CAMBRIDGE INTERNATIONAL EXAMINATIONS General Certificate of Education Advanced Level

9708/4 **ECONOMICS**

PAPER 4 Data Response and Essays (Extension)

OCTOBER/NOVEMBER SESSION 2002

2 hours 15 minutes

Additional materials: Answer paper

TIME 2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer paper/ answer booklet.

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

Section A

Answer this question.

Section B

Answer any **two** questions.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

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



Section B

Answer any two questions.

- 2 'In a free competitive market, a shortage causes price to rise, a surplus causes price to fall. In some markets this does not happen because a minimum price is fixed by producers.'
 - (a) With the aid of diagrams and examples, explain why prices rise when there are shortages and fall when there are surpluses. [10]
 - **(b)** Discuss the factors that a group of companies might consider when deciding to fix a minimum price in a market. [15]
- **3** (a) Explain what is meant by productive and allocative efficiency. [10]
 - (b) 'A firm should be encouraged to maximise profits because this makes it efficient.' Discuss whether this argument is true for a firm operating in an imperfect market. [15]
- 4 (a) Assume there is an open economy with a government sector. Explain the conditions for equilibrium in the circular flow in such an economy. [10]
 - (b) Discuss how an increase in injections may affect the equilibrium level of national income. [15]
- 5 A government's macroeconomic aims are low inflation, low unemployment, balance of payments equilibrium and economic growth. Individuals see their standard of living as more affected by a well-paid job, low crime rates and a pleasant environment.
 - Discuss how far the government can meet the desires of individuals by satisfying its macroeconomic aims. [25]
- The aim of most developing countries is to become developed. If this aim is achieved, will it always bring benefit to the population of the developing country? [25]
- 7 (a) Explain with the aid of examples how price discrimination can operate. [12]
 - **(b)** Discuss whether price discrimination can ever be of benefit to consumers. [13]