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Cambridge International AS & A Level

ECONOMICS **9708/44**

Paper 4 A Level Data Response and Essays **October/November 2025**

2 hours

3752979692

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 **Market Economies**

From Adam Smith onwards, most economists have regarded competitive markets as the main mechanism of economic activity. They argue that the interaction between producers and consumers can lead to both allocative efficiency and productive efficiency.

It can, however, be questioned whether the market automatically produces the best solution. Sometimes there are significant reasons for governments to intervene in a market in order to produce a better outcome than market forces alone. These situations are market failures.

When producing goods and services firms consider the private costs they pay and private benefits they receive. For example, a steel producer accounts for the cost of iron ore, fuel, labour and administration. It offsets these costs against the revenue from selling the steel. However, those people who live near the steelworks suffer the consequences of the noise, dirt and polluted air generated as part of the production process. Similarly, in many areas the extraction of iron ore can lead to environmental destruction such as the degradation of ground water for domestic consumption and a reduction in the variety of wildlife and flowers.

Competitive markets as envisaged by economists, however, may not exist. Firms may integrate to gain the benefits of economies of scale, to realise their ambition to rule the market or to increase their market share. Such integration might lead to the development of a monopoly market structure. Many believe that a monopoly always operates against the interests of the consumer because of its lack of efficiency. As a result, governments often restrict the operation of monopolies.

(a) Explain the meaning of 'allocative efficiency and productive efficiency'. [4]

(b) **(i)** Explain what is meant by a negative production externality. [2]

(ii) Identify from the extract a negative production externality resulting from steel production. [1]

(iii) Explain, with the aid of a diagram, the consequences for output and price if the steel market is required to take into consideration negative production externalities. [5]

(c) Consider whether 'a monopoly always operates against the interests of the consumer'. [8]

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Section B

Answer **one** question.

EITHER

2 Evaluate, with the aid of a diagram, whether the diminishing marginal utility theory of demand provides an adequate explanation of the market demand curve for all goods and services. [20]

OR

3 Subnormal and supernormal profits are only experienced in the short run and only by firms in perfect competition.

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

Section C

Answer **one** question.

EITHER

4 A country imposes a tariff of 20% on imported goods and restricts the number of immigrants entering the country.

Evaluate, with the aid of a diagram(s), the impact of these **two** policies on the rate of inflation in that country. [20]

OR

5 Evaluate whether an increase in a government's budget deficit will always lead to economic growth. [20]

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