Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 AS Level Data Response and Essays **May/June 2023**

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.
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- 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

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This document has **4** pages.

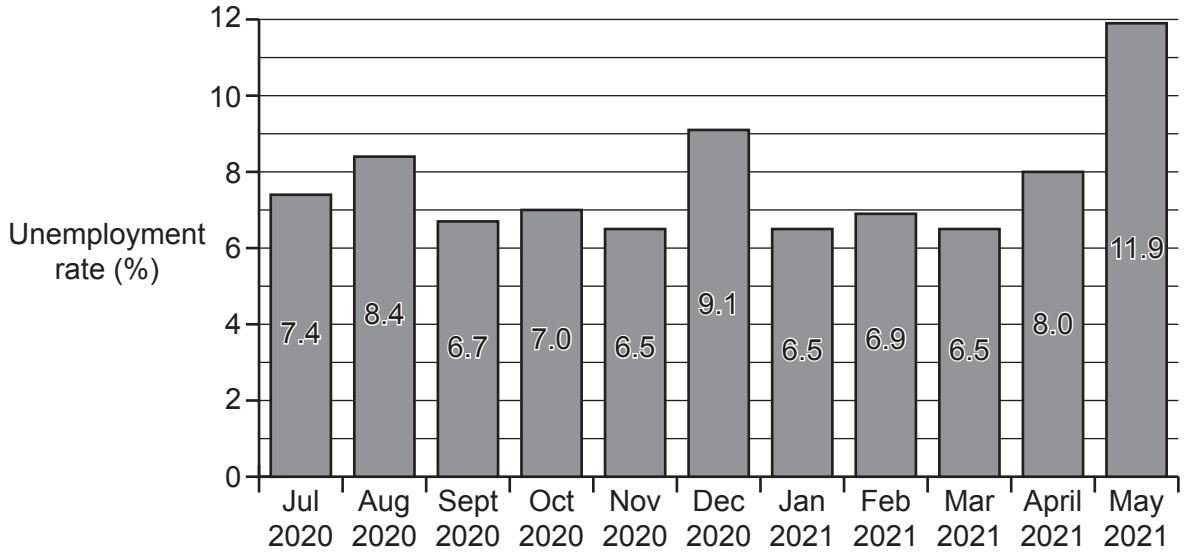
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Section A

Answer all parts of Question 1.

1 **Unemployment in India**

Changes in the rate of unemployment in India between July 2020 and May 2021 can be seen in Fig. 1.1.



Source: tradingeconomics.com, July 2021

Fig. 1.1: India's unemployment rate, July 2020 to May 2021

India's unemployment rate rose in December 2020, reaching a six-month high. The fact that the unemployment rate has been rising during this period, despite an economic recovery, has raised concerns among economists at the Centre for Monitoring Indian Economy (CMIE) research institute in Mumbai, although they recognise that there are possible difficulties in the measurement of unemployment.

One of the reasons for the increase in unemployment in December 2020 is an increase in frictional unemployment. According to CMIE, India's labour force increased from 421 million in November 2020 to 427 million in December 2020 and the majority of these new workers were unable to find work immediately. Many of these people are reluctant to relocate to take jobs and others are unaware of job vacancies.

Another reason for this increase in unemployment in India is because of seasonal unemployment. One of the main reasons behind rising unemployment has been the failure of the agricultural sector to absorb the additional labour. One economist at CMIE has stated: 'Farming is the last resort of many who are without work. However, December is not the month in which farming can absorb labour. This is the month when it needs fewer workers. In December 2020, the job losses from agriculture were 9.8 million.

The economists at CMIE stated that the rise in unemployment in certain months was not a good sign for the Indian economy as it could lead to higher income inequality and poverty.

Source: Adapted from India Today, 5 January 2021

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(a) Using the data in Fig. 1.1, calculate the change in India's unemployment rate between July 2020 and May 2021. [2]

(b) Using the information provided, explain how agriculture caused seasonal unemployment in India in December 2020. [2]

(c) Consider the extent to which difficulties may arise in the measurement of unemployment in India. [4]

(d) Assess whether seasonal unemployment is likely to be a more serious problem than frictional unemployment for India's economy. [6]

(e) Assess the possible measures that could be taken to increase employment in a country such as India. [6]

Section B

Answer **one** question.

EITHER

2 **(a)** With the help of a diagram, explain the difference between the causes of a movement along, and a shift of, a production possibility curve (PPC) **and** consider which is likely to have the most immediate impact on an economy. [8]

(b) Assess whether education should be classified as a public good rather than classified as a merit good. [12]

OR

3 **(a)** With the help of a formula, explain the meaning of cross elasticity of demand **and** consider which determinants are most important in establishing the size and sign of its coefficient. [8]

(b) With the help of a diagram, assess whether the benefits of a buffer stock scheme for an agricultural product always outweigh its disadvantages. [12]

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Section C

Answer **one** question.

EITHER

4 **(a)** With the help of an AD/AS diagram(s), explain cost-push inflation and demand-pull inflation in an economy **and** consider in what circumstances one may be more damaging than the other. [8]

(b) Assess whether monetary policy or supply-side policy is likely to be more successful in reducing the rate of inflation in an economy. [12]

OR

5 **(a)** With the help of a diagram(s), explain the likely causes of a depreciation of a floating exchange rate **and** consider whether such a depreciation is always beneficial to an economy. [8]

(b) Assess whether the arguments for protectionism in the context of international trade are always stronger than the arguments against. [12]

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Section A

Answer all parts of Question 1.

1 Is Nigeria being held back by its dependence on oil and gas?

Nigeria has about half of West Africa's population with approximately 202 million people and one of the largest populations of young people in the world. With an abundance of natural resources, it is Africa's biggest oil exporter, and has the largest natural gas reserves on the continent.

Nigeria is highly vulnerable to the global economic disruption caused by the COVID-19 pandemic, particularly due to the steep decline in oil prices. Nationally, 40% of Nigerians live in poverty, while another 25% are vulnerable and could fall into poverty due to the pandemic.

Oil accounts for 80% of Nigeria's export revenues, a dominant position that it has occupied since the 1970s. Many people believe that Nigeria needs to move further away from its dependence on oil and natural gas. Initial attempts at diversification have produced limited gains as the policies have been aimed mainly at the domestic market to create jobs and to improve living standards. There needs to be a focus on export-orientated manufacturing that should boost economic growth as it has done in countries such as Malaysia and Indonesia.

Based on the experience of these countries, more open trade and competition policies would help to diversify the economy, especially as the African Continental Free Trade Area (ACFTA) takes effect. Nigeria needs to create at least five million new jobs each year to employ its growing population of young people.

Table 1.1 Nigeria: key economic indicators

	2016	2017	2018	2019	2020
Economic growth rate (% change in real Gross Domestic Product (GDP) per year)	1.6	0.8	1.9	2.2	–1.8
Inflation rate (% change in Consumer Price Index (CPI) per year)	15.7	16.5	12.1	11.4	12.8
Current account balance (% of GDP)	0.7	2.8	1.30	–3.8	–3.7
Government budget balance (% of GDP)	–3.9	–5.4	–4.5	–4.3	–5.2
Unemployment rate (% of labour force)	7.0	8.4	8.5	8.5	9.0

Source : Global economy.com

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Nigeria's economy entered a recession in 2020 due to fall in crude oil prices caused by falling global demand and measures to fight the spread of COVID-19. Inflation rose in 2020 due mainly to higher food prices, the removal of fuel subsidies and an increase in the price of electricity. The budget deficit also worsened in 2020 because the COVID-19 pandemic caused higher government spending and lower tax revenues, adding to the national debt.

Nigeria's national debt is sustainable at 25% of GDP, but interest payments are high, accounting for about 50% of government spending. Nigeria's government could improve its finances by reforming domestic tax collection. Non-oil tax revenue is equivalent to just 4% of GDP. An increase in the rate of value-added tax (VAT) from 5% to 7.5% in 2020 resulted in less revenue than forecast because of the recession. A wider tax base could help the budget, but this will require significant reform to reduce both tax evasion and a large informal economy.

Sources: Adapted from: World Bank in Nigeria Nov 2020
and: IMF News, African Department, February 2020
and: African Development Bank Group: Nigeria Economic outlook, 2021

(a) Compare the government budget balance of Nigeria in 2016 with the government budget balance in 2020. [2]

(b) Using a production possibility curve (PPC) diagram, demonstrate the impact of the rising level of unemployment on the Nigerian economy. [2]

(c) Consider the extent to which the removal of fuel subsidies in Nigeria would lead to an increase in inflation. [4]

(d) Assess whether using supply-side policy is the best way to diversify the Nigerian economy away from its dependence on oil and natural gas exports. [6]

(e) Assess whether adjusting the collection of direct tax or indirect tax is likely to be more effective in increasing the tax revenue collected by the Nigerian government. [6]

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Section B

Answer **one** question.

EITHER

2 **(a)** With the help of a diagram(s), explain what is meant by consumer surplus and producer surplus **and** consider whether a rise in the price of a product because of higher costs of production is likely to always reduce the consumer surplus. [8]

(b) A government wishes to keep the price of an essential food, such as rice, affordable to help low-income households.

Assess whether a policy of fixing the maximum price for an essential food is likely to be more effective than a policy of making transfer payments to low-income households. [12]

OR

3 **(a)** With the help of a diagram(s), explain what is meant by equilibrium in a market **and** consider the extent to which the equilibrium price and equilibrium quantity are likely to change for a product following an increase in the wages for labour across the whole economy. [8]

(b) Entrepreneurs are vital in an economy to achieve long run economic growth.

Assess whether encouraging entrepreneurship or increasing another of the factors of production will be a more effective way to achieve long-run economic growth. [12]

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Section C

Answer **one** question.

EITHER

4 **(a)** Two countries each produce two products and wish to trade with each other.

Explain the difference between the principles of absolute advantage and comparative advantage **and** consider whether the principle of comparative advantage is always the more important influence when each country is deciding whether to trade with each other. [8]

(b) Assess whether protectionism is the best way to correct a deficit in the current account of the balance of payments. [12]

OR

5 **(a)** Explain the difference between cost-push and demand-pull inflation **and** consider which is more likely to occur if there is a depreciation in the exchange rate of a country with few natural resources. [8]

(b) Assess whether monetary policy is the only way to control a high rate of inflation. [12]

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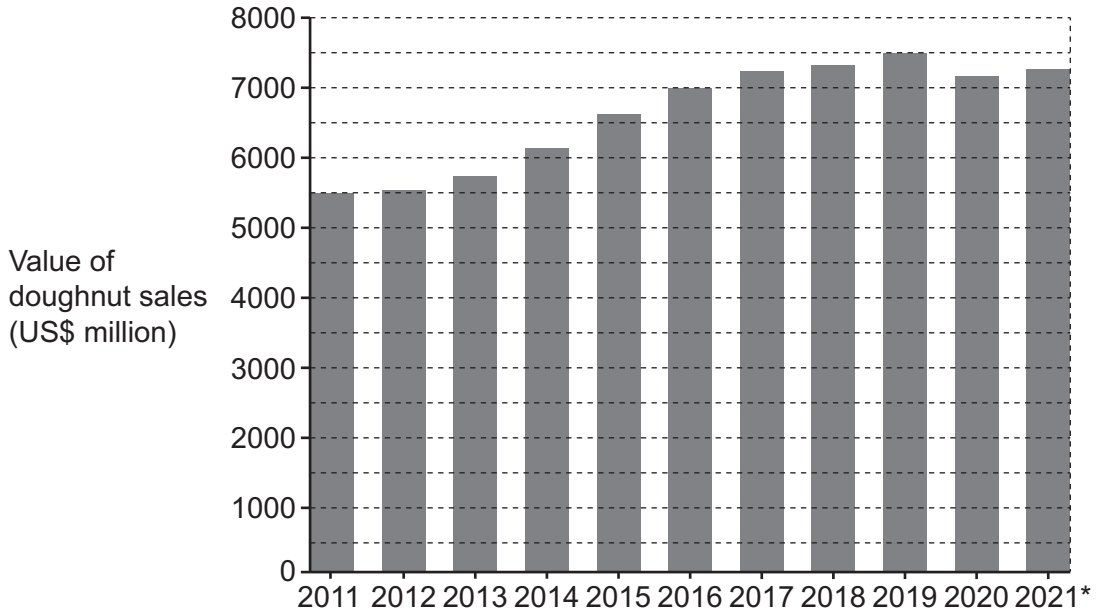
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Section A

Answer all parts of Question 1.

1 Are doughnuts demerit goods?

Consumers love to eat doughnuts. In 2019, 10 billion of these deep-fried sugar-coated products were consumed in the United States (US). Fig. 1.1 shows that the US market increased steadily from 2011 to 2019. Doughnuts are widely available throughout the US. There are specialist shops selling their branded products almost everywhere; local coffee shops invariably sell 'hole in one' doughnuts as a popular breakfast snack to tempt consumers on their way to work. The growing number of shops selling doughnuts has been an important reason behind overall market growth.



* Data for 2021 is estimated

Source: ibisworld.com, March 2021

Fig. 1.1 Doughnut market size in the US, 2011 to 2021

The COVID-19 pandemic has had a varying impact on the US doughnut market. Despite having less income, many consumers have continued to buy small luxuries such as doughnuts which remain affordable and can provide some short-term relief from the stresses of the pandemic. Overall, sales of doughnuts fell in 2020 and are forecast to remain below their 2019 peak into 2021. Reasons for this fall in demand are that consumers are making fewer shopping trips and in cities, more people are working from home and therefore not buying their daily coffee and doughnut snack.

In the United Kingdom (UK), more so than in the US, there are growing concerns about the increase in sugar consumption amongst children. This increase comes from soft drinks, chocolate biscuits and sweets (candy) as well as from jam-filled doughnuts, all of which are widely available in supermarkets and local convenience stores. In 2021, it was estimated that a third of teenagers and two thirds of adults in the UK were overweight. This has increased the pressure on the UK government to end online advertising of a range of products including doughnuts. It has been estimated that viewing one minute of advertising for products like doughnuts leads to a child consuming an additional 14.2 calories. Moreover, a ban on advertising sugary foods would result in children consuming the equivalent of 62 million fewer doughnuts a year in the UK.

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(a) Using the data in Fig. 1.1, calculate the percentage change in the value of sales of doughnuts in the US from 2011 to 2019. [2]

(b) Explain **one** reason why the US market for doughnuts contracted in 2020. [2]

(c) Comment on whether the demand for doughnuts in the US is income elastic or income inelastic. [2]

(d) Explain why a doughnut might be regarded as a demerit good. [2]

(e) With the help of a diagram, assess how the market for sugary foods in the UK might be affected by a ban on online advertising. [6]

(f) Assess the likely effects on UK consumers and the UK government of a ban on online adverts for sugary foods. [6]

Section B

Answer **one** question.

EITHER

2 **(a)** Explain, with the help of examples, the significance of the size and sign of the coefficient of income elasticity of demand for the classification of a good **and** consider how confident you are of this classification. [8]

(b) When the price of a product changes, it usually changes the consumer surplus in the market.

Assess how variations in price elasticity of demand for a product determine the extent of changes in consumer surplus in a market. [12]

OR

3 **(a)** Explain why government intervention may be required to provide merit goods **and** consider why such intervention may not always be successful. [8]

(b) Assess the effectiveness of government intervention through buffer stock schemes in agricultural markets. [12]

Section C

Answer **one** question.

EITHER

4 **(a)** With the help of a circular flow of income diagram, explain how equilibrium is determined in an open economy **and** consider whether a budget deficit or a trade deficit is more likely to cause lasting disequilibrium. [8]

(b) Assess whether an increase in investment in new infrastructure projects will always have a positive impact on the circular flow of income in an economy. [12]

OR

5 **(a)** Explain how monetary policy may be able to reduce the rate of inflation in an economy **and** consider the likely success of this policy. [8]

(b) Assess how governments use macroeconomic intervention to achieve their macroeconomic objectives. [12]

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