Cambridge International AS & A Level

ECONOMICS **9708/43**

Paper 4 Data Response and Essays **October/November 2021**

2 hours 15 minutes

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. Any blank pages are indicated.

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Section A

Answer this question.

1 **The effects of European Union (EU) labour migration**

In 2016 in the EU labour market there was free movement of people seeking work among the EU's 28 member countries. One country reported that an extra 252 000 workers from other EU countries came to work there during 2014–2015. This meant that the total number of EU workers was 2.1 million, or 6.8% of the country's workforce. The eight Eastern European countries that joined the EU in 2004 supplied 987 000 of those workers by 2015.

A critic of this free movement of labour stated that "It is the workers on low pay in the receiving country – and those out of work – who feel the consequences of uncontrolled migration. They are forced to compete for jobs with thousands of people from abroad, and they suffer downward pressures on their wages."

In contrast, other studies have shown that migration of workers has been good for both economic growth and public finances. These studies reported "There is no correlation between high migration and unemployment. Unemployment fell significantly as total migration rose to a record level of 392 000 in May 2014. Migration is acknowledged to be positive for public finances. In the EU, migrants contributed US$25 billion more in taxes in the decade to 2011 than they used in welfare and public services. Wages may have been affected for low-skilled workers but only marginally downward."

Other economists have argued that, in theory, "the impacts of immigration on wages and employment critically depends on whether migrants' skills are complements to, or substitutes for, the skills of existing workers. These impacts vary between the short run and long run. In the short run if the skills of migrants and existing workers are substitutes, immigration can be expected to increase competition in the labour market and drive down wages. If, on the other hand, the skills of migrants are complementary to those of existing workers, all workers experience increased productivity which can be expected to lead to a rise in wages of existing workers. In the long run the economy can adjust to the increase in labour supply."

Some governments have introduced a minimum wage to help those workers on low pay. The wage is set to increase to match any increase in inflation.

Sources: The Times, 18 May 2016, Daily Telegraph, 18 May 2016, BBC, 19 May 2016

(a) Use a marginal revenue product diagram to illustrate what will happen to wages as a result of the changes mentioned by the critic of the free movement of labour (in the second paragraph). [3]

(b) What do the high numbers of workers migrating from Eastern Europe to other countries in the EU suggest about the state of their own economies compared with the country to which they migrate? [4]

(c) Explain whether the introduction of a minimum wage will always result in a different outcome for employment from that which would occur in a free market. [5]

(d) With the help of information in the article assess whether the increasing numbers of migrant workers are an advantage or a disadvantage to the receiving country. [8]

Section B

Answer **two** questions from this section.

2 Analyse the reasons why it might be thought necessary for a government to control dominant firms in an industry and consider the methods it might use to achieve such control. [25]

3 **(a)** Explain the theory of how a consumer decides to achieve the situation described as 'equilibrium' when purchasing two different products. [12]

(b) Two shops sell clothes. One has luxury fashionable designs. The other has cheaper inferior alternatives. Both shops decided to have promotional sales with price reductions.

Consider how indifference curve analysis could be used to explain a consumer's reaction to both the price reductions. [13]

4 **(a)** Explain the difference between, and the purpose of, integration between firms and a cartel. [12]

(b) 'In large firms the long-run average cost falls as output increases and consumers benefit from lower prices. In small firms it does not. There is, therefore, no place in a modern economy for small firms.'

Do you agree with these statements? [13]

5 **(a)** Explain the role of liquidity preference in the determination of interest rates and assess its importance. [12]

(b) Keynes argued that the rate of interest will not ensure that the level of savings will equal the level of investment in an economy because savings and investment are undertaken by different individuals for different reasons.

Explain this statement and discuss how far you would support this view. [13]

6 **(a)** Explain how governments measure economic growth and discuss why this measurement is important. [12]

(b) 'Economic growth will always decrease the level of unemployment but this will usually create significant problems in relation to attaining other key macroeconomic aims.'

How far do you agree with this statement? [13]

7 The International Monetary Fund (IMF) lends money to developing countries but requires that these countries reduce existing restrictions on imports, focus on the export of primary goods and accept a devaluation of their currencies.

Based upon the above, assess whether developing countries should continue to borrow money from the IMF. [25]

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