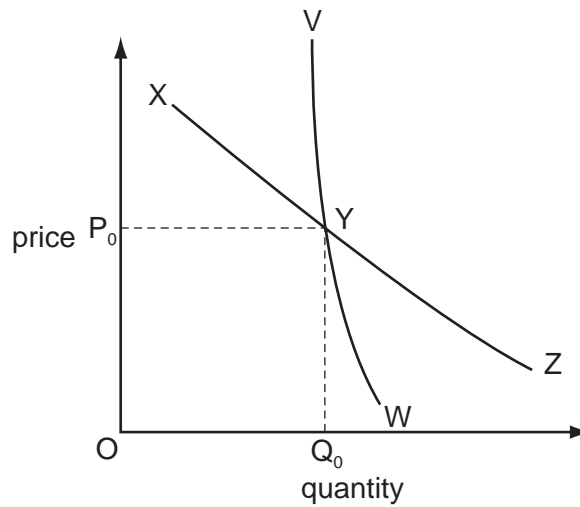
- 1 What are most likely to be disadvantages found in a market economy?
- A economic growth and state-owned companies
 - B merit goods and free competition
 - C public goods and economic specialisation
 - D unemployment and external costs
- 2 The diagram shows the production possibility curve of an economy.



Which statement explains the shape of this curve?

- A More efficient workers are drawn away from the production of consumer goods.
 - B Resources cannot be switched between producing capital and consumer goods.
 - C The economy is more efficient at producing capital than consumer goods.
 - D The opportunity cost of producing capital goods increases the more capital goods are made.
- 3 What is a correct statement about money?
- A Its functions mean the characteristics that it possesses.
 - B Its liquidity means its use as legal tender.
 - C Its supply means the total value of banknotes in circulation.
 - D Its value means its purchasing power.
- 4 What might shift an individual's demand curve for petrol to the left?
- A a fall in the price of parking
 - B a fall in the price of petrol
 - C a rise in the price of cars
 - D a rise in the price of public transport

- 5 The diagram shows a consumer's short-run and long-run demand curves for coconuts. Initially, the consumer purchases quantity Q_0 at price P_0 .



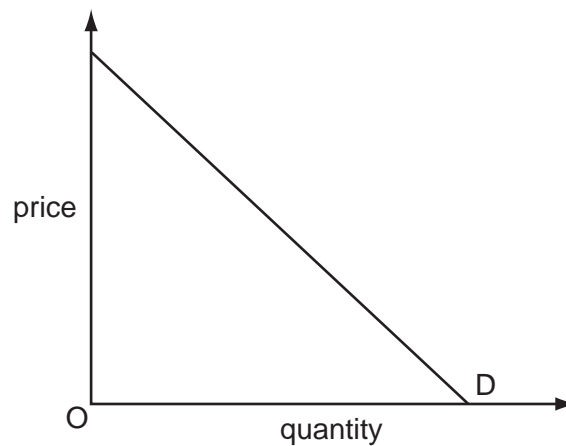
If the price of coconuts increases from P_0 , the consumer's short-run response is greater than his long-run response. If the price decreases from P_0 his short-run response is smaller than his long-run response.

What is the consumer's short-run demand curve?

- A VYW B VYZ C XYZ D XYW
- 6 The table shows a consumer's expenditure on a range of goods at different levels of income.
- For which good does the consumer have an income elasticity of demand greater than zero, but less than one?

	consumer's income (\$)		
	40	50	100
good	consumer's expenditure (\$)		
A	10	18	40
B	10	11	20
C	10	10	10
D	10	8	6

- 7 The diagram shows the demand curve for a product.



Which statement is correct?

- A** Demand is less elastic at higher prices than at lower prices.
 - B** Consumer expenditure on the product always rises when price falls.
 - C** Price elasticity of demand is different at every price.
 - D** Price elasticity of demand equals one at every price.
- 8 The table shows the market demand for a product and the individual supply of the three firms X, Y and Z in the industry.

price \$	market demand (000)	supply by X (000)	supply by Y (000)	supply by Z (000)
40	60	50	10	20
30	70	41	11	18
20	80	34	10	16
10	90	30	9	11

What is the equilibrium market price?

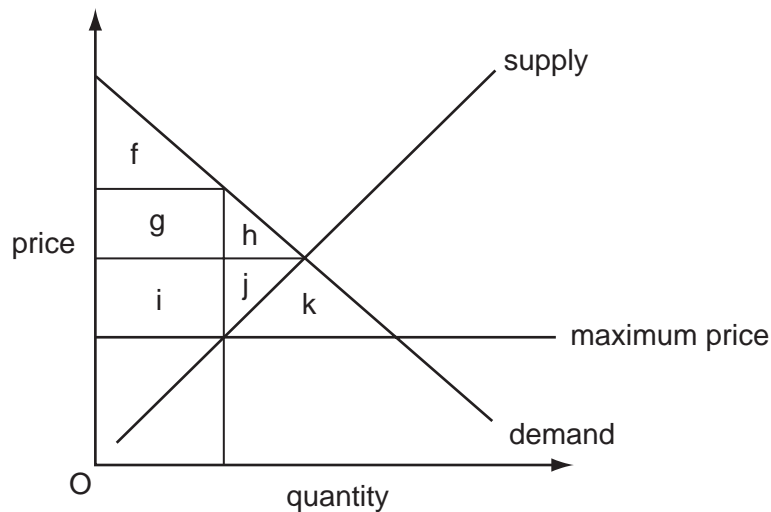
- A** \$40
- B** \$30
- C** \$20
- D** \$10

- 9 Domino Pizza, the largest US pizza chain, said that its profits had been reduced by price inflation on ingredients and by a reduction in consumers' disposable income.

How would these changes affect the demand and supply curve for its products?

	demand	supply
A	move to the left	move to the left
B	move to the left	move to the right
C	move to the right	move to the left
D	move to the right	move to the right

- 10 Which area in the diagram represents the amount of consumer surplus that would occur in a market if a government enforced an effective maximum price?

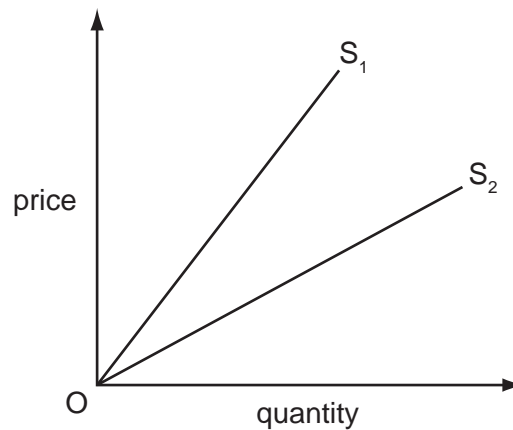


- A** f only
B f + g + h only
C f + g + i only
D f + g + h + i + j + k
- 11 Rising demand for oil from China and other countries is leading to concerns that there may be a world shortage of oil.

How should a change in the price of oil prevent such a shortage developing?

- A** Price should fall to reduce demand and encourage a search for more oil.
B Price should fall to reduce supply and encourage a reduction in fuel use.
C Price should rise to reduce demand and encourage a search for alternative fuels.
D Price should rise to reduce supply and encourage a switch to alternative fuels.

12 In the diagram OS_1 and OS_2 are two straight-line supply curves.



As price increases, the elasticity of supply

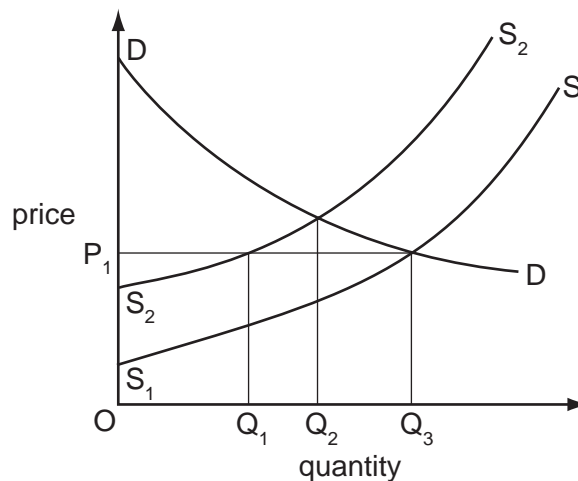
- A decreases along both OS_1 and OS_2 .
 - B increases less rapidly along OS_1 than along OS_2 .
 - C increases more rapidly along OS_1 than along OS_2 .
 - D is constant along both OS_1 and OS_2 .
- 13 What is the most likely reason economists will give to explain why large hospital projects are often funded by governments?
- A Governments usually control the construction industry.
 - B Hospitals benefit many people who do not use them.
 - C Hospitals are non-excludable.
 - D Hospitals are an essential service.
- 14 How would net external benefit be calculated?
- A external benefit minus external cost
 - B external benefit plus private benefit
 - C private benefit plus social benefit
 - D social benefit minus private cost

- 15 The table shows the expected costs and benefits from four government projects. The government can afford only one project.

Which project should the government choose?

	private benefits \$m	external benefits \$m	private costs \$m	external costs \$m
A	40	200	60	70
B	60	160	100	20
C	100	210	100	120
D	150	90	120	140

- 16 What will make it more likely that road tolls will reduce traffic congestion?
- A** Cross-elasticity of demand between private and public transport is zero.
B Demand for car use is income-elastic.
C Demand for car use is price-elastic.
D Supply of public transport is price-inelastic.
- 17 In the diagram, S_1S_1 and DD represent the original supply and demand curves for an agricultural product.



Bad weather then reduces supply to S_2S_2 .

The government does not allow the price to rise above OP_1 .

How much of the product will the government have to supply from stocks if the price is to be maintained at OP_1 ?

- A** OQ_3 **B** Q_1Q_3 **C** Q_1Q_2 **D** Q_2Q_3

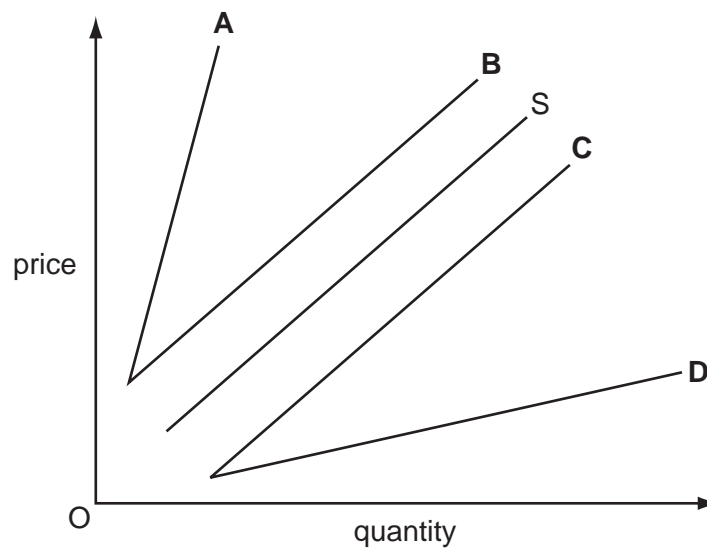
- 18 Steel is produced in a number of countries, including China, Japan and the US. It is used in the manufacture of cars. The US protects its domestic steel industry by imposing high tariffs on foreign steel imports.

Which two groups would benefit from the removal of the US tariffs?

- A Chinese steel producers and Japanese car manufacturers
- B Japanese steel producers and US car manufacturers
- C US steel producers and Chinese steel workers
- D the US government and Japanese steel workers

- 19 The supply of an imported good is shown by curve S.

What will be the new supply curve if an ad valorem (percentage) tariff is imposed on the good?



- 20 What is found in a customs union but **not** a free trade area?

- A a common currency
- B a common external tariff
- C fixed exchange rates
- D free movement of labour

- 21 The table shows how much rice and wheat two countries, X and Y, can grow when each country divides its resources equally between growing rice and wheat.

	country X	country Y
rice (units)	900 m	100 m
wheat (units)	300 m	50 m

Assume that each country now specialises according to comparative advantage and trades with the other country.

Which terms of trade would benefit both countries?

- A 1 wheat = 5 rice
 B 1 wheat = 3 rice
 C 1 wheat = 2.5 rice
 D 1 wheat = 2 rice
- 22 What must fall when the rate of unemployment rises?
- A the effectiveness of the use of resources
 B the level of labour productivity
 C the number of workers in employment
 D the size of the labour force
- 23 The table shows the percentage price changes in some items in the UK Consumer Price Index (CPI) in the year to 1 June 2006.

item	% change in price
rents, electricity and gas	9.0
education	4.7
transport	4.0
restaurants and hotels	3.2
health services	2.9

The increase in the overall CPI over the same period was 2.5%.

What can be concluded from the data above?

- A The CPI is not an accurate measure of inflation.
 B Some prices must have fallen.
 C The average price increase of other items was less than 2.5%.
 D The real value of money rose by more than 2.5%.

24 In Year 1 the price of a barrel of oil increased from \$60 to \$110.

In Year 2 there was a further increase to \$115 a barrel.

Assume that oil price changes have an immediate impact on the general level of prices.

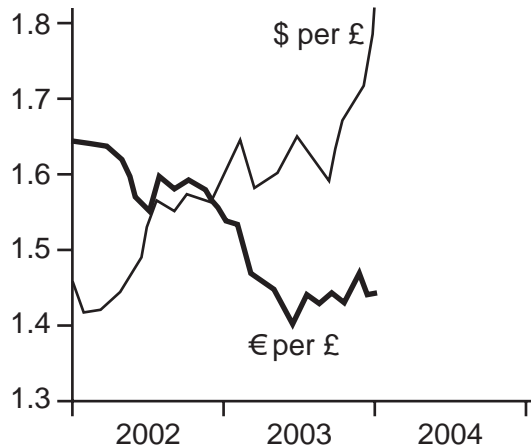
What will be the effect of the changes in the oil price on a country's Consumer Price Index and on its inflation rate in Year 2 compared with Year 1?

	effect on the Consumer Price Index	effect on the rate of inflation
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

25 A government has low reserves of foreign currency. When would it be likely to consider a deficit on current account to be a serious problem?

- A** when the country is experiencing a period of high, sustained growth
- B** when the deficit alternates regularly with a surplus
- C** when the deficit exceeds the sum of errors and omissions in the balance of payments account
- D** when the level of international confidence in the country is low

26 The diagram shows the number of US dollars (\$) and Euros (€) which exchanged for one pound sterling (£) between 2002 and 2004.

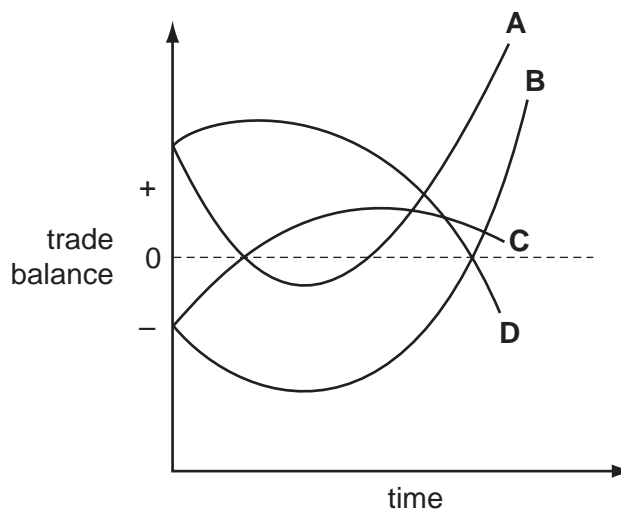


What happened to the exchange rate of the \$ against the £ and € during this period?

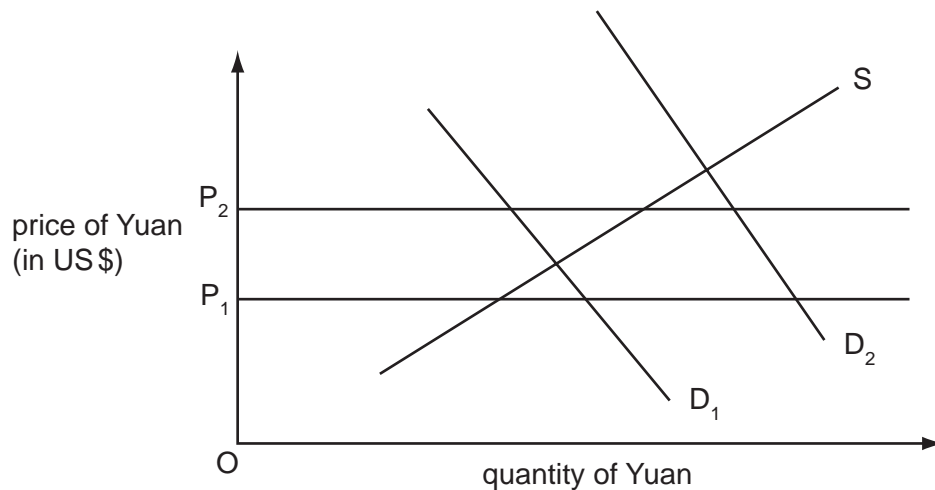
	\$ exchange rate against £	\$ exchange rate against €
A	appreciated	appreciated
B	appreciated	depreciated
C	depreciated	appreciated
D	depreciated	depreciated

27 In a country the Marshall-Lerner condition for an improvement in the trade balance is satisfied in the long run, but quantities of imports and exports are slow to respond to price changes. The government devalues its currency to reduce its trade deficit.

Which curve indicates the probable behaviour of the trade balance?



- 28 Assume the Chinese monetary authorities are committed to maintaining the exchange rate of China's currency the Yuan against the US\$ between P_1 and P_2 on the diagram.



What might they do if demand changed from D_1 to D_2 ?

- A Impose controls on Chinese investment overseas.
 - B Increase interest rates.
 - C Sell US\$ out of foreign exchange reserves.
 - D Sell Yuan on the foreign exchange markets.
- 29 In 2008 the Chinese government was under pressure from other countries to reduce its current account surplus on its balance of payments.

Which combination of Chinese measures would help to reduce China's current account surplus?

	Chinese rate of tariffs	Chinese subsidies to the country's exporters
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

- 30 What is the central problem for an economy?
- A to achieve maximum growth in production
 - B to allocate resources between alternative uses
 - C to ensure all resources are fully exploited
 - D to overcome inequalities in income distribution

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ECONOMICS

9708/21

Paper 2 Data Response and Essay (Core)

October/November 2010

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

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Section A

Answer this question.
Brief answers only are required.

Section B

Answer any **one** question.

You may answer with reference to your own economy or other economies that you have studied where relevant to the question.

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This document consists of **3** printed pages and **1** blank page.



Section A

Answer this question.

1 The Current Account of Swaziland's Balance of Payments

Swaziland is a small, landlocked economy in southern Africa. The Swazi currency is the lilangeni (plural emalangeni) and the currency is pegged to the South African rand at a fixed rate of one to one. The country has faced changing international conditions in recent years, as is shown in its current account statistics.

Table 1 Swaziland's current account components, selected years, millions emalangeni

	2003	2005	2007
Balance on goods	957.9	-1641.3	-1910.1
Balance on services	-1090.2	-765.0	-367.6
Net income	-317.4	1133.8	449.3
Net current transfers	1136.4	619.8	1366.6

The Central Bank of Swaziland's report on the 2007 export performance identified the following.

- Exports grew by 8.4% with a positive performance by some manufacturing companies.
- Successful exports included sugar, sugar-based products, soft drink concentrates, wood pulp and timber products, textiles and garments, citrus and canned fruits and meat products.
- Global demand and rising export prices led to increased export revenue.

Export performance was helped by the depreciation of the domestic currency against the US\$ and the currencies of other trading partners outside of the Southern African Customs Union (SACU) and Common Monetary Area (CMA), of which Swaziland is a member. In addition, exports of meat and meat products to the European Union (EU) resumed in 2007 after the EU lifted its ban on Swaziland's beef exports. This ban was originally imposed because of Swaziland's failure to comply with the required quality standards.

- (a) In Swaziland's current account between 2003 and 2007,
- which component showed a continuous improvement, and
 - which component showed a continuous worsening? [2]
- (b) How did the current account balance change between 2003 and 2007? [3]
- (c) (i) What is comparative advantage? [2]
- In the light of the Central Bank of Swaziland's report what might be concluded about the nature of Swaziland's comparative advantage and the factors on which it is based? [4]
- (d) Explain the conditions necessary for the depreciation of a country's currency to increase its export revenue. [3]
- (e) Discuss the case for and against the use of tariffs by Swaziland to retaliate when the EU banned imports of Swaziland's beef. [6]

Section B

Answer **one** question.

- 2 (a) Explain how microeconomic and macroeconomic issues may be represented using production possibility curves. [8]
- (b) Discuss whether money or the division of labour is likely to have contributed more to economic progress. [12]
- 3 (a) With reference to the relevant type of elasticity of demand, explain the terms
- (i) inferior good, and
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- (b) Discuss the importance of price in the effective operation of a mixed economy. [12]
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9708/23

Paper 2 Data Response and Essay (Core)

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Section A

Answer this question.

1

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- (a) Suggest the likely opportunity cost to Ghanaian children of time spent fetching water. Explain your answer. [2]
- (b) Use Table 1 to compare the change in Ghana's cocoa output with that of the other main producers. [3]
- (c) With the use of a diagram, analyse the effect on the market for Cadbury's chocolate of the problems reported in the first paragraph. [6]
- (d) Explain how the Cadbury Cocoa Partnership hoped to affect the productivity of cocoa farmers. [3]
- (e) Discuss the consequences for countries such as Cote d'Ivoire and Ghana of relying heavily on the production of one crop. [6]

Section B

Answer **one** question.

- 2 (a) Explain the difficulties of carrying out a cost-benefit analysis. [8]
- (b) Discuss the economic consequences of externalities associated with production and consumption. [12]
- 3 (a) Explain why a low and stable rate of inflation may be beneficial to an economy. [8]
- (b) Discuss whether rapid inflation can be caused only by government actions. [12]
- 4 (a) Explain
- (i) the difference between trade creation and trade diversion, and
- (ii) the difference between expenditure-dampening and expenditure-switching trade policies. [8]
- (b) Discuss whether a balance of payments current account deficit necessarily indicates a weak economy. [12]

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General Certificate of Education Advanced Level

ECONOMICS

9708/31

Paper 3 Multiple Choice (Supplement)

October/November 2010

1 hour

Additional Materials: Multiple Choice Answer Sheet
 Soft clean eraser
 Soft pencil (type B or HB is recommended)



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- 1 In an economy no one can be made better off without making others worse off.

What can be concluded from this?

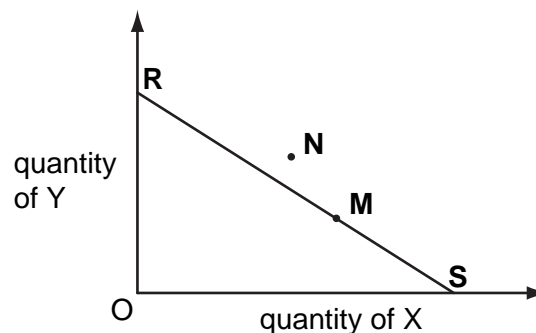
- A** All markets are perfectly competitive.
B There are no externalities.
C The economy is operating on its production possibility curve.
D The distribution of income reflects what each individual deserves.
- 2 The schedule shows the total utility derived by a consumer of a good X at different levels of consumption.

quantity of X consumed	1	2	3	4	5	6	7
total utility (units)	30	50	65	75	80	83	84

The consumer obtains three units of utility from the last \$ she spends on each good that she purchases.

What is the maximum number of units of X that she will consume if the price of X is \$5?

- A** 3 **B** 4 **C** 5 **D** 6
- 3 The line **RS** in the diagram shows the different combinations of goods X and Y that a consumer can afford with his present income.



The consumer's original equilibrium is at **M**.

What could explain a change in his equilibrium position to **N**?

- A** a change in his tastes
B a decrease in the price of X and a bigger percentage increase in the price of Y
C an increase in the price of X and an increase in his income
D equal percentage increases in his income and in both prices

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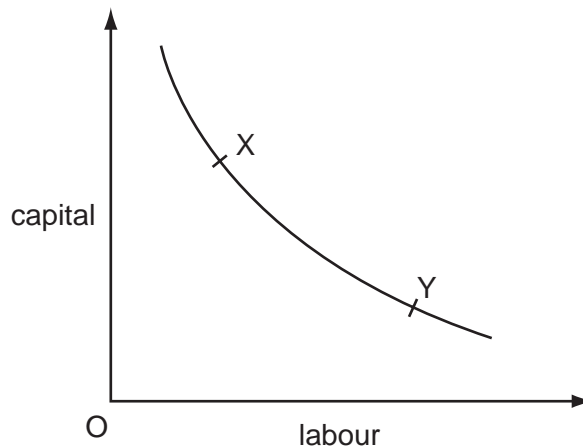
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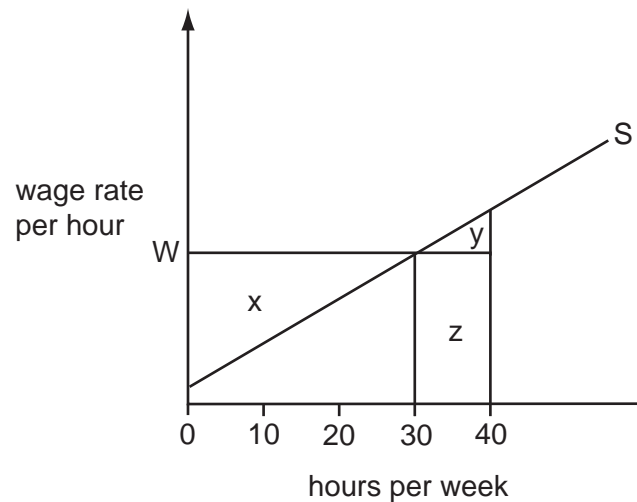
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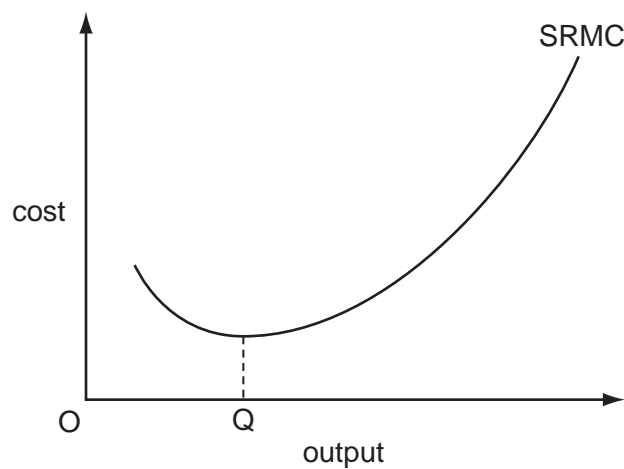


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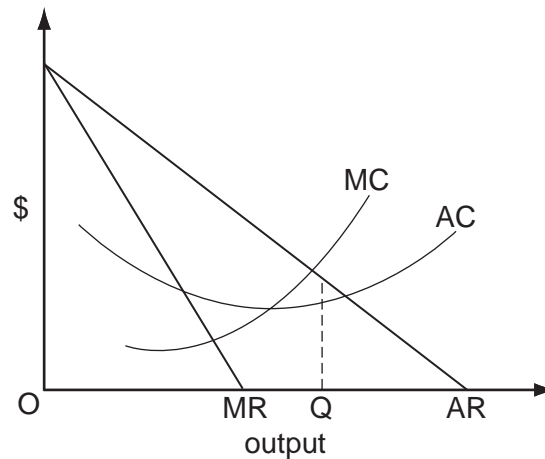
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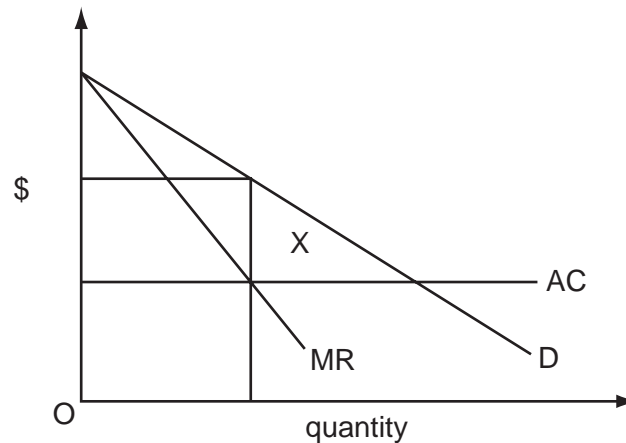
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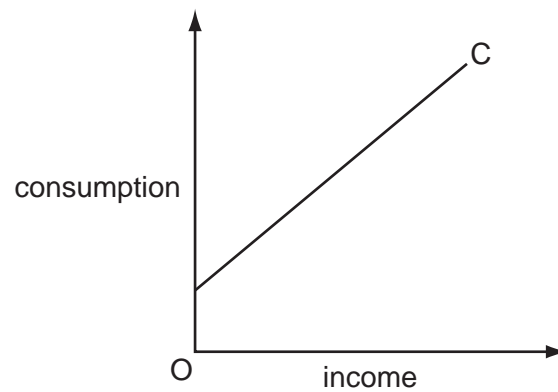
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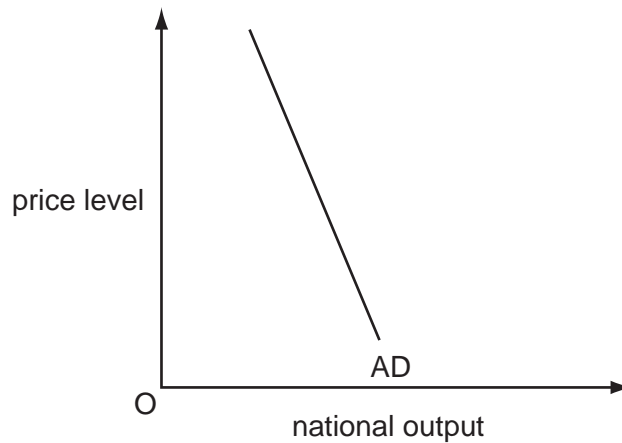
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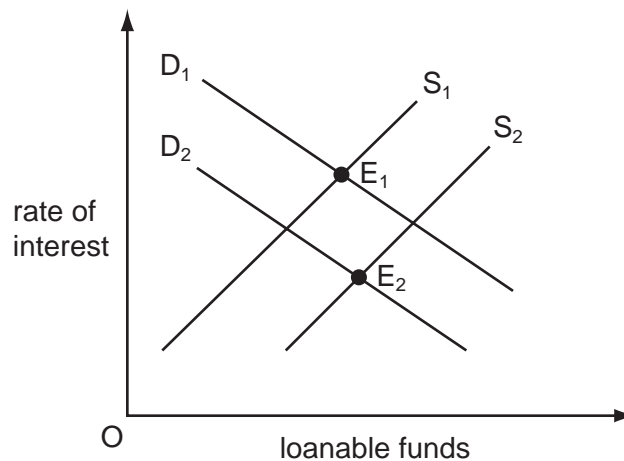
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Which changes could cause the equilibrium to move from E_1 to E_2 ?

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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS

9708/32

Paper 3 Multiple Choice (Supplement)

October/November 2010

1 hour

Additional Materials: Multiple Choice Answer Sheet
 Soft clean eraser
 Soft pencil (type B or HB is recommended)

* 9 2 7 4 1 4 0 3 5 5 *


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What can be concluded from this?

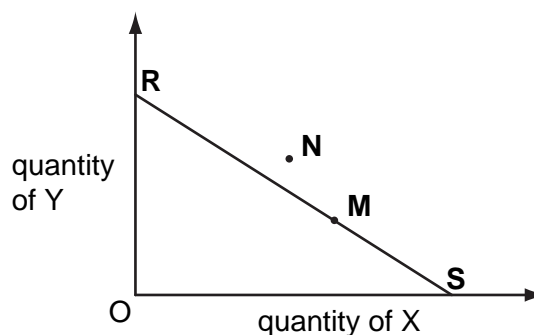
- A** All markets are perfectly competitive.
B There are no externalities.
C The economy is operating on its production possibility curve.
D The distribution of income reflects what each individual deserves.
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quantity of X consumed	1	2	3	4	5	6	7
total utility (units)	30	50	65	75	80	83	84

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What is the maximum number of units of X that she will consume if the price of X is \$5?

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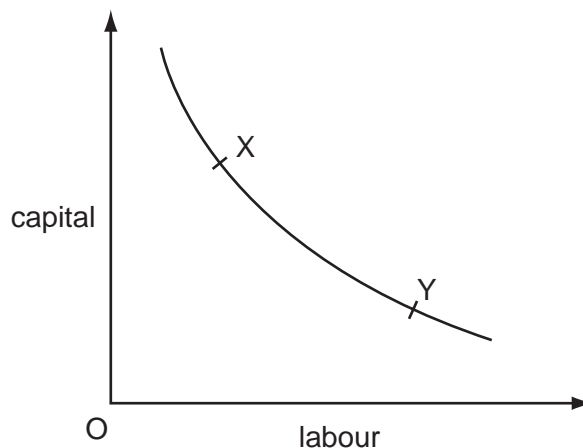
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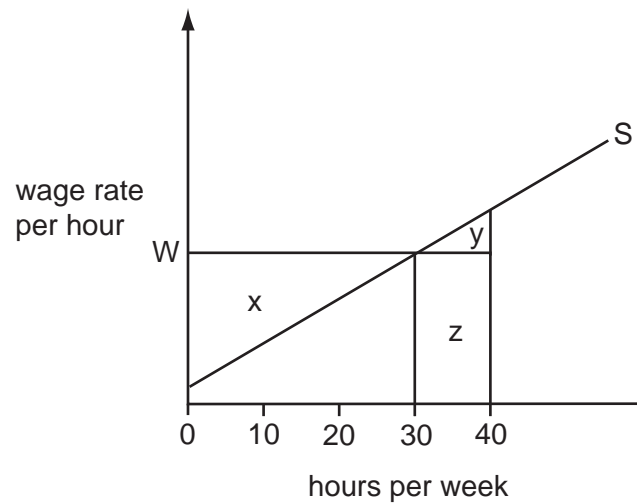
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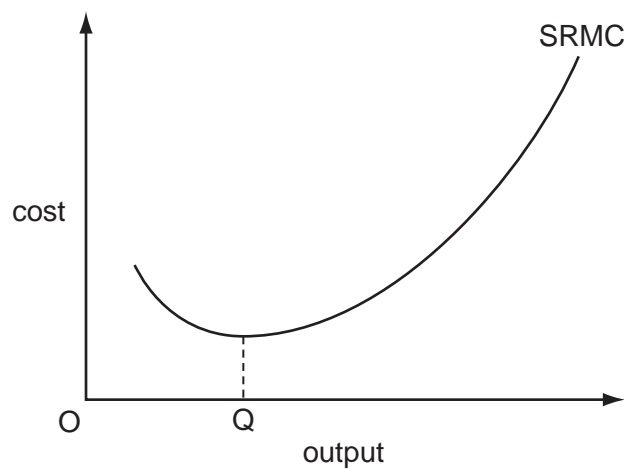


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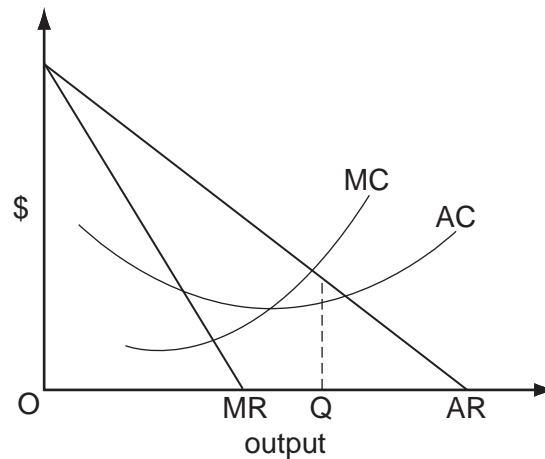
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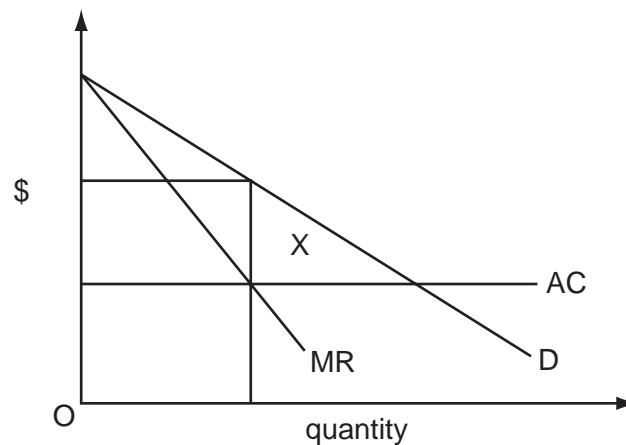
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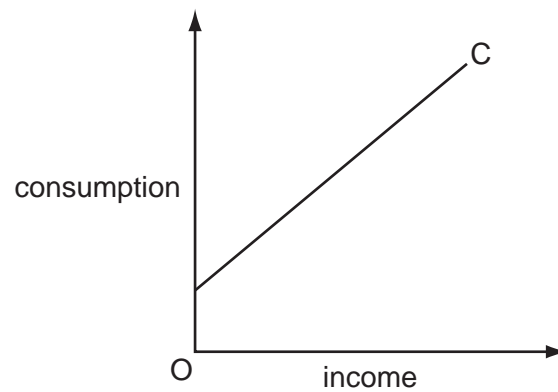
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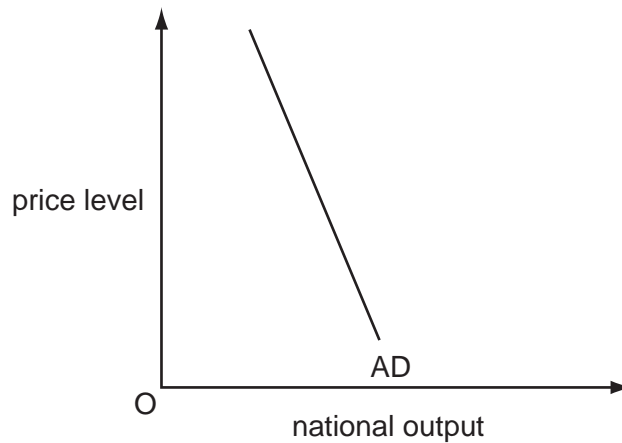
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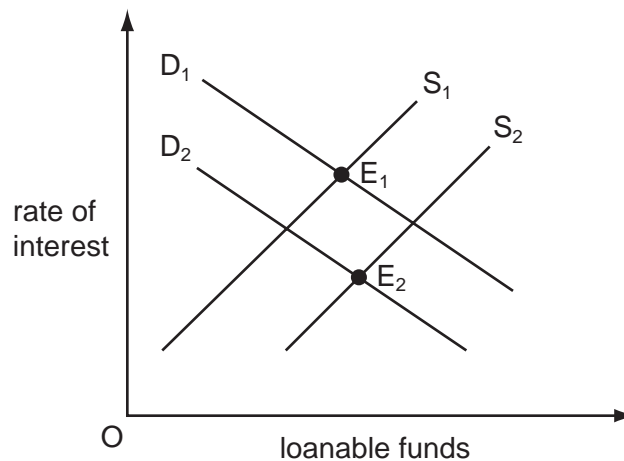
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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS

9708/33

Paper 3 Multiple Choice (Supplement)

October/November 2010

1 hour

Additional Materials: Multiple Choice Answer Sheet
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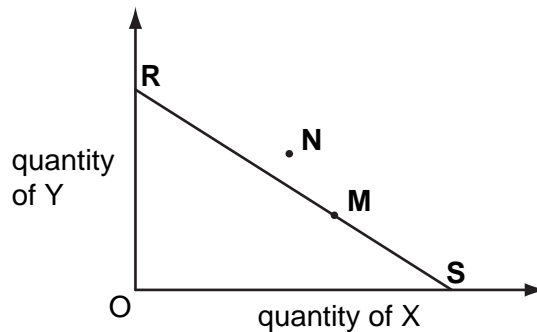
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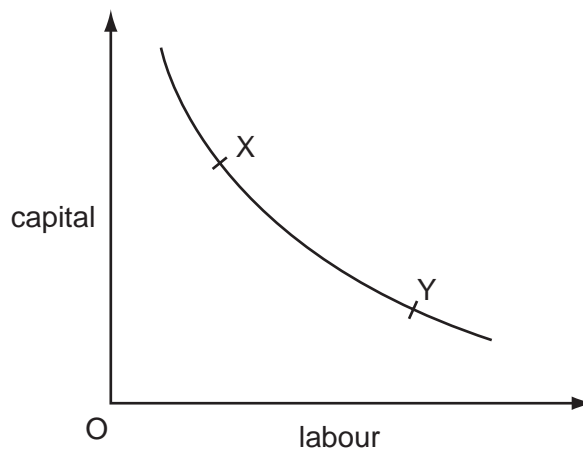
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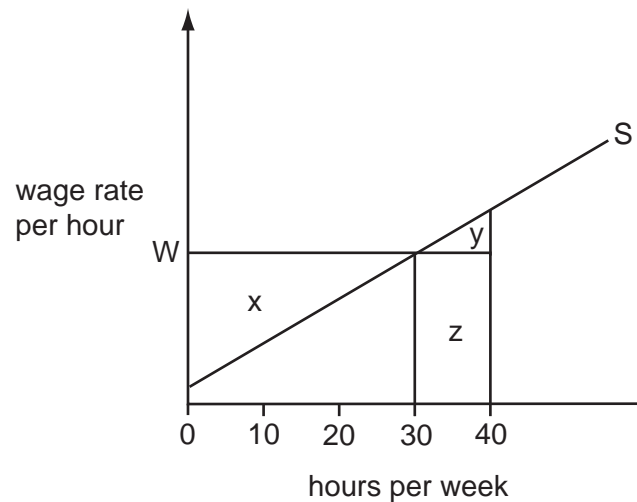
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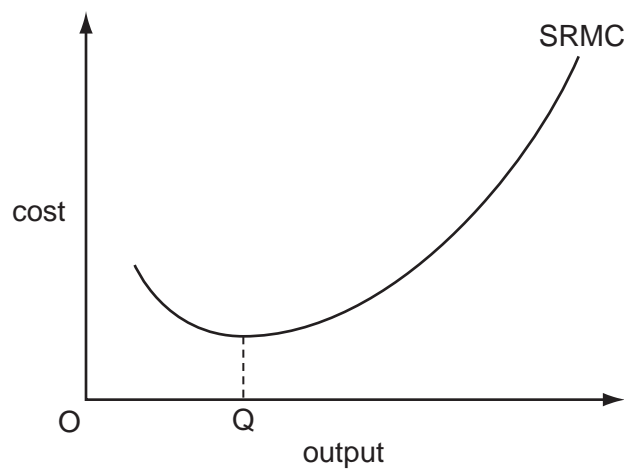
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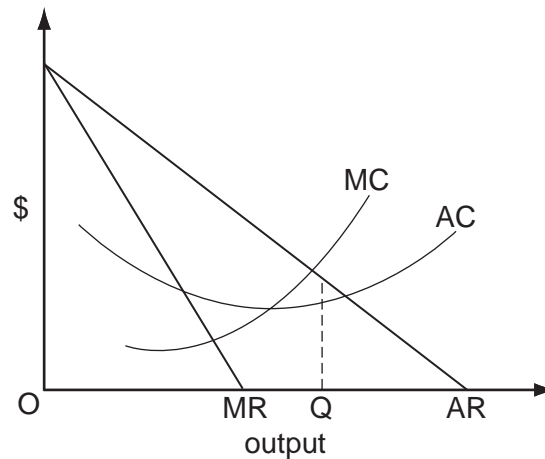
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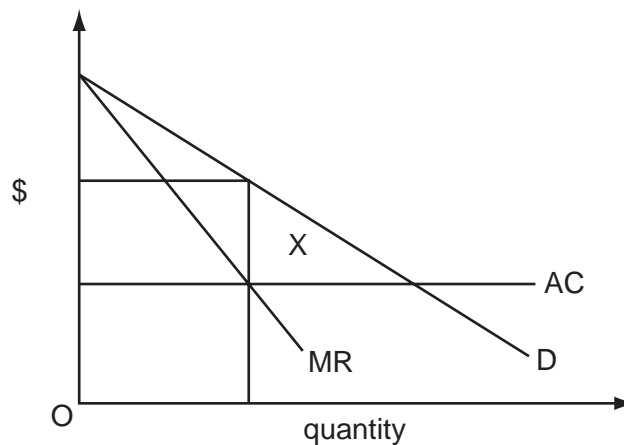
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- A** by introducing price discrimination
- B** by reducing operating costs
- C** by setting a price that maximises revenue
- D** by taking advantage of economies of scale
- 10 A perfectly competitive firm finds that at its current level of output, marginal revenue is \$2.00 and marginal cost is \$2.50.

If the firm is a profit maximiser, what will happen to its price and output?

	price	output
A	increases	decreases
B	increases	unchanged
C	unchanged	decreases
D	unchanged	unchanged

- 11 The diagram shows the outcome when a perfectly competitive market is taken over by a monopoly.



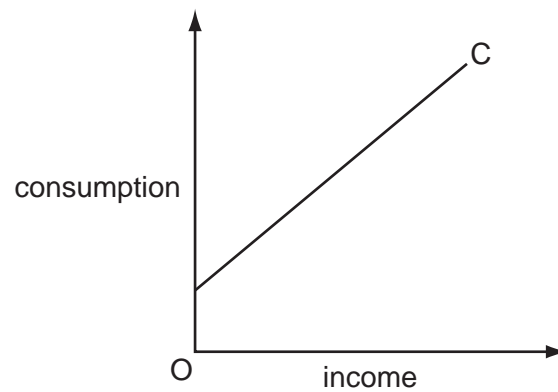
What does area X represent?

- A monopoly profit
 - B the reduction in consumer surplus
 - C the resulting deadweight loss
 - D transfer earnings
- 12 A tax is said to be regressive when
- A low income earners pay a higher proportion of their income in tax than high income earners.
 - B marginal tax rates exceed average tax rates.
 - C the cost of collecting the tax exceeds the revenue raised.
 - D the marginal rate of tax is higher for high income earners than low income earners.
- 13 Which is **not** a policy designed to correct market failure?
- A competition policy
 - B free inoculation against infectious diseases
 - C minimum wage policy
 - D regulations to limit river pollution
- 14 What is meant by 'real wages'?
- A the marginal physical product of labour
 - B the opportunity cost of labour
 - C the purchasing power of money wages
 - D wages net of tax

- 15 What is **not** a leakage from the circular flow of income?
- A expenditure on foreign goods
 - B indirect taxes
 - C undistributed profits
 - D unemployment benefits
- 16 According to Keynesian theory, when will an increase in the money supply leave the level of output unchanged?
- A when the liquidity trap is operative
 - B when the money supply increase was not anticipated
 - C when there is a floating exchange rate
 - D when there is an immediate adjustment to expectations about future price levels
- 17 According to monetarist theory, what will be the short-run and the long-run effect of an unexpected increase in the money supply on the real wage level?

	short-run	long-run
A	decrease	increase
B	decrease	unchanged
C	unchanged	increase
D	unchanged	unchanged

18 The diagram shows the relationship between consumption expenditure and income.



Which statement is correct?

- A The average propensity to consume is constant.
- B The average propensity to consume is rising.
- C The marginal propensity to consume is equal to the average propensity to consume.
- D The marginal propensity to consume is less than the average propensity to consume.

19 In a closed economy with no government

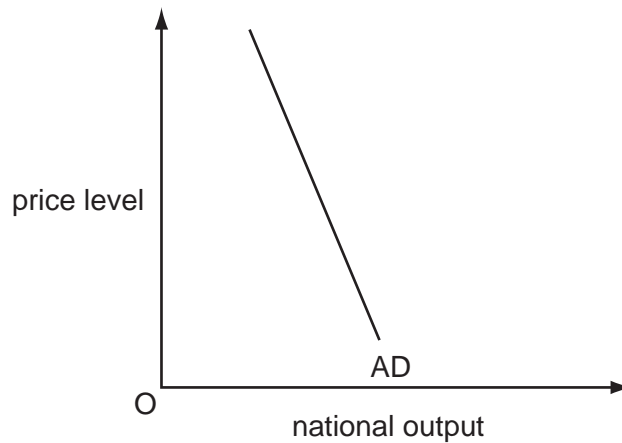
the full employment level of income = \$400 billion

and the equilibrium level of income = \$380 billion.

If the deflationary gap is \$4 billion, what is the marginal propensity to consume?

- A $\frac{1}{5}$ B $\frac{1}{4}$ C $\frac{3}{4}$ D $\frac{4}{5}$

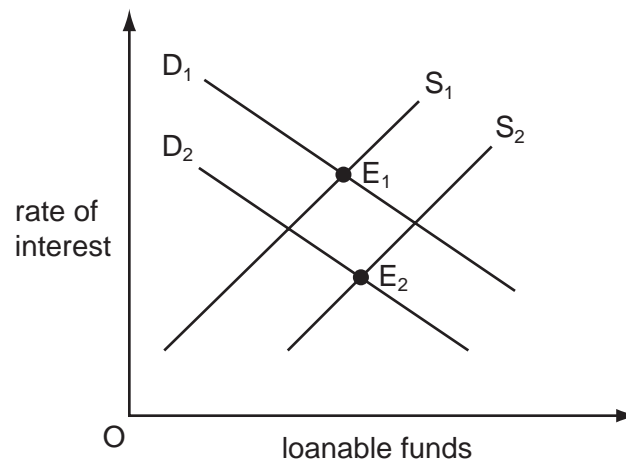
20 The diagram shows an aggregate demand curve.



What helps to explain why the curve is downward sloping?

- A When exports increase there will be an increase in national income.
 - B When government expenditure increases there will be an increase in national output.
 - C When investment increases there will be an increase in consumption.
 - D When the price level increases there will be an increase in interest rates.
- 21 An increase in the money supply leads to a fall in interest rates. What else will decrease as a result of these changes?
- A the desire to hold idle money balances
 - B the price of equities
 - C the price of government bonds
 - D the velocity of circulation of money

22 The diagram shows the market for loanable funds.



Which changes could cause the equilibrium to move from E_1 to E_2 ?

- A a decline in business confidence and an increase in bank lending
 - B a decrease in bank lending and depletion of natural resources
 - C an increase in the propensity to save and the discovery of new mineral deposits
 - D improvements in technology and reduction in the propensity to save
- 23 Which feature of the Indian economy could explain why the purchasing power parity exchange rate of the Rupee is much higher than its market exchange rate?
- A high levels of duty on imported goods
 - B high levels of rural unemployment
 - C the relatively low price of goods not traded internationally
 - D the relatively low rate of inflation
- 24 What is likely to be the effect of a fall in oil prices on the global economy?
- A a decrease in the rate of economic growth
 - B a decrease in unemployment
 - C a strengthening of cost-push inflation
 - D a weakening of demand-pull inflation
- 25 What is an unavoidable cost of long-run economic growth?
- A an increase in inflation
 - B an increase in the working hours of the population
 - C a sacrifice of potential present consumption
 - D greater inequality in the distribution of income

- 26 What could be expected to increase the pressure of demand-pull inflation in an open economy?
- A an appreciation of the foreign exchange rate
 - B an increase in indirect taxes
 - C an increase in interest rates
 - D the imposition of import controls

- 27 When will taxes be most effective in dampening cyclical changes in national output?

- A when the tax yield is independent of national income
- B when the tax yield varies inversely with national income
- C when the tax yield varies less than proportionately with national income
- D when the tax yield varies more than proportionately with national income

- 28 The government of a country decides to increase the proportion of its tax revenue it obtains from direct taxes and to reduce the proportion it obtains from indirect taxes.

What is likely to be the impact on the distribution of income and on work incentives?

	distribution of income	work incentives
A	less equal	decrease
B	less equal	increase
C	more equal	decrease
D	more equal	increase

- 29 A country introduces import quotas.

The suppliers of imported goods charge market-clearing prices.

Assuming the demand for imports is price-inelastic, what will be the impact on the country's balance of trade and on its terms of trade?

	balance of trade	terms of trade
A	improves	improve
B	improves	worsen
C	worsens	improve
D	worsens	worsen

30 In an economy no one can be made better off without making others worse off.

What can be concluded from this?

- A** All markets are perfectly competitive.
- B** There are no externalities.
- C** The economy is operating on its production possibility curve.
- D** The distribution of income reflects what each individual deserves.

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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ECONOMICS

9708/41

Paper 4 Data Response and Essays (Supplement)

October/November 2010

2 hours 15 minutes

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Section A

Answer **Question 1**.

Section B

Answer any **two** questions.

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Section A

Answer this question.

1**The Success of Supermarkets**

In some countries supermarkets dominate food shopping. In the UK 75% of the food bought for home use comes from supermarkets. A third of that comes from one supermarket, Tesco. Tesco makes billions of pounds profit, one third of which goes to the government in taxes. It employs 110 000 people in the UK and many more in developing countries.

In the past, UK shoppers queued to buy expensive food from many small shops with limited choice and restricted opening times. Now, in supermarkets, they have the benefit of a wide choice, reasonable prices, international dishes, organic produce, fair trade items, clear labels of the contents of the products and, because of intense competition between the supermarkets, some open 24 hours.

However, the media complain that supermarkets are not competitive but monopolies. They say their profits are too high, they have caused small shops to close and forced suppliers in developing countries to accept low prices and to pay low wages.

It must be remembered that supermarkets grew because they gave the customer what they wanted and aimed at certain types of shoppers. One supermarket, which started as a small shop, insisted on selling only high quality products while another offered customers low prices.

Supermarkets also adapted to changing market trends. One began to supply products with its own brand name which were sold more cheaply because there were no advertising costs. A further brilliant idea in expanding their business was the introduction of a store loyalty card. Shoppers with a loyalty card are given discounts which encourages them to continue to shop in the same supermarket.

The most successful supermarkets expanded their businesses by buying large sites to build huge stores. (They are criticised for such building, especially if it destroys parts of the countryside or environment.) They expanded into non-food products to fill these stores, making it possible for consumers to buy many household items from clothes to kitchen utensils to electrical goods in the same shop. Supermarkets have also recently introduced on-line shopping and home deliveries.

Many small shops have closed. There are bound to be casualties in retailing. How can the blame for that be the fault of the supermarket? Their size should not be a concern. It is, after all, the consumer who decides where to shop and what to buy.

- (a) How has the type of market structure in food retailing in the UK changed? [3]
- (b) To what extent does the article support the view that the consumer is sovereign in food retailing? [4]
- (c) Explain what the various objectives of a firm might be. [5]
- (d) Do you agree with the conclusion of the article that the size of a firm should not be a source of concern? [8]

Section B

Answer **two** questions.

- 2** In 2009 there were huge fires in Australia which destroyed much property and countryside. The government promised to allocate a large amount of money and resources to help with the restoration of the area.
- (a) With the help of diagrams explain what is meant by efficiency in the use of resources. [12]
- (b) Discuss the economic implications of the government's approach to the situation. [13]
- 3** (a) Explain what is meant by internal economies of scale, and analyse the link between economies of scale and a firm's long run average cost curve. [12]
- (b) Discuss whether there is a relationship between the marginal cost curve of the firm and the supply curve of the industry to which it belongs. [13]
- 4** Recently, employers in some countries have employed foreign workers instead of local workers. The local workers argue that they should have priority over foreign workers and also that more products should be produced at home rather than being imported.
- (a) Explain, with the help of a marginal revenue productivity diagram, why an employer might prefer to switch to foreign workers. [12]
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- 5** National income statistics are used to calculate a country's GDP. The table shows the GDP for five countries for 2008.

Country	GDP \$m
USA	14 580 000
India	3 319 000
Singapore	244 000
Mauritius	14 060
Swaziland	5 626

Discuss how far the table might be used to determine whether one country has higher living standards than another. [25]

- 6** Explain what is meant by an equilibrium level of national income and discuss why this equilibrium might change in a developing country. [25]
- 7** Economic analysis states that the aims of the government include economic growth and economic efficiency.
- (a) Explain how achieving economic growth might conflict with other government macroeconomic aims. [12]
- (b) Is economic efficiency better achieved by the market mechanism rather than by government microeconomic policy? [13]

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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ECONOMICS

9708/42

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October/November 2010

2 hours 15 minutes

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General Certificate of Education
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ECONOMICS

9708/43

Paper 4 Data Response and Essays (Supplement)

October/November 2010

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

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Section A

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Section A

Answer this question.

1 The Quality of Food and Consumer Choice

New discoveries about the link between diet and health have led to increased demand for higher-quality foods. Government policies on labelling also influence how the markets for food develop. Labelling increases consumers' knowledge, which affects their purchasing patterns. Food producers have responded to these changes by drawing attention to the health aspects of their products.

On the demand side of the market, consumers choose food in order to obtain utility, part of which comes from their belief in the value of food to maintain or improve their health. The healthier the food, the more benefit to the consumer. However, as with demand in general, consumers will reduce the amount they are willing to pay for each additional unit of a food.

On the supply side of the market, producers provide higher-quality food if it is profitable to do so or if they are required to do so. Often, to increase quality needs extra research, which is costly. In general the marginal cost of providing an increase in food quality is likely to be represented by an upward-sloping curve. Producers may cover these extra costs by product differentiation.

All this assumes that both buyers and sellers are fully informed about the nature of the product and that market price reflects all the costs borne and benefits enjoyed by society. However, it should be remembered that

- sellers are better informed about quality than consumers,
- consumers may have misunderstandings about the risks of different foods and
- information about food quality may have the characteristics of a public good.

- (a) The article says that consumers will reduce the amount they are willing to pay for each additional unit of a product. Why do they do this? [4]
- (b) Explain what is meant by product differentiation and how it might benefit producers. [3]
- (c) Two food products are offered for sale. The producers of one carry out research to make it safer and increase its price to pay for the research. The producers of the other try to keep their share of the market by lowering its price.

Show the effects of these changes using a budget line diagram. [4]

- (d) The article says that producers have responded to changes in demand and now draw attention to the health aspects of their food products

Does the evidence indicate that the market will always achieve the best allocation of resources in food production? [9]

Section B

Answer **two** questions.

- 2 (a) Explain the significance of the distinction between fixed and variable cost for the pricing and output decisions of a firm. [12]
- (b) Discuss whether the pricing and output decisions of a firm are determined solely by an estimate of revenue and cost. [13]
- 3 It is suggested that there are so many benefits from large-scale production that all firms should be encouraged to grow in size and there should be no government restriction on such growth. Do you agree with this opinion? [25]
- 4 Do you agree that the higher wages paid in some occupations occur just because some trade unions have a stronger bargaining position than others? [25]
- 5 (a) Explain what you consider to be **three** economic issues in the country in which you live and analyse which is the most significant. [12]
- (b) Discuss what measures might be recommended to try to deal with the most significant issue. [13]
- 6 Hurricanes can occur in some parts of the world. Major flooding is caused, crops are ruined and the wind destroys homes and factories. People's standard of living is severely affected. Some blame climate change for unusual weather conditions.
- (a) Explain how a country might measure its standard of living. [12]
- (b) Discuss how far a country's standard of living is determined by factors beyond its control. [13]
- 7 (a) Some African countries are richer in natural resources in the form of minerals and land than some developed countries. Why then are these same African countries referred to as developing countries? [12]
- (b) Use the concept of the multiplier to discuss how an increase in investment in a developed country might affect both the developed country and developing countries. [13]

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