UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ECONOMICS **9708/43**

Paper 4 Data Response and Essays (Supplement) **October/November 2013**

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

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READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A
Answer **Question 1**.

Section B
Answer any **two** questions.

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

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **4** printed pages.

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UNIVERSITY *of* CAMBRIDGE International Examinations

Section A

Answer this question.

1 **The effect of oil price rises**

In 2011, there were big increases in oil prices which led to comparisons with a period in the 1970s when oil prices also rose steeply. In the 1970s, the macroeconomic policy used in the UK was to increase budget deficits. By contrast, in 2011, the macroeconomic policy was to try to reduce the budget deficit.

In the 1970s some thought the effect of oil price increases would be inflationary while others thought the effect would be deflationary. The following points were made.

In the 1970s

- consumers would have to spend more on oil but they would spend less on other things.
- consumers would not spend their savings.
- firms could pass on the increased cost of production, caused by higher oil prices, to consumers.
- oil prices were an important item used in the construction of the consumer price index.
- oil producers and suppliers would not necessarily spend their increased revenues.

Table 1 below shows the rate of inflation in the UK in the 1970s.

Table 1: UK inflation rates in the 1970s

Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Inflation rate %	6.40	9.40	7.10	9.20	16.00	24.20	16.50	15.80	8.30	13.40

(Source for Table 1: http://www.whatsthecost.com)

In 2011, oil prices increased again. The question then was whether the outcome would be the same as in the 1970s. Again some said there would be deflationary effects, while others predicted inflationary effects. In addition to the points that were made about the 1970s price increase, these further points connected with the economic context of 2011 were considered.

In 2011

- oil prices rose by 50% compared with 240% in the early 1970s.
- consumers faced potential unemployment in the private sector from low growth rates as economies tried to recover from a world banking crisis and recession.
- consumer spending on oil as a percentage of GDP was about 40% lower than its 1970s level.
- economies were less dependent on oil than in the 1970s.
- workers in the public sector were worried about possible unemployment as the public sector was reduced in size.
- reduced government spending had a downward effect on employment in all sectors.

(Source: The Daily Telegraph)

(a) The information mentions that some thought the effect of oil price increas[illegible]e deflationary. Explain what economists mean by 'deflationary'.

(b) Refer to what actually happened to the rate of inflation in the UK as shown in Table 1:

(i) Explain which, if any, of the points made about the 1970s could have caused what is shown in Table 1. [4]

(ii) In the 1970s the UK government had a macroeconomic policy of increasing the budget deficit. Explain how this policy might have contributed to what is shown in Table 1. [6]

(c) From the information given consider whether the effect of the rise in oil prices in 2011 was more likely or less likely to have been inflationary compared with the 1970s. [8]

Section B

Answer **two** questions.

2 **(a)** Explain how, according to marginal utility theory, consumers reallocate their expenditure between different products as prices change. [12]

(b) In reality perfect competition is seldom found, and firms use advertising to persuade consumers to buy their products.

Discuss whether imperfect competition means that markets are controlled only by producers and the traditional idea that the consumer determines what happens in the market based upon utility theory is no longer valid. [13]

3 **(a)** Do you agree with the view that in a perfectly competitive labour market wages are higher in some occupations than others only because of the differences in the supply of labour? [12]

(b) A country has a minimum wage rate fixed by law. Discuss whether this can be included in the economic analysis of the theory of wages in an imperfectly competitive labour market. [13]

4 Some companies claim that restrictive regulation by governments is the biggest threat to business growth. *(Source: The Independent)*

(a) Explain what is meant by:

(i) a deadweight loss, and

(ii) price discrimination. [12]

(b) Discuss which is more beneficial, firms that remain small or firms that grow in size. [13]

5 Governments of developing countries often argue that the economy has improved while they have been in power. Explain what economic indicators might be used to support their argument and discuss the usefulness of that data in illustrating an improvement in a developing economy. [25]

6 Some governments place great emphasis on the aims of economic growth and keep[illegible]l of unemployment low. How far do you agree that these aims should be the most imp[illegible] government?

7 It is said that the market does not allocate resources efficiently and that market failures occur. However, there need be no concern about market failure. All types of market failure can easily be overcome if the government intervened in the price system.

Discuss this argument. [25]