Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **October/November 2020**

1 hour 30 minutes

2742646130

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. Blank pages are indicated.

© UCLES 2020

Section A

Answer this question.

1 Latvia becomes a banking capital between the European Union's (EU's) east and west

Latvia regards itself as a financial bridge between Europe's east and west. Since the Soviet Union's collapse in 1991, Latvia (population 2.2 million) joined the EU (population 510 million) in 2004. It has since built itself into a banking centre for people from all parts of Europe and many other parts of the world, although its reputation as a financial centre has been growing since 1988 when two entrepreneurs founded a private bank, Parex Bank, in the capital, Riga.

In the early years of the 21st century, favourable credit conditions in Latvia contributed to an economic boom, but in the global financial crisis of 2007–2008 Parex Bank, by then Latvia's second biggest bank, needed government assistance and was nationalised.

The financial crisis caused Latvia's annual inflation rate to rise rapidly to 17.7% in May 2008, which was significantly higher than its average annual inflation rate of 3.7% for the period 1998–2018.

In 2008, the Latvian government decided to substantially reduce the size of the budget deficit, in an attempt to reduce the relatively high rate of inflation, through a series of fiscal measures such as increasing taxation and reducing public spending.

Latvia emerged from the global financial crisis to become the EU's fastest-growing economy. The intention was that Latvia would eventually join the EU's common currency (the euro). Fig. 1.1 below shows the exchange rate of Latvian Lats (the country's former currency) per euro from 2007 to 2013.

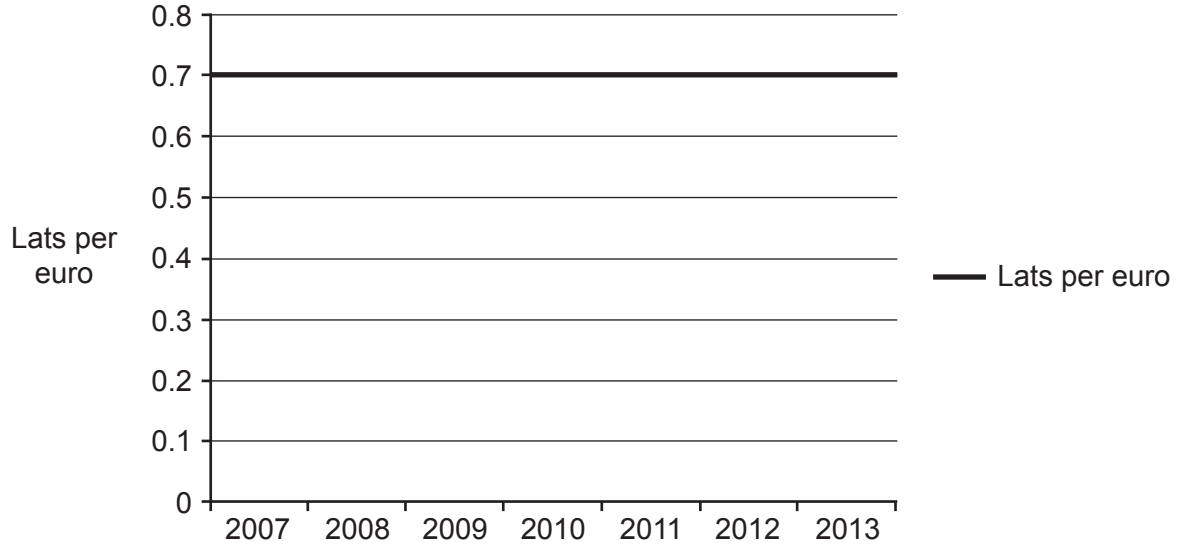


Fig. 1.1 Exchange rate of Latvian Lats per euro, 2007–2013

In January 2014, Latvia did join the euro and this was welcomed by business leaders and economists in Latvia, stating that it would improve Latvia's credit rating and attract foreign investors. The governor of Latvia's central bank said: "The euro brings stability and certainty, definitely attracting investment."

© UCLES 2020

However, not everybody in Latvia supported the introduction of the euro. Many people thought that Latvia would lose a certain amount of economic independence and that it would lead to an increase in prices and taxes.

Sources: Adapted from The Financial Times 20 February 2018
Latvijas Banka, accessed October 2018

(a) Describe the functions of an entrepreneur in the production process. [2]

(b) When Latvia joined the EU it became part of a customs union.

How does a customs union differ from a free trade area? [2]

(c) As a result of the global financial crisis in 2007–2008 there was a large capital outflow from Latvia.

Use a supply and demand diagram to explain how the exchange rate against the euro was maintained as shown in Fig. 1.1. [4]

(d) **(i)** Explain what is meant by a 'budget deficit'. [2]

(ii) Analyse, using a diagram, how fiscal measures to reduce the budget deficit could be used by the Latvian government to lower the relatively high rate of inflation. [4]

(e) Discuss whether it is better for Latvia to specialise in banking services rather than having a more diversified economy. [6]

Section B

Answer **one** question.

2 **(a)** Explain, with the help of examples, how imperfect information among consumers affects their consumption of merit goods and demerit goods. [8]

(b) Discuss why in most mixed economies, resources are mainly allocated using market forces and the price mechanism. [12]

3 **(a)** Cross elasticity of demand for bread with respect to the price of rice is +1.4 while the cross elasticity of demand for bread with respect to the price of butter is –0.7.

Explain why the cross elasticity of demand figures for bread differ. [8]

(b) Explain the implications of price elasticity of demand and income elasticity of demand for business decisions. Discuss which measure is likely to be more useful to a business. [12]

4 **(a)** Explain, with the aid of a diagram, the impact of a subsidy to domestic producers of a product on the export revenue from that product. [8]

(b) Discuss whether supply-side policies are an effective way of correcting a deficit on an economy's current account of the balance of payments. [12]

© UCLES 2020

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 Assessment International Education Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cambridgeinternational.org after the live examination series.

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

© UCLES 2020

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay **October/November 2020**

1 hour 30 minutes

6991593100

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. Blank pages are indicated.

DC (TC/SG) 187561/3
© UCLES 2020

[Turn over

PapaCambridge

Section A

Answer this question.

1 **Ice cream producers struggle with record vanilla prices**

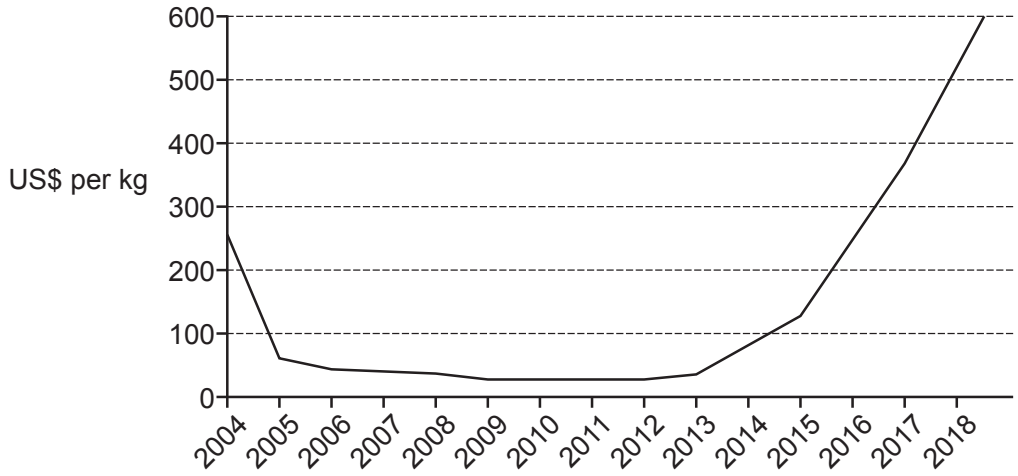


Fig. 1.1 Vanilla Prices, January 2004 to May 2018 (US dollars per kilogram)

The price of natural vanilla hit a record high of US$600 per kilogram in May 2018, making it even more expensive than silver. As a result, many ice cream producers are considering whether they should raise their prices or perhaps stop selling the vanilla flavour of ice cream. The price of natural vanilla has been rising sharply since March 2017 when a cyclone hit Madagascar, which accounts for 75% of global production. Natural vanilla represents 20% of Madagascan exports, worth around US$600 million at current prices.

Natural vanilla comes from the vanilla orchid, which produces vanilla beans. Madagascar has the perfect climate and soil for growing vanilla, but poor harvests have reduced the country's vanilla production by more than 20%, leading to a worldwide supply shortage. It takes three years for the plant to start producing. So if there is a sharp rise in price, people plant more, but then it takes three years for the new supplies to reach the market.

Vanillin is a synthetic substitute to natural vanilla that can be used in the production of ice cream. It is made from more reliable sources of plentiful raw materials, such as wood pulp and petroleum and it has been falling in price. For many years, some of the world's largest producers of ice cream replaced natural vanilla with vanillin. A consequence of this falling demand for natural vanilla was that Madagascar's farmers earned very low returns and many ceased growing natural vanilla. Surprisingly, despite there being fewer growers, the price of natural vanilla stayed low between 2005 and 2012.

However, from 2012, concerns about possible health risks arising from the use of vanillin caused some producers to use more natural vanilla in their ice cream production process. For example, in 2015, one of the world's largest ice cream producers announced plans to end their use of vanillin and use only natural ingredients by 2020. In recent years, however, the sharply rising price of natural vanilla has persuaded some ice cream makers to consider turning back to vanillin. As a result, some of the leading producers of ice cream have more than a year's stock of vanillin.

Source: Hong Kong Economic Journal, 9 May 2018

© UCLES 2020

PapaCambridge

(a) With reference to the extract and Fig. 1.1, use supply and demand diagrams to explain the change in the price of natural vanilla

(i) from 2004 to 2009 [3]

(ii) from 2015 to 2018. [3]

(b) Ice cream producers can use natural vanilla or vanillin to produce ice cream.

(i) State the concept that an economist would use to measure the responsiveness of the demand for natural vanilla to a change in the price of vanillin. [1]

(ii) Explain the value that you would expect for this measurement. [3]

(c) Explain why the price elasticity of supply of ice cream made with vanillin is likely to be relatively more elastic than the price elasticity of supply of ice cream made with natural vanilla. [4]

(d) Discuss whether the recent rise in the price of vanilla is on balance likely to have a positive or negative impact upon Madagascar's economy. [6]

Section B

Answer **one** question.

2 In some countries vaccinations against infectious diseases are offered at a price and payment has to be made.

(a) Use a diagram to explain how a subsidy given to producers in the market for vaccinations will affect the market price and explain the impact of this subsidy upon the consumer surplus in this market. [8]

(b) If the cost of the subsidy is to be paid from tax revenues, discuss whether the revenue should be raised through direct taxes or indirect taxes. [12]

3 **(a)** Explain how the factor of production enterprise contributes to aggregate supply in a modern economy and how it differs from the other factors of production in terms of the reward for its services. [8]

(b) Explain how aggregate demand is likely to be affected by an increase in the money supply and consider whether the impact of such an increase will be on employment or on the general price level. [12]

4 China's terms of trade index fell from 102.1 in March 2018 to 99.7 in April 2018.

(a) State how the terms of trade are measured, and explain **three** possible causes of the fall in China's terms of trade shown above. [8]

(b) Discuss whether a rise in the terms of trade or a fall in the terms of trade is more likely to be of benefit for an economy. [12]

© UCLES 2020

PapaCambridge

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 Assessment International Education Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cambridgeinternational.org after the live examination series.

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

© UCLES 2020

PapaCambridge

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/23**

Paper 2 Data Response and Essay **October/November 2020**

1 hour 30 minutes

9900643376

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. Blank pages are indicated.

DC (PQ/SW) 189237/3
© UCLES 2020

[Turn over

Section A

Answer this question.

1 Malaysia's persistent trade surplus

Malaysia has the third highest income per head in South East Asia and, in the last six years, has experienced an average rate of growth approaching 6% per year. It is now a successful 'newly industrialised market economy' with a strong export sector. This strength is seen in its consistent surplus on its balance of trade in goods and services (see Fig. 1.1).

In the past, Malaysia's economy was firmly based on the production of basic raw materials such as rubber and tin. In more recent years, however, its growing prosperity has come about through it being a leading exporter of electrical appliances, electronic parts, petroleum and natural gas. China is its biggest export market, accounting for 16% of total exports in 2016, and a further 11% of exports go to the European Union (EU). Malaysia's economy though remains vulnerable to external shocks like the global financial crisis of 2007–2008, which led to capital outflows.

Despite what appears to be a strong external trade position, the foreign exchange rate of Malaysia's currency, the ringgit (RM), against the US dollar has experienced significant change since 2013 (see Fig. 1.2). Given the importance of trade in goods and services to its economy, any volatility and uncertainty of the ringgit's value may well hinder Malaysia in its drive to become a 'high income economy'.

Source: adapted from tradingeconomics.com/articles, accessed April 2018

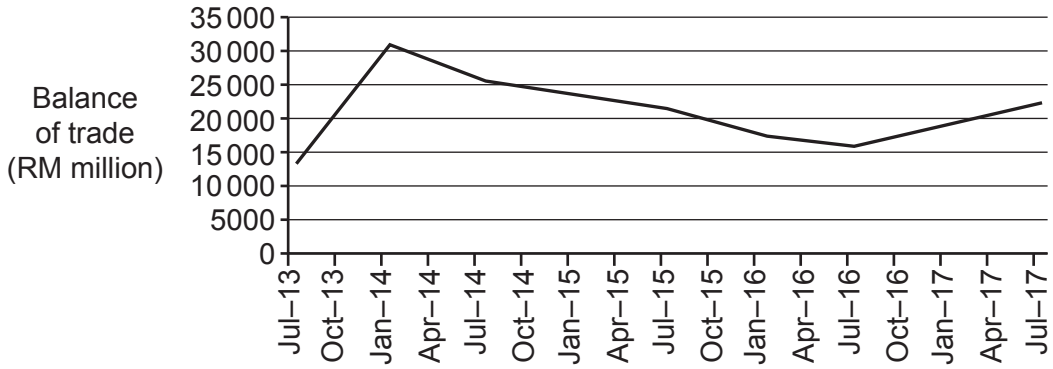


Fig. 1.1 Malaysia balance of trade in goods and services, July 2013–July 2017 (RM million)

Source: tradingeconomics.com, accessed April 2018

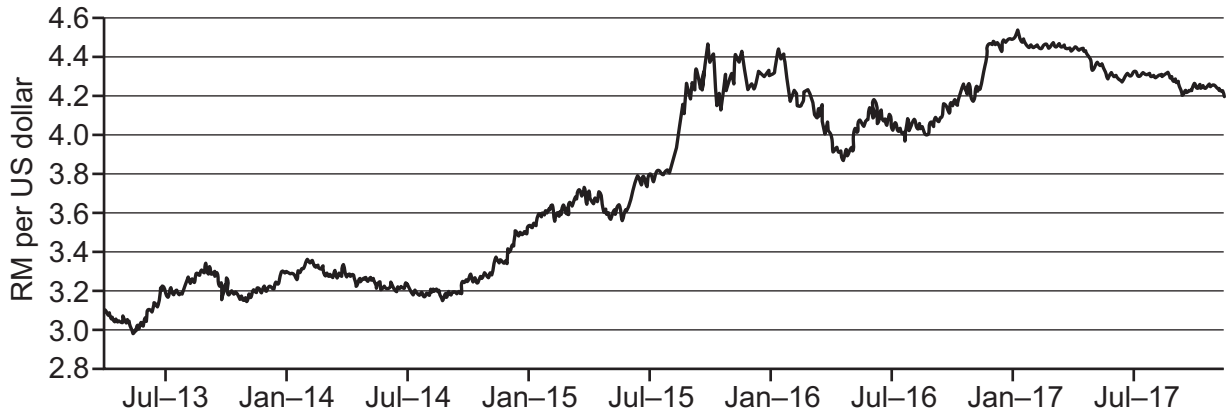


Fig. 1.2 Malaysia/US foreign exchange rate, July 2013–July 2017

Source: US Federal Reserve

© UCLES 2020

(a) State whether the Malaysian ringgit depreciated or appreciated against the US dollar over the period July 2013 to July 2017. Justify your answer. [2]

(b) **(i)** Describe the relationship you would expect between a change in the foreign exchange rate of a country and its balance of trade in goods and services. [2]

(ii) Explain whether the evidence in Fig. 1.1 and Fig. 1.2 confirms this relationship. [2]

(c) In July 2017, Malaysia's balance of trade in goods and services was RM22 045 million and its current account balance was RM9642 million.

Explain the reason for this difference. [2]

(d) Other than exchange rate changes, explain **two** possible reasons for Malaysia's increasing balance of trade in goods and services surplus from July 2016 to July 2017. [6]

(e) Discuss whether the Malaysian government should be concerned about persistent surpluses in its balance of trade in goods and services. [6]

Section B

Answer **one** question.

2 **(a)** Using diagrams, explain what might cause a market to be in disequilibrium, and how market forces would lead to equilibrium being restored. [8]

(b) Discuss whether the incidence of an indirect tax on a product always affects its consumers more than its producers. [12]

3 **(a)** Explain what is meant by income elasticity of demand and, with the help of examples, show how it can be used to determine whether a good is normal or inferior. [8]

(b) Discuss whether knowledge of price elasticity of demand or price elasticity of supply is more useful for a car manufacturer. [12]

4 A government embarks on a supply-side policy involving substantial additional funding for new road schemes and for new training schemes designed to raise labour productivity.

(a) Use an AD/AS diagram to explain the effects of this funding on the level of output in the economy. [8]

(b) Discuss the extent to which a supply-side policy involving new road schemes and new training schemes will increase the rate of inflation in the economy. [12]

© UCLES 2020

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 Assessment International Education Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cambridgeinternational.org after the live examination series.

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

© UCLES 2020