Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay (Core) **May/June 2015**

1 hour 30 minutes

No Additional Materials are required.

8277479370

READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer this question.
Brief answers only are required.

Section B
Answer any **one** question.

You may answer with reference to your own economy or other economies that you have studied where relevant to the question.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **4** printed pages and **1** Insert.

© UCLES 2015

CAMBRIDGE International Examinations

Section A

Answer this question.

1 **United States reduces dependence on foreign oil**

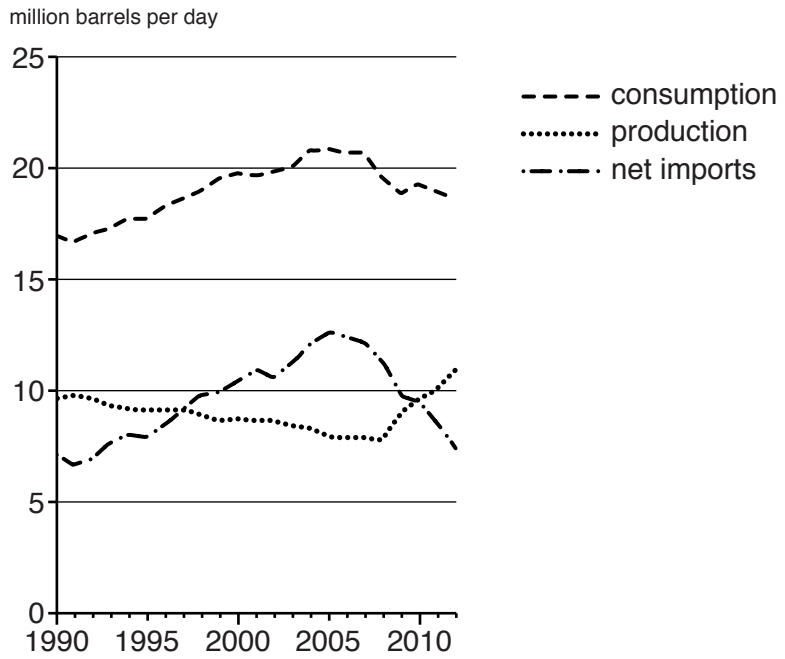
In 2001, a United States (US) energy report warned that by 2020 the US could be importing two-thirds of its oil. If US oil consumption continued rising and production continued falling, imports would increase from 10 million barrels per day to about 17.5 million per day.

The forecasts were both wrong. US oil production has soared while consumption has fallen. It now looks more likely that the US will have only limited, if any, net oil imports by the end of the decade. China has now replaced the US as the world's largest oil importing economy.

A new technique, known as hydraulic fracturing (fracking), has allowed access to new sources of oil in the US. As a result, US crude oil production has risen by 50% since 2008. In addition, the US now produces significant quantities of biofuel from corn ethanol. This is a substitute for gasoline (petrol) obtained from crude oil and its production has increased by more than 300% in recent years.

In addition to new US oil supplies, what has been happening to demand is just as important. Falling enthusiasm for cars among younger Americans has reduced the country's need for oil. Fewer young people are learning to drive and there have been declines in vehicle ownership per household and the total distance driven. At the same time, US cars are now more fuel-efficient.

Fig. 1: US oil consumption, production and net imports (1990–2012)



Source: Adapted from the US Energy Information Administration 'Energy Review'

Table 1: Annual average price of gasoline (petrol) in US

Year	US$ per gallon including taxes
2007	2.85
2008	3.32
2009	2.40
2010	2.84
2011	3.58
2012	3.70
2013 (March)	3.79

Source: US Energy Information Administration

(a) With reference to Fig. 1, explain the trend in US net imports of oil after 2005. [3]

(b) **(i)** With the help of a diagram(s), explain how the new sources of crude oil from hydraulic fracturing **and** the 'falling enthusiasm for cars among younger Americans' might be expected to cause a **fall** in the price of gasoline (petrol) in the US. [4]

(ii) Suggest and explain **one** factor that might have caused the price of gasoline (petrol) to **rise** in the US after 2009 despite these changes. [3]

(c) Explain the value that you would expect to find if you measured the relationship between gasoline (petrol) and biofuel using the concept of cross elasticity of demand. [4]

(d) Discuss how reducing dependence on foreign oil might affect aggregate demand in the US economy and the impact of this on prices and employment in the US. [6]

© UCLES 2015

[Turn over

Section B

Answer **one** question.

2 **(a)** Explain **two** factors that are likely to make the supply of a product relatively price inelastic. [8]

(b) Discuss how governments might attempt to make the supply of an essential good more responsive to a change in its price and assess the likely effectiveness of such attempts. [12]

3 **(a)** Explain how the contribution of each factor of production differs in an agricultural economy from that in an industrialised economy. [8]

(b) Discuss whether entrepreneurs or governments are more likely to cause economic growth in a mixed economy. [12]

4 **(a)** Explain what acts as money in a modern economy and what is likely to happen to the price level if the quantity of money increases significantly. [8]

(b) Explain how a significant rise in the general price level will affect the current account of the balance of payments of an economy and discuss whether this is likely to turn a deficit into a surplus. [12]

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

© UCLES 2015

Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay (Core) **May/June 2015**

1 hour 30 minutes

No Additional Materials are required.

3382902993

READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer this question.
Brief answers only are required.

Section B
Answer any **one** question.

You may answer with reference to your own economy or other economies that you have studied where relevant to the question.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **4** printed pages and **1** Insert.

© UCLES 2015

CAMBRIDGE International Examinations

Section A

Answer this question.

1 Economic prospects reverse in Latin America

Over the past decade, Brazil boomed and grew rich by selling raw materials to China. Brazil's economy averaged 3.6% annual growth, peaking at a rate of 7.5% in 2010. Its currency, the Brazilian Real, substantially increased in value.

By comparison, Mexico saw lower growth, partly because it was tied to a faltering United States (US) economy. Mexico also suffered from deep problems of its own, for example, a poor education system and a rise in violent crime, deterring tourists and investors. Mexico's economy averaged 2.6% annual growth over the past decade, while its currency, the Mexican Peso, fell slightly in value.

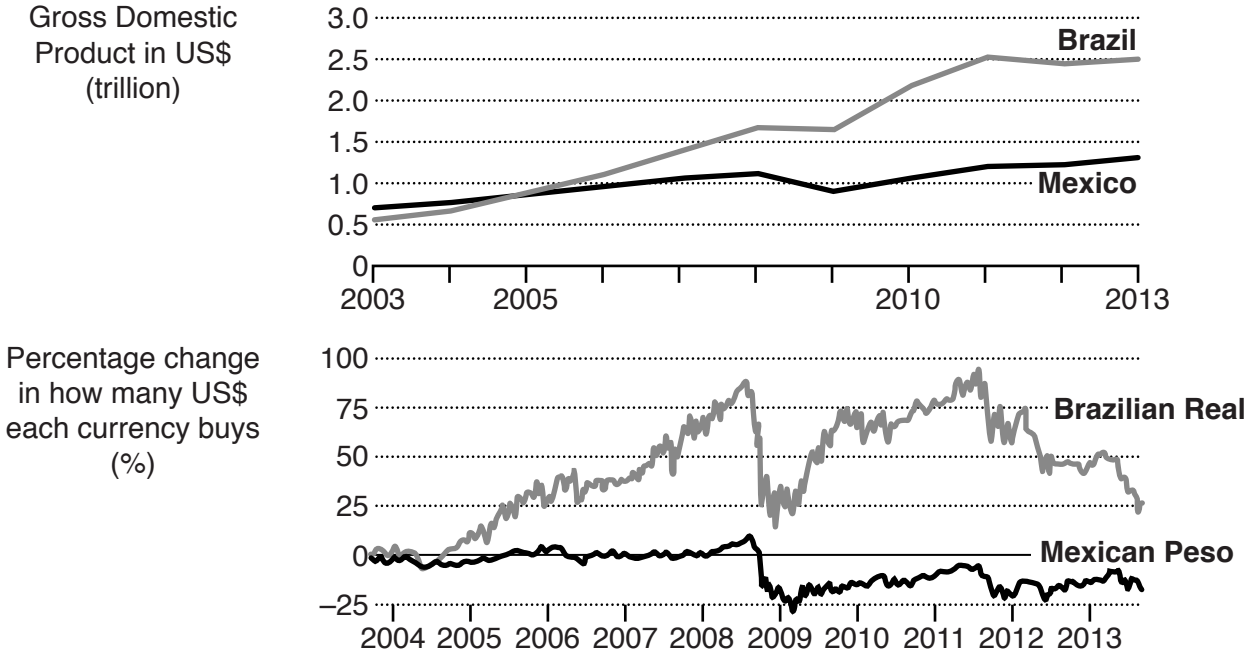
From 2011, it was Brazil's turn to struggle as China's demand for its raw materials decreased. In 2013 alone, Brazil's currency depreciated by more than 10%. The Brazilian Government largely wasted the boom years, investing little in roads and other infrastructure that could have supported its development. In addition, many households borrowed money to finance a consumer boom including a rapid rise in imports of luxuries from the US. As a result, a significant trade deficit in goods and services developed.

Meanwhile, the Mexican Government used the past decade to significantly strengthen its economy, improving the education system and making its telecommunications, financial and energy sectors more efficient. Economists now expect the country to grow more rapidly when Mexico's biggest trading partner, the US, recovers economically. Also, Mexico exports manufactured goods to a growing European market. At the same time, Mexico has maintained a relatively small trade deficit that can be financed easily by long-term foreign investment in its companies and factories.

Source: The Wall Street Journal, September 2013

© UCLES 2015

Fig. 1: A Tale of Two Countries



Sources: *IMF (GDP); (The Wall Street Journal) Market Data Group*

(a) Use production possibility curves to compare Brazil's economy in 2013 with its economy in 2003. [2]

(b) **(i)** Using Fig. 1, explain what has happened to the value of the Brazilian Real in 2013 compared with 2004. [2]

(ii) Explain **one** possible reason for the stability of the Mexican Peso from 2004 to 2008 shown in Fig. 1. [2]

(iii) With the help of diagrams, explain how the different economic experiences of Brazil and Mexico after 2011 mentioned in the text could explain the changes in currency values shown in Fig. 1. [4]

(c) Explain how the approach of the Mexican Government 'during the past decade' is more likely to generate an expansion of the economy than the approach of the Brazilian Government during this period. [4]

(d) Identify and evaluate the usefulness of any further information that might be helpful in assessing the future prospects of the Brazilian and Mexican economies. [6]

© UCLES 2015

[Turn over

Section B

Answer **one** question.

2 **(a)** Explain how economists measure the way in which demand for a good changes when income changes and, with the help of a diagram, show why some goods are classified as 'inferior goods'. [8]

(b) Discuss how useful governments might find the concepts of price and income elasticity of demand when setting economic policy. [12]

3 **(a)** Using examples, explain the difference between merit goods and public goods and show why it is possible for profit to be made in the supply of one of these types of good but not the other. [8]

(b) Discuss why merit goods are undersupplied in a free market economy and consider the effectiveness of **one** policy to deal with this problem. [12]

4 **(a)** Explain how a declining exchange rate and a high rate of inflation in an economy might affect that economy's terms of trade. [8]

(b) Discuss the advantages and disadvantages to an economy of a fall in that economy's terms of trade and consider whether the overall effects are likely to be beneficial. [12]

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

© UCLES 2015

Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/23**

Paper 2 Data Response and Essay (Core) **May/June 2015**

1 hour 30 minutes

No Additional Materials are required.

3738256900

READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer this question.
Brief answers only are required.

Section B
Answer any **one** question.

You may answer with reference to your own economy or other economies that you have studied where relevant to the question.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **3** printed pages, **1** blank page and **1** Insert.

© UCLES 2015

CAMBRIDGE International Examinations

Section A

Answer this question.

1 Kwacha goes down in value by 10%, but inflation drops

A Government official has attributed the fall in the value of the Kwacha, Malawi's currency, to the end of the tobacco-selling season and the continued imports of farming equipment as a result of the Malawian Government's farm subsidy programme. A market analyst has commented that there is a need for Malawi to increase exports as a solution to the weak currency.

On a positive note, the National Statistics Institute of Malawi has announced that the inflation rate dropped 2.7 percentage points to 25.2% in July 2013. This is still the highest rate for the whole of the southern African region. Encouragingly, the rate of inflation is forecast to fall further to around 17% in December 2013.

Source: Adapted from the National Statistics Institute of Malawi

National Consumer Price Index of Malawi

Table 1: Selected CPI weights

	Category of spending			
	Food and non-alcoholic drinks	Alcoholic drinks and tobacco	Recreation and culture	Restaurants and hotels
Weights	50.2	2.5	2.2	1.3

Source: Adapted from the National Statistics Institute of Malawi

Table 2: Malawi selected price indices and the annual rate of inflation

		Food and non-alcoholic drinks	Alcoholic drinks and tobacco	Recreation and culture	Restaurants and hotels	Annual CPI inflation rate
2013	Jan	122.5	114.1	123.6	186.9	35.1
	April	127.9	126.0	134.6	191.0	35.8
	July	107.7	130.1	140.3	193.4	25.2
	Sept	117.1	130.5	144.7	197.9	21.7

Source: Adapted from the National Statistics Institute of Malawi

© UCLES 2015

Malawi targets tourism for foreign exchange says Government minister

The Government says that tourism is Malawi's next potential source of significant foreign exchange earnings now that demand for tobacco has fallen, following the success of the anti-smoking campaign. The Minister of Tourism and Culture stated that 'tourism has the potential to become a multi-billion Kwacha industry that can change the lives of many communities around the country'.

Source: Adapted from the Nyasa Times October 2013

(a) (i) Showing your calculation, determine the category of spending that has shown the biggest rise in price from January to September 2013. [2]

(ii) Why do the categories of spending have different weights in Table 1? [2]

(b) (i) Explain how the fact that Malawi has the highest inflation rate in the southern African region might be expected to affect Malawi's terms of trade. [2]

(ii) With the help of a diagram, explain how increasing exports could provide a solution to Malawi's weak currency. [3]

(c) (i) Draw a diagram to show the choice that Malawi faces when allocating its scarce resources between the production of tobacco and tourism. [2]

(ii) Explain **one** difficulty that Malawi might face in reallocating resources from the production of tobacco to tourism. [3]

(d) Discuss the factors that should be considered by the Malawian Government in deciding if it should develop its tourist industry and allow its tobacco industry to decline. [6]

Section B

Answer **one** question.

2 (a) With the help of diagrams, explain how economists use the concept of income elasticity of demand to distinguish between inferior goods and necessity goods. [8]

(b) Discuss how, during a worldwide recession when incomes in most countries are falling, economists might use the concept of income elasticity of demand to assess the impact of this recession. [12]

3 (a) Explain what economists mean when they describe a good as a 'demerit good' and, using a diagram, show why such goods will be overconsumed in a free market. [8]

(b) Discuss any **two** policies that might be used to deal with the problems caused by the consumption of demerit goods and consider which might be the more effective policy. [12]

4 (a) Define each component of aggregate demand and, using a diagram, show how a reduction in one of these components might reduce inflationary pressure in an economy. [8]

(b) Discuss the impact of a high rate of inflation on the consumers and producers in an economy and assess whether consumers or producers would suffer more. [12]

© UCLES 2015

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.