



Mock Exam 2

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

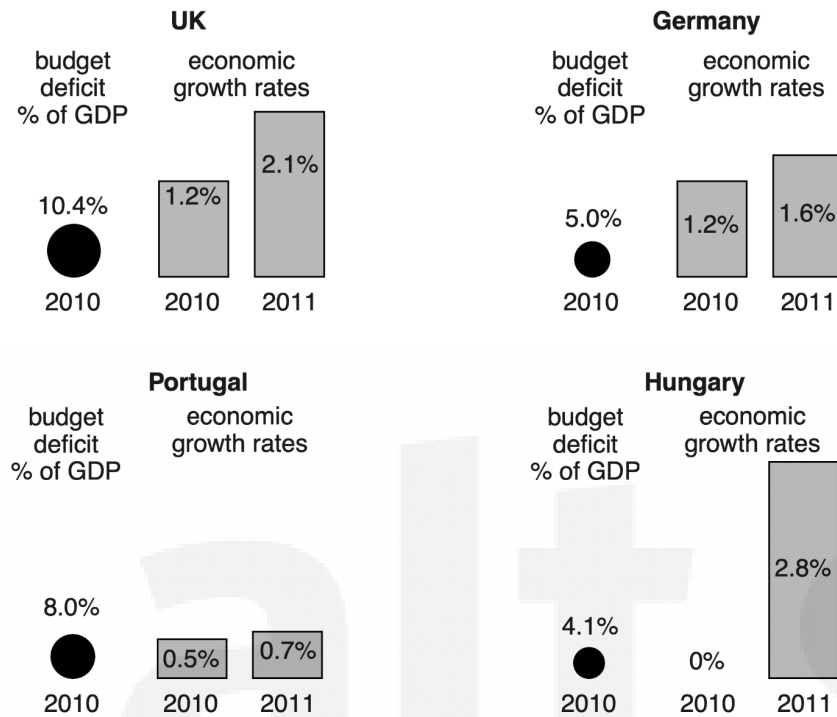
Answer all parts of Question 1.

1

Budget deficits

The recent world recession has resulted in an increased government budget deficit in many European countries. Fig. 1 shows budget deficits and economic growth rates for 2010 together with expected economic growth for 2011 for selected countries.

Fig. 1



Below are two opinions about budget deficits.

First opinion

Budget deficits should be reduced quickly by immediate reductions in public spending. An economy needs to grow and reductions in public spending encourage growth in the private sector. If the economy grows, wages will rise. Consumers feel safe to borrow and consume more. Investors will expect better returns if growth increases and they will also know that the deficit has been reduced by cuts in public spending and not by tax increases.

Second opinion

In 2009 there was a massive reduction in demand by the private sector in some countries. To offset the reduction in private spending, some governments believed they should increase public spending. This would cause a larger budget deficit and provide a stimulus to demand. Businesses need increased demand to invest and innovate. Increased demand causes a multiplier effect on national income. Demand is central to the debate about budget deficits.

Below is a newspaper comment on these two opinions.

By 2010 the falling value of some countries' currencies stimulated international demand for their tradable goods, resulting in manufacturing growth. Some argued that this growth in exports meant it was possible for the government to decrease its spending to reduce the budget deficit.

Others argued that this growth in exports would be insufficient and raised the question 'where would demand for the economy's output then come from?' They said it would not come from the public sector because the decrease in government spending would put people out of work, ruin small businesses and damage some larger ones. It would not come from the private sector because interest rates on borrowing in some countries had been at record low levels for some time but this had failed to stimulate demand. They believe it is better to wait until an economy grows and repay the deficit by reducing public spending gradually. (Source: *The Observer* 13/06/10)

- (a) The data refers to a 'government budget deficit'. Explain what this means. [2]
- (b) Use Fig. 1 to consider whether there is a link between the size of the budget deficit and economic growth. [4]
- (c) Explain how the falling value of some countries' currencies 'stimulated international demand for their tradable goods, resulting in manufacturing growth.' [4]
- (d) Use the evidence given to discuss the similarities and differences in the two opinions and consider which you think is more appropriate to overcome a recession. [6]

Section B

Answer **one** question

EITHER

- 2 Discuss whether economic efficiency can be improved if governments are involved in the regulation and provision of goods and services when there is a market failure. [20]

OR

- 3 In imperfect competition, labour markets can lead to worker exploitation in terms of the wage rates they receive compared with wage rates in perfect competition. Discuss this opinion. [20]

Section C

Answer **one** question

EITHER

- 4 'The rate of interest is one of the most importance macroeconomic variables because changes in the rate of interest have a significant impact on each of the key macroeconomic aims.'
To what extent do you agree with this statement? [20]

OR

- 5 Discuss whether countries at different levels of development should use different methods of measuring living standards. [20]

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