Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/43**

Paper 4 A Level Data Response and Essays **May/June 2023**

2 hours

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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 **Competition, monopoly and the market**

Firms are sometimes thought of as machines: inputs go in, products come out. However, it matters how powerful these firms are allowed to become.

Competition law – the law that governs how firms compete in the market, how they may exert their power and how and when they may join forces – has not prevented high concentration ratios in many industries.

Global monopolies have been created in the name of ‘free market’ capitalism. Mergers have been approved and monopolies tolerated under the assumption that they are efficient. Their ability to enable innovation is relied upon to justify these monopolised industries.

Competition law is being used to protect a narrow set of public interests based on the idea of ‘consumer welfare’. The test applied by the law is whether any change will result in lower prices for consumers and thus is beneficial. This is regardless of how monopolised the resulting market structure becomes.

The logic that focuses on consumer prices is flawed. This can be seen in the impacts of firms on the environment. Prices do not capture the negative externalities of production, for which neither the producer nor the consumer pays.

Low consumer prices are not an adequate indicator for consumer welfare. The low price/low wage spiral keeps pushing for cheaper goods and services to increase the profitability of the firm. The result is that workers are paid less. Low prices cause unequal bargaining positions between powerful employers and workers, and between powerful buyers and small independent suppliers.

Regulation has a role to play in protecting consumers from the worst abuses of market power by firms. There needs, however, to be new competition law that promotes the free market rather than the desires of the monopoly firms. It needs to consider the balance of power between the public sector and private enterprise.

Source: RSA Journal. Issue 3, 2020 p 32.

(a) The article refers to concentration ratios. Explain what is meant by a concentration ratio and how it is calculated. [4]

(b) Explain, with an example, whether the article is correct in saying that neither the producer nor the consumer pays for negative externalities. [4]

(c) Apart from negative externalities, describe **two** reasons why the article says increased concentration in an industry may not improve consumer welfare. [4]

(d) The article says that monopolies are tolerated because they are efficient.

Assess, with the help of a diagram, whether economic theory supports the idea that monopolies are efficient. [8]

Section B

Answer **one** question.

EITHER

2 To improve allocative efficiency economists frequently advise governments to remove existing subsidies to the private sector providers of education.

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

OR

3 Some firms frequently use price discrimination.

Assess the view that when this occurs, price discrimination will always benefit the producer at the expense of the consumer and society. [20]

Section C

Answer **one** question.

EITHER

4 An increase in a government's budget surplus will increase unemployment in the short run but it will make it easier to control a balance of payments deficit on the current account in the long run.

Evaluate this statement. [20]

OR

5 To what extent do you agree that an increase in productivity will lead to a higher standard of living in low-income countries? [20]

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