Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/22**

Paper 2 AS Level Data Response and Essays **February/March 2025**

2 hours

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.

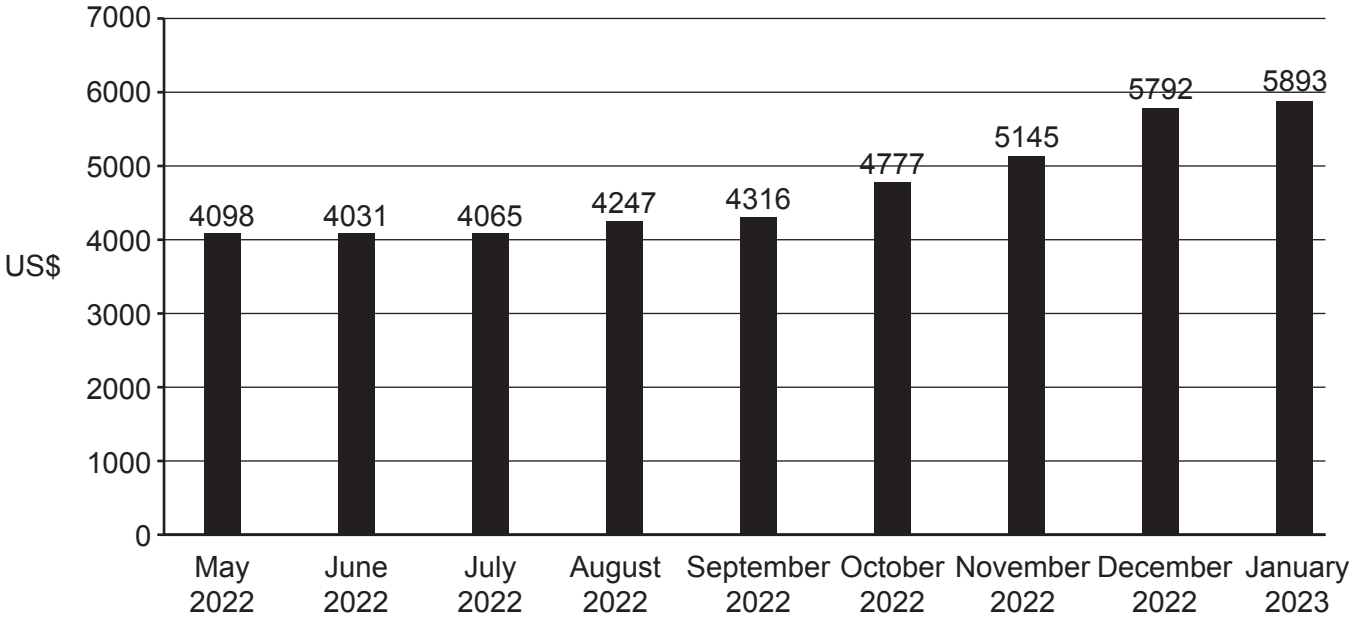
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Section A

Answer all parts of Question 1.

1 **A global olive oil shortage**

Almost every kitchen in the United States (US) will pay the price for the intense heat and drought in Europe in the summer of 2023. Olive harvests in key countries were so poor that some analysts were concerned that there would be a shortage of olives to produce enough olive oil to meet the demand around the world. The dramatic reduction in output of this typical household cooking oil has resulted in the consumer price of olive oil rising between 30% and 50% across the US. At the same time, the US dollar has fallen in value against Europe's main currency (the euro), further adding to the price increase of olive oil.



Source: ycharts.com

Fig. 1.1 World price of olive oil, May 2022 to January 2023 (US$/tonne)

In Spain, olive production was forecast to be down by about 50% in 2023, which would make it the lowest since 2008. The wide-scale drought conditions across Southern European and other Mediterranean countries significantly impacted on the global supply of olives, since about 80% of global output comes from these regions.

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Source: DG Agri olive oil dashboard

Fig. 1.2 European Union (EU) production of olive oil, 2017 to 2023

Restaurants and commercial kitchens are desperately trying to find a solution to the olive oil shortage, but alternatives are scarce too. Sunflower oil is a top choice for an olive oil replacement, but the conflict in Ukraine, which is the biggest producer of sunflower oil, has made this substitute increasingly difficult to access.

Previously, the US would look to other countries for olive oil, but supply chains have been severely disrupted. Olive oil does not store very well as its quality deteriorates over time, so increasing stocks does not solve the problem. It is perhaps unsurprising that analysts are recommending investment into new methods of storage that will preserve the quality of the olive oil. This would allow stocks to increase after good harvests to help stabilise prices during future periods of poor harvests.

Source: Adapted from: Olive oil prices climbing after heat, drought in Europe leads to poor harvest, Foxweather, 21 February 2023

(a) Using Fig. 1.1, calculate the percentage change in the world price of olive oil between May 2022 and January 2023. [2]

(b) Some restaurants and commercial kitchens are using sunflower oil as an alternative to olive oil.

Explain how economists could measure the impact of rising olive oil prices on the demand for sunflower oil. [2]

(c) With reference to Fig. 1.2 and the help of a demand and supply diagram, consider the possible impact of increased olive oil prices in 2023 on consumer surplus. [4]

(d) Assess the likely impact of increasing stocks of olive oil on the price and quantity of olive oil traded in the future. [6]

(e) Assess the extent to which a fall in the value of the US dollar against the euro is likely to affect US imports of olive oil from the EU. [6]

Section B

Answer **one** question.

EITHER

2 **(a)** With the help of a production possibility curve (PPC) diagram, explain the terms scarcity and choice **and** consider the extent to which every choice has an equal opportunity cost. [8]

(b) Assess whether the allocation of resources in a market economy is always beneficial. [12]

OR

3 **(a)** Explain the difference between a public good and a private good (economic good) **and** consider the extent to which a beach could be described as a public good. [8]

(b) Assess the extent to which a subsidy is likely to be the best method to increase the consumption of a merit good. [12]

Section C

Answer **one** question.

EITHER

4 **(a)** With the help of a formula, explain **two** reasons for an improvement in the terms of trade **and** consider the extent to which an improvement in the terms of trade will benefit an economy. [8]

(b) Assess the extent to which the consequences of free trade are always positive for an economy. [12]

OR

5 **(a)** With the help of an AD/AS diagram, explain what is meant by an expansionary fiscal policy **and** consider the extent to which an expansionary fiscal policy will always increase the level of aggregate demand. [8]

(b) Assess the extent to which supply-side policy is the best method to reduce the rate of inflation. [12]

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