Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **May/June 2022**

1 hour 30 minutes

7950629659

You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **two** questions in total:
  - Section A: answer Question 1.
  - Section B: 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 40.
- 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 this question.

1 **Inflation in Bangladesh**

The annual inflation rate in Bangladesh, as measured by changes in the Consumer Prices Index (CPI), has varied in the period from 2009 to 2019 between 5.4% and 11.4%. The average annual rate of inflation over this period has been 6.7%, one of the highest in Asia.

Table 1.1: Bangladesh Annual Inflation Rate, February 2009 to 2019

Year	Inflation Rate (% change in CPI)
2009	5.4
2010	8.1
2011	11.4
2012	6.2
2013	7.5
2014	7.0
2015	6.2
2016	5.5
2017	5.7
2018	5.5
2019	5.5

Source: World Bank

The relatively high rate of inflation has been caused by price rises in both the food and the non-food sectors. In terms of the food sector, there have been significant rises in the price of fish, chicken and vegetables, particularly onions. In terms of the non-food sector, price rises have been significant in healthcare, transport and energy resources such as gas.

The Bangladesh Government is concerned about the possible consequences of a relatively high rate of inflation. It has now therefore set an annual inflation rate target of 5.5%.

The central bank of Bangladesh has the maintenance of price stability as one of its main objectives. It uses monetary policy to control the rate of increase of prices in the country. However, there is always the possibility that tough monetary policies could do more harm than good to an economy, compared with the possible use of fiscal policy.

The central bank recognises that inflation can be caused by both demand-pull and cost-push factors in the economy. A particular cause of inflation is the increase in wages. The Wage Rate Index (WRI) rose in December 2019 by 6.6% compared with a 6.4% rise in the index in November.

Source: Adapted from 'Inflation hits 9-month high', The Daily Star, Bangladesh, 16 October 2019, accessed on 24 February 2020

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(a) Describe the trend in the annual inflation rate of Bangladesh between 2009 and 2019. [2]

(b) Explain why price changes in the food and the non-food sectors in Bangladesh are treated differently when calculating the CPI. [2]

(c) Explain **one** domestic consequence and **one** external consequence for Bangladesh of having 'a relatively high rate of inflation'. [4]

(d) Analyse, with the help of aggregate demand and aggregate supply diagrams, how increasing wages can cause **both** demand-pull and cost-push inflation in Bangladesh. [6]

(e) 'However, there is always the possibility that tough monetary policies could do more harm than good to an economy, compared with the possible use of fiscal policy.'

Discuss whether monetary policy or fiscal policy is more likely to be effective in controlling inflation. [6]

Section B

Answer **one** question.

2 When a planned economy introduces the price mechanism to allocate some resources, a mixed economy arises.

(a) Explain, using examples, why merit goods are classified as private goods rather than public goods. [8]

(b) Discuss the advantages of a mixed economy and whether it is always preferable to a planned economy. [12]

3 **(a)** Explain **two** factors that determine the price elasticity of supply of a manufactured product. [8]

(b) Taxes are often placed on manufactured products, even those that are necessities with few substitutes.

Discuss whether the incidence of a tax on a manufactured product always falls mainly on the producer. [12]

4 **(a)** Explain why a fixed exchange rate could cause difficulties for a country that has one. [8]

(b) Protectionism can take different forms in different countries.

Discuss whether export subsidies are always a better method of protectionism than tariffs. [12]

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Section A

Answer this question.

1 Economic growth in Russia has slowed to well below the global average

In 2019, Russia set an aim to quicken its economic expansion – to grow faster than the world as a whole. So far, the plan is off to an uncertain start.

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This has also led to a fall in the value of the exchange rate for the Russian currency, the rouble.

Source: Andrew E. Kramer, The New York Times *18 February 2020*

Table 1.1: Russia: Government budget balance as % of national output

2015	2016	2017	2018	2019
–2.4	–3.4	–1.5	2.9	1.8

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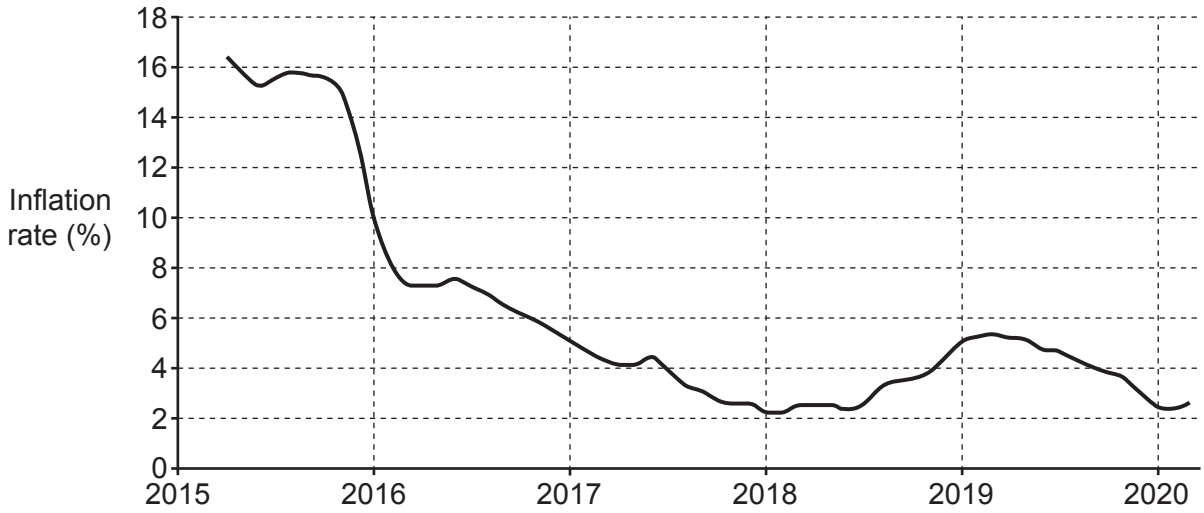


Fig. 1.1: Russia's annual inflation rate, March 2015 to March 2020

Source: Trading Economics/Ministry of Finance of the Russian Federation

(a) Using Fig. 1.1

(i) Compare the rate of inflation in Russia in March 2015 with that in March 2020. [1]

(ii) What has happened to the price level over this period? [1]

(iii) Explain what could have caused real wages in Russia to decline between 2016 and 2018. [2]

(b) Explain whether school lunches provided free-of-charge by the Russian government would be classified as private goods or public goods. [4]

(c) Assess, using aggregate demand and aggregate supply analysis, the likely impact of the changes shown in Table 1.1 upon the rate of inflation in Russia. [6]

(d) Discuss whether the 'huge decrease in the price of oil' and the fall in the value of the rouble might bring more opportunities than threats to the Russian economy. [6]

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Section B

Answer **one** question.

2 **(a)** With the help of a production possibility curve diagram(s) compare growth in the productive capacity of an economy and growth that results from a reduction in the quantity of unused resources in an economy. Explain **one** reason that might cause each to occur. [8]

(b) Discuss the disadvantages of a planned economy and consider whether the transition to an economy in which many resources are allocated by market forces is likely to be of overall benefit. [12]

3 **(a)** With the help of diagrams, use the concept of income elasticity of demand to explain the impact of a fall in incomes on the equilibrium price and equilibrium quantity of a normal good and an inferior good. [8]

(b) Discuss the difficulties that businesses might have when they try to control the factors that determine the price elasticity of demand for a product and consider whether attempts to control these factors are likely to be successful. [12]

4 **(a)** An economy moves from a deficit to a surplus on the current account of the balance of payments.

Explain what is meant by a surplus on the current account of the balance of payments and consider the possible impact on the level of employment and prices when there is a change from a deficit to a surplus current account balance in an economy. [8]

(b) Discuss whether expenditure-reducing or expenditure-switching policies are more likely to be of greater overall benefit if adopted to remove a persistent deficit on the current account of the balance of payments. [12]

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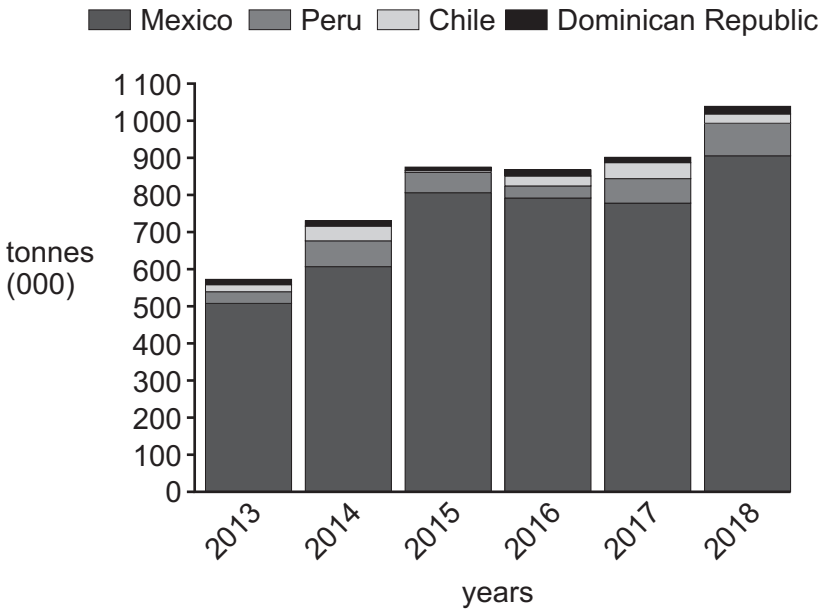
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Section A

Answer this question.

1 **The changing market for avocados**

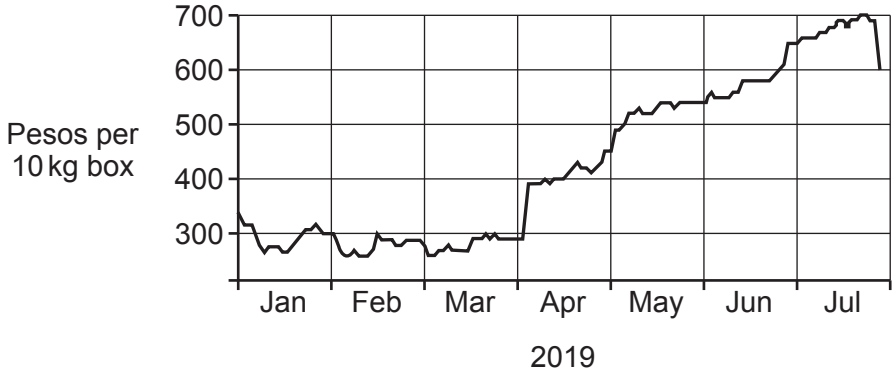
The global consumption of avocados has increased in the last few years, particularly in the United States (US) but also in China and parts of Europe. This growth is largely due to the increasing popularity of 'guacamole' (smashed avocado) and the health benefits claimed for its regular consumption. The US is the largest importer of avocados with supplies coming mainly from Central and South American producers as shown in Fig. 1.1.



Source: Avacados show growth in volume, www.thepacker.com

Fig. 1.1: US Avocado imports by country, 2010 to 2018

The supply of avocados is unpredictable. It is estimated that to produce one kilogram of avocado requires 2000 litres of water. Consequently, production is highly susceptible to drought conditions such as those that affected Central American growers in 2018. When this happens, the price of avocados increases as shown in Fig. 1.2.



Source: Mexican Ministry of Economy

Fig. 1.2: Wholesale price of Mexican avocados in the US, January to July 2019 (pesos per 10 kg box)

A shortage in supply provides an opportunity for new producers to enter the global market. Kenya, for example, has expanded its productive capacity and signed an agreement to supply the Chinese market. Even some New Zealand farmers switched from dairy to avocado production.

The global market for avocados is expected to continue to grow over the next few years. Rising prices will continue to increase production. It should be recognised, however, that there are increasing objections to higher production. In Mexico, for example, farmers have cleared forests to cultivate more avocados. This has put a strain on water supplies and raised concerns about the effects of the farmers' actions on climate change. These concerns have led one market research report to conclude that 'the price mechanism is not working to allocate resources successfully.'

Source: Global avocado market, Mordor Intelligence, Avocado market trends 2020, Inspira Farms

(a) Describe the change in the level and source countries of the US's imports of avocados from 2013 to 2018. [2]

(b) **(i)** Calculate the percentage change in the wholesale price of Mexican avocados between April 2019 and the end of July 2019. [1]

(ii) Explain **one** possible demand reason and **one** possible supply reason for this change in price. [4]

(c) Using the information provided, consider whether the supply of avocados is price elastic or price inelastic in the short run and in the long run. [4]

(d) Explain, with the help of a production possibility curve diagram, the opportunity cost to a New Zealand farmer of converting from dairy to avocado production. [3]

(e) Discuss whether the price mechanism in the avocado market is working to allocate resources successfully. [6]

Section B

Answer **one** question.

2 **(a)** A government has decided to spend money building a new barrier to prevent flooding across a city. Explain why this flood defence barrier is likely to meet the characteristics of a public good. [8]

(b) Education and healthcare are considered to be merit goods.

Discuss why merit goods are provided by both the private sector and the public sector. [12]

3 **(a)** Explain the difference between cost-push inflation and demand-pull inflation. [8]

(b) Discuss whether a contractionary monetary policy is the best way to reduce the rate of inflation. [12]

4 **(a)** Explain why some countries consistently have a deficit on the current account of the balance of payments. [8]

(b) Discuss the extent to which expenditure-switching policies and expenditure-reducing policies might be able to reduce such a deficit. [12]

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