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Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/42**

Paper 4 A Level Data Response and Essays **February/March 2024**

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 **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 **French electricity prices**

In 2022 the French government ordered a large electricity company, partly owned by the state, to sell more electricity at lower prices than its rivals. The company said this would have a negative impact on its profits and result in a decrease in the value of the company's shares owned by the private sector.

Competitors in electricity supply in France are allowed to buy power from this company at a 40% discount due to its monopoly position. The government instructed the company to increase the amount they must sell to competitors at the discounted market price.

The government also cut taxes on electricity to try to keep the increase in prices for households and small businesses to 4%, rather than the expected 35%, without any government action.

As well as producing electricity in France, the company owns nuclear power stations and gas-fired power stations in the UK and supplies 11% of the UK's electricity.

A global shortage of natural gas supplies caused a crisis, pushing up electricity prices. Much electricity is produced in gas-fired power plants. The situation was worsened by faults in the electricity-producing nuclear power plants in both the UK and France.

In January 2022 alone, a further five nuclear power plants in France were forced to close. That meant that 18 of the 56 plants had closed; a worrying proportion for a company that derives 70% of its electricity output from nuclear power. The plants were old. Corrosion caused safety fears and the closures restricted supplies.

Previously, the nuclear power plants put France in a strong self-sufficient position of which other European countries can only dream. The UK, for example, has to import expensive gas to produce electricity, where the price rise was expected to be not 35%, as in France, but 56%. However, the cost to the French government of reducing the electricity price affected its ability to finance renewable energy projects as well as build a new generation of nuclear reactors.

The government claimed the benefit was that they rescued millions of households from the prospect of excessive rises in electricity prices.

Source: The Daily Telegraph, 15 January 2022

(a) Identify what caused the rise in the electricity prices and explain whether it can be concluded from the article that the price rise was an example of market failure. [5]

(b) Is there any evidence in the article that the French government's decisions will increase competition or efficiency in the energy market? [4]

(c) **(i)** Distinguish between equality and equity. [3]

(ii) Consider whether the actions of the French government on electricity prices might be thought to increase either equality or equity for consumers and producers. [8]

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Section B

Answer **one** question.

EITHER

2 With the help of a diagram, assess the effectiveness of a government's intervention in the price mechanism to address the causes of climate change. [20]

OR

3 The introduction of a trade union into a perfectly competitive labour market will always lead to higher wage levels and a higher level of unemployment.

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

Section C

Answer **one** question.

EITHER

4 With the help of a diagram, assess the effectiveness of government policies which might be used to reduce cost-push inflation. [20]

OR

5 Globalisation will help to achieve economic growth in high-income economies and this will automatically improve living standards.

Evaluate this statement. [20]

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