



Mock Exam 1

ECONOMICS

9708

Paper 4 Data Response and Essays

2 hours

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 60.
 - The number of marks for each question or part question is shown in brackets [].
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Section A

Answer all parts of Question 1.

1 A fuel shortage slows India's economic growth.

India has struggled to provide enough electricity to power its industry. New power stations have been built but the country cannot get enough fuel, mainly coal, to run the power stations. About 55% of India's electricity is generated by the use of coal. India has one of the world's largest reserves of coal but has not been able to exploit it. The state-owned Coal India, which has a monopoly control of 80% of production, is required by government policy to sell coal at a 70% discount below the market price.

There has been almost no new investment in coal production by either the Government or the private sector according to industrialists who struggle with the daily loss of electric power. Coal production increased by 1% in 2012 while electricity-generating capacity increased by 11%. Some coal is imported but this has now become very expensive as India's chief supplier, Indonesia, has doubled prices of its coal.

Attempts to open new areas to mining have met with strong opposition from environmental regulators who have blocked the plans because, it is claimed, the development would destroy dense forests.

The electricity sector's problems have contributed to a second year of decreasing economic growth for India. The growth rate was 10% in 2010 but only an estimated 7% in 2012. A complex system of price controls has resulted in retail electricity prices being lower than the cost of producing power, which has caused large losses at state-owned electricity-generating industries.

Businesses report that frequent losses of electric power have forced them to lower production and spend significantly more on diesel fuel to run back-up generators. Analysts say that the reduced rate of economic growth could have been avoided if policymakers had addressed the problems of electricity shortage, weak infrastructure, and restrictive regulations.

The gap between demand and supply for electricity increased between 2010 and 2012 as shown by Table 1.

Table 1: Electricity use in India, 2010-12

	Excess of electricity units demanded over units supplied 2010-2011	Excess of electricity units demanded over units supplied 2011-2012
Normal use	8.5%	10.3%
Peak use	9.8%	12.9%

Source: Adapted from The New York Times

- (a) Define economic growth and identify two reasons for India's decreasing economic growth. [4]
- (b) Analyze whether the increase in electricity-generating capacity in 2012 overcame the problems reported by businesses. [3]
- (c) Consider whether the above evidence about Coal India conflicts with the economic analysis of a monopoly. [5]
- (d) Use evidence from the information given to analyze whether the government policy towards Coal India has been only disadvantageous to businesses and to economic growth in India. [8]

Section B

Answer **one** question

EITHER

- 2 'The existence of externalities is neither a necessary nor a sufficient condition for government intervention to achieve efficiency in the economy.'
Do you support this opinion? [20]

OR

- 3 A businessman claimed it was difficult to make decisions as his business was subject to uncertainty and interdependence. Discuss the methods used by oligopoly firms to reduce uncertainty and interdependence and the extent to which these methods exploit the consumer. [20]

Section C

Answer **one** question

EITHER

- 4 'Both developed and developing economies can experience high levels of unemployment, high rates of inflation and large current account deficits. Therefore, there is now no real difference between these two types of economy'. How far would you agree with the view that this statement is misleading? [20]

OR

- 5 Evaluate how the relative size of injections into and leakages from the circular flow of income can affect the ability of a government to achieve its macroeconomic aims. [20]