



# Cambridge International AS & A Level

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## ECONOMICS

9708/04

Paper 4 A Level Data Response and Essays

For examination from 2023

SPECIMEN PAPER

2 hours



You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

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## 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 [ ].

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This document has 4 pages. Any blank page are indicated.

**Section A**

Answer all parts of Question 1.

**1****Loyalty and consumer behaviour**

Consumer loyalty can be shown in different ways. It may be through:

- customer reward schemes (e.g. loyalty cards) that offer discounts based on the amount spent with a specific retailer
- emotional loyalty where customers prefer a particular brand that they always buy
- monopoly loyalty where there is no alternative to the retailer or brand.

Supermarkets try to attract customers by using loyalty cards that give promotions and price reductions to those who have a card. The cards also help the supermarket build barriers between retailers to gain a marketing advantage.

When consumers are collecting points towards a particular goal, the loyalty card may hinder free competition and prevent switching between brands. However, sometimes the discounts used by the scheme may be confusing and make it difficult for the consumer to compare prices.

There are risks for the retailers too. The loyalty cards require substantial investment to run – one supermarket put the cost at US\$60m a year. These costs could well result in higher prices for the consumer.

But how do loyalty card schemes fit into the context of the way in which consumers make choices? A research report found that in one country where 70% of consumers had a loyalty card, only about 10% were loyal to one particular card.

It has been found that when choosing to buy groceries consumers look for one-stop shopping (43%), good service (22%), price (18%), the availability of a coffee shop (12%) and help with packing (6%). Loyalty cards come below these.

Companies use loyalty cards to gather data on customers and their buying preferences. They then direct future offers to consumer wishes in specific promotions both online and in the mail. Loyalty schemes are thus sometimes less about loyalty and more about understanding customers' wants.

The economic model of consumer behaviour using indifference curves assumes that consumers conduct research and buy products and services in a rational way. Many purchases, however, are based on habit and consumer research is imprecise. When the consumer has a low involvement in research or a low emotional attachment to the product, there will be little loyalty.

*Source: RSA Journal*

- (a) What evidence is there in the article to suggest that loyalty cards make markets imperfectly competitive? [4]
- (b) Explain why a profit-maximising retailer may be interested in the link between consumers' loyalty and price elasticity of demand. [4]
- (c) Consider whether there is conflicting evidence in the article about the effectiveness of loyalty cards which offer price discounts. [5]
- (d) Assess how the idea of rationality is used in the indifference curve theory of consumer behaviour. [7]

### Section B

Answer **one** question.

#### EITHER

- 2 With the help of a diagram, assess the view that government intervention can be used successfully to correct market failure caused by positive externalities. [20]

#### OR

- 3 With the help of a diagram, assess whether imperfect labour markets will always lead to lower wages and higher unemployment. [20]

### Section C

Answer **one** question.

#### EITHER

- 4 'Devaluation of a country's currency will reduce a persistent balance of payments deficit on its current account in goods and services in the short run but this will inevitably lead to high levels of inflation in the long run.'

Evaluate this statement. [20]

#### OR

- 5 Assess the contribution of Foreign Direct Investment (FDI) to the improvement of the standard of living in low-income countries. [20]

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*Copyright Acknowledgements:*

Question 1                      © Jonathan Reynolds; *The Loyalty Con*; RSA Journal; 2001

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