CAMBRIDGE
International Education

Cambridge International AS & A Level

ECONOMICS **9708/42**

Paper 4 A Level Data Response and Essays **May/June 2026**

2 hours

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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 **US Foreign Trade and Interest Rate Policy**

The United States (US) balance of trade deficit increased to US$69.4 billion in March 2024. The deficit is considered to be undesirable and has caused discussion within the US on how to decrease it. Current and previous US governments have decided that import tariffs are their preferred solution.

Following the COVID-19 pandemic, there was a period in 2022 when the annual rate of inflation was over 10%. Intervention by the Federal Reserve (the US central bank) helped to reduce the annual rate of inflation to 2.9% by December 2023. This was still above its target rate of 2%. There was uncertainty about whether government policy objectives concerning inflation, economic growth and employment were all moving in the right direction. This uncertainty and above-target inflation meant the Federal Reserve decided to leave interest rates unchanged at 5.5%. It also decided to continue its policy of reversing quantitative easing by selling securities to remove money from money markets.

A secondary effect of this high-interest rate policy was that the US foreign exchange rate had appreciated by 6.25% during the previous 5 years. This meant that low-income countries (LICs) had to pay more for their imports priced in US$, such as raw materials, foodstuffs and oil.

These LICs often have an underdeveloped market economy with limited ability to raise tax revenue. They also have large external debts in US$, the repayment of which restricts their ability to increase economic development.

Sources: Adapted from; March 2024 Trade Gap is $69.4 Billion, bea.gov, 2 May 2024
Transcript of Chair Powell's press conference, federalreserve.gov, 1 May 2024
Consumer prices up 2.9 percent, bls.gov, 21 August 2024

(a) Explain why a balance of trade deficit might be regarded as undesirable by the US government. [2]

(b) Explain, with the aid of a diagram, how import tariffs lead to expenditure switching in the US economy. [4]

(c) Consider whether a high interest rate would ensure that 'inflation, job creation and economic growth were all moving in the right direction' in the US economy. [7]

(d) Assess whether the information is sufficient to conclude that the Federal Reserve's interest rate policy has benefitted LICs. [7]

Section B

Answer **one** question.

Either

2 Evaluate whether the marginal utility theory of demand provides an adequate explanation of market demand for both normal goods and inferior goods. [20]

Or

3 Governments and trade unions should be excluded from taking part in wage negotiations as their intervention always causes higher levels of unemployment.

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

Section C

Answer **one** question.

Either

4 Evaluate whether the quantity theory of money is a satisfactory explanation of the cause of inflation. [20]

Or

5 Consider whether the use of gross national income (GNI) alone is sufficient to measure the standard of living in a high-income country (HIC). [20]

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