Cambridge International Education

# Cambridge International AS & A Level

**ECONOMICS** **9708/42**

Paper 4 A Level Data Response and Essays **February/March 2026**

**2 hours**

*0374381610*

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.

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## Section A

Answer all parts of Question 1.

**1 Widening levels of inequality resulting from the COVID-19 pandemic**

The COVID-19 pandemic led to a global economic crisis, causing an increase in inequality within and between countries. Whilst economic policy responses helped reduce infection rates in the short run, increases in public and private debt resulted in significantly greater levels of inequality.

During 2020, it became apparent that many households and firms could not cope with the income shock caused by the pandemic. Globally, earned income fell by US$3.5 trillion in the first nine months of 2020, a fall of 10.7% compared with the same period the year before. Studies have shown that before the pandemic more than half of all households in emerging and advanced economies had savings equivalent to 90 days of income. Firms, on average, had 55 days of cash reserves. Many of those households and firms were already struggling with their debt repayments and, once public lockdowns were established, their incomes and revenues fell.

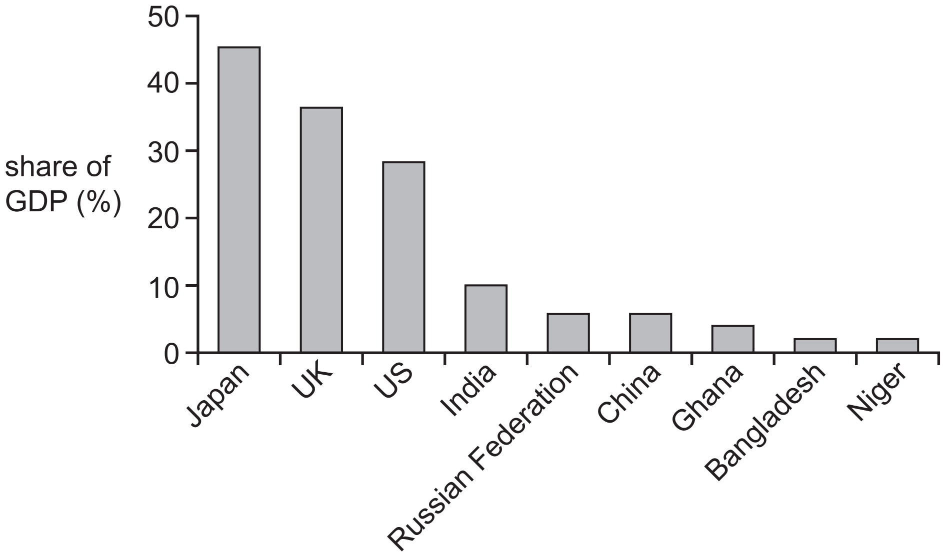
For the first time in a generation global poverty increased. In 2020 unemployment grew in most low-income countries (LICs). Income losses were greatest amongst young people, the self-employed and casual workers. Women were particularly affected because they tended to work in sectors which were more sensitive to lockdowns and social distancing, for example, the hospitality, retail and personal services sectors.

Small, and medium-sized firms were vulnerable because they were also likely to operate within those sensitive sectors. Because smaller firms had limited access to credit, they suffered from revenue losses more than larger firms.

A sector that does appear to have done well out of lockdowns is the digital sector. One US company, which provides logistics, communications, social media and financial technology services saw its revenue increase from US$233 bn in 2018 to US$514 bn in 2022. Similarly, a Chinese company involved in video games, social media and investment, saw its revenues rise from US$47 bn to US$84 bn over the same time period.

To try and ease pressures on their economies, governments adopted various fiscal and monetary policy tools including direct income support, writing off debt, and asset purchase programmes by their central banks. Direct income support took the form of transfer payments to workers and firms unable to earn due to lockdowns.

High-income countries (HICs) could offer more of these resources than LICs which had limited access to credit markets and high levels of international debt. In middle-income countries (MICs) assistance varied according to the ability and the willingness of governments to spend on such packages.




*Source: World Bank*

**Figure 1 Additional government spending in response to the COVID-19 pandemic as a percentage of gross domestic product (GDP), selected countries**

**(a)** Using the information:

**(i)** Compare the additional government spending in Japan and Ghana in response to the COVID-19 pandemic. [2]

**(ii)** Explain **one** possible reason for the difference between their responses. [2]

**(b)** With the help of an aggregate demand and aggregate supply diagram, explain the impact of an increase in 'direct income support' on real output and the price level. [4]

**(c)** Consider why lockdowns affected those working in the 'digital sector' differently from those working in 'the hospitality, retail, and personal services sectors'. [5]

**(d)** Using the information regarding government policy tools, assess the advantages and disadvantages of **two** policies used by governments during the COVID-19 pandemic to protect their economies. [7]

## Section B

Answer **one** question.

**Either**

**2** Training workers improves their human capital and increases productivity. This benefits the workers, their employers and the government.

Consider the extent to which training should be paid for only by workers. [20]

**Or**

**3** The fashion industry employs around 75 million workers, many of whom earn very low wages and work up to 16 hours a day. The industry contributes to 20% of global wastewater and 8% of all carbon emissions. 60% of clothes are made from plastics, 83 million tonnes of the 100 billion garments produced are sent to landfill, and only 20% are collected for recycling.

Consider to what extent an equitable solution can be found for market failures in the fashion industry. [20]

## Section C

Answer **one** question.

**Either**

**4** The Bank of China has a target inflation rate of around 3%, the Bank of India has a target inflation rate of 4% and the Federal Reserve, the European Central Bank and the Bank of England all have a 2% target inflation rate.

Consider whether central banks should have a target inflation rate of 0%. [20]

**Or**

**5** Consider the extent to which aid **and** trade can contribute to a country's economic development. [20]