Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 AS Level Data Response and Essays **October/November 2023**

2 hours

5318992527

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.
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INFORMATION

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Section A

Answer all parts of Question 1.

1 **Economic growth in Taiwan**

In 2021, Taiwan's economy is forecast to grow at its fastest rate in seven years, encouraged by increasing global demand for its technology products. Gross domestic product (GDP) is expected to rise by 4.6% in 2021.

Exports from Taiwan's electronics industry include gaming devices, laptops, devices that aid cloud computing and semiconductors for car production. Taiwan is able to take advantage of a global shortage of semiconductors and it is estimated that exports will grow by 9.6% in 2021, the strongest export growth since 2017. A Taiwanese company is the world's largest producer of semiconductors, and it plans to increase its capital investment by as much as US$28 billion in 2021 to help meet the shortage of semiconductors.

Consumption expenditure in Taiwan is also expected to grow by 3.7% in 2021 which would be the fastest rate of growth in 17 years.

It is significant that the expected growth in GDP in 2021 is higher than the expected rate of increase in the consumer price index (CPI), as is shown in Table 1.1.

Table 1.1 Selected economic data for Taiwan, 2021

	Previous forecast (November 2020)	Latest forecast (February 2021)
Nominal GDP growth (% per year)	3.8	4.6
CPI increase (% per year)	1.2	1.3
Export sales growth (% per year)	4.6	9.6
Trade balance (US$ billion)	57.8	63.9

The growth in the demand for Taiwan's exports has contributed to an appreciation of more than 7% in the Taiwan dollar against the US dollar during 2020. Taiwan had a trade surplus of US$58.8 billion in 2020 and this is expected to rise to US$63.9 billion in 2021. This increase is likely to appreciate the value of the Taiwan dollar further.

Sources: Adapted from: Forbes magazine, 22 February 2021
and: Bloomberg, 20 February 2021

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(a) Using the data in Table 1.1, calculate the expected growth in Taiwan's real GDP in 2021, based on the latest forecast. [2]

(b) State **two** internal causes of economic growth for Taiwan in 2021 and consider which of these is more likely to generate long-term economic growth. [4]

(c) Explain why the Taiwan dollar appreciated in 2020. [2]

(d) Assess whether the effects of the appreciation of the Taiwan dollar on the terms of trade will benefit all industries in Taiwan. [6]

(e) Assess the possible consequences of a higher rate of economic growth for an economy such as Taiwan. [6]

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Section B

Answer **one** question.

EITHER

2 **(a)** With the help of a diagram, explain what could cause an increase in demand for a product **and** consider whether the impact of an increase in demand on the price of the product will be the same in the short run and the long run. [8]

(b) Assess whether price elasticity of demand (PED) or income elasticity of demand (YED) is likely to be of greater importance to a firm producing cars. [12]

OR

3 **(a)** Explain why a government might decide to increase its direct provision of essential goods and services **and** consider whether such a policy is always likely to be successful. [8]

(b) Governments sometimes fix maximum prices on goods for different reasons.

Assess whether the use of a maximum price is always advantageous. [12]

Section C

Answer **one** question.

EITHER

4 **(a)** Explain the reasons why governments impose taxes **and** consider whether an increase in income tax is fairer than an increase in sales taxes. [8]

(b) Assess whether a government should always aim to balance its budget rather than have a budget surplus or a budget deficit. [12]

OR

5 **(a)** Explain the difference between an import tariff and an import quota **and** consider why a government would choose an import tariff rather than an import quota as a tool of protection in international trade. [8]

(b) Assess whether the theories of absolute and comparative advantage are substantially undermined by their various limitations. [12]

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Section A

Answer all parts of Question 1.

1 Electric cars create challenges for oil producers

Oil companies are facing uncertainty in 2020 as the COVID-19 pandemic causes a collapse in demand for their product, but car producers are predicting the pandemic will help accelerate the use of electric cars. Looking ahead, cuts in investment by oil companies as their revenues fall could reduce supply enough to cause a rise in oil prices. This makes electric cars more attractive just as car producers increase production.

Table 1.1 Selected data from the oil and car industries, 2014 to 2020

	2014	2015	2016	2017	2018	2019	2020
Average real global price of oil (US$ per barrel)	93.2	48.5	43.3	50.8	65.2	57.0	39.7
Global sales of electric cars (millions)	N/A	0.6	0.8	1.3	2.1	2.2	2.3

Sources: Macrotrends.net and World Economic Forum

However, the rise of electric car sales could slow within the next few years due to a worldwide shortage of the supply of lithium needed for car batteries. Demand for lithium could triple by 2025 to one million tonnes per year and then double again to two million tonnes per year by 2030. A typical lithium mine produces 30 000 tonnes per year which means the market needs approximately four new mines per year to meet demand. However, it usually takes about six years to discover, develop and put a lithium mine into production.

Rising global sales of electric cars are impacting on world oil producers. The boom years for the oil industry are over as economies start to deal with climate change. This will have significant implications for petrostates (countries whose economies are almost totally reliant on oil and gas).

Volatile oil prices, as illustrated in Table 1.1, have already left many petrostate governments struggling. The governments of most Middle Eastern oil producing countries cannot maintain a balanced budget at the 2020 average oil price of around US$40. Years of unstable oil revenues have left these countries with significant levels of national debt.

Venezuela offers a cautionary tale. Serious mismanagement has caused its oil output in 2020 to drop to about 10% of its 2000 level. Gross domestic product (GDP) has fallen by more than 75% in the past 5 years and more than 5 million people have left the country.

The solution is diversification. Wealthy Middle East states, such as Oman and Saudi Arabia, are investing in renewable energy and international tourism. Attempts at change by less wealthy petrostates such as Venezuela are hampered by a lack of capital at home and because they are often unable to attract international investors. As a result, they tend to focus on short-term rather than long-term economic growth.

Ultimately, many petrostates are likely to need outside support to diversify their economies. In addition to financial aid, it is suggested that wealthy countries should also offer technical assistance such as retraining workers, help designing new tax systems and support with the adoption of renewable energy.

Sources: Adapted from: Matthew Green and Simon Jessop, Reuters, 19 May 2020 and: STV news PA Media, August 2021 and: energymonitor.ai/policy, April 2021

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(a) Using the data in Table 1.1, calculate the percentage change in the average real global price of oil between 2014 and 2020. [2]

(b) Explain why the price of oil on the world market fell in 2020. [2]

(c) With the help of a diagram, explain why the supply problem referred to may lead to increases in the price of electric cars in the future and consider **one** policy that may be used to overcome this supply problem. [4]

(d) Explain whether unemployment caused by the diversification of petrostates away from oil and gas production is likely to be cyclical or structural and consider which type of unemployment is likely to be more damaging to these economies. [6]

(e) Assess whether diversification is likely to be more successful in Venezuela or Saudi Arabia as they reduce their dependence on oil production. [6]

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Section B

Answer **one** question.

EITHER

2 **(a)** With the help of a formula, explain what is meant by the term price elasticity of demand for a product **and** consider the extent to which it allows an entrepreneur to determine the effect of price changes on the total expenditure on their product. [8]

(b) Assess whether the concept of price elasticity of supply or cross elasticity of demand will be more useful to a business wanting to increase its total sales in a growing economy. [12]

OR

3 **(a)** With the help of examples, explain the difference between free goods and public goods **and** consider the view that public goods can never be provided in a market economy. [8]

(b) The provision of merit and demerit goods differs from the provision of other private goods.

Assess the view that the consequences of imperfect information are more serious in a market economy than in a mixed economy. [12]

Section C

Answer **one** question.

EITHER

4 **(a)** Explain the difference between the terms of trade and the balance of trade in goods **and** consider whether an economy should be more concerned about its terms of trade than its balance of trade in goods. [8]

(b) Assess whether a rise or a fall in the terms of trade will benefit the macroeconomic performance of an open economy that is heavily dependent on international trade. [12]

OR

5 **(a)** With the help of a diagram(s), explain one reason for an increase in aggregate demand and one reason for an increase in aggregate supply **and** consider whether an increase in aggregate demand will always lead to inflation. [8]

(b) Assess whether the internal effects of inflation are more serious than the external effects of inflation for an economy. [12]

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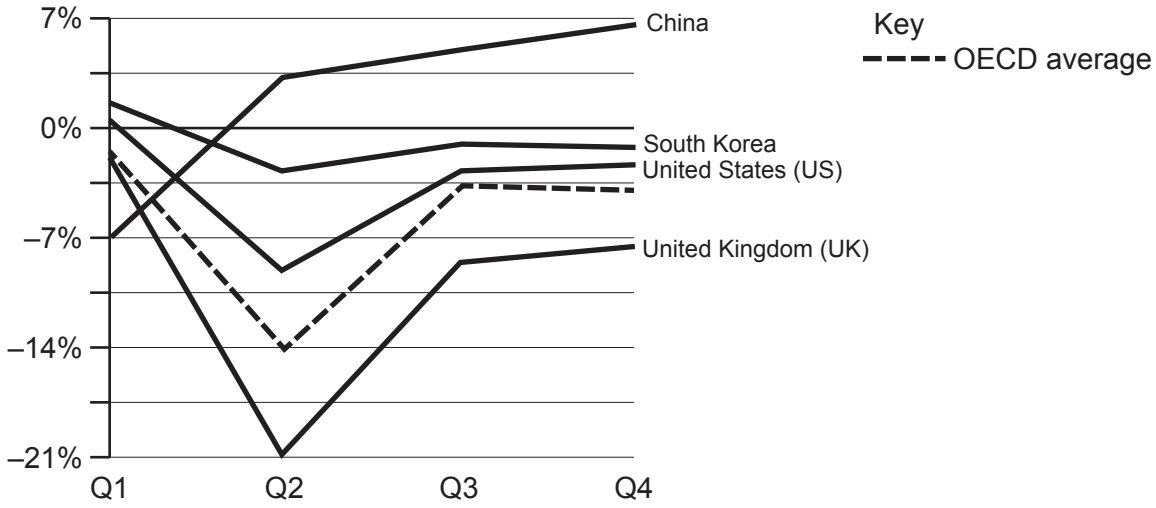
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Section A

Answer all parts of Question 1.

1 Varied responses to the COVID-19 pandemic

The COVID-19 pandemic had a very significant impact on the global economy in 2020. Negative economic growth rates were recorded for all major economies. The speed, unexpected and unprecedented nature of the downturns has been devastating for businesses, governments and populations. Individual economies reacted to the pandemic differently. Fig. 1.1 shows quarterly economic growth rates in 2020 for four selected countries compared to the OECD (Organisation for Economic Co-operation and Development) average.



Source: OECD, 2021

Fig. 1.1 Annual change to quarterly gross domestic product (GDP) in selected countries in 2020 compared to the OECD average.

China's economic performance in 2020 was the exception. China was the first country to experience the pandemic. It has also been the first economy to recover from recession, a period of two consecutive quarters of negative economic growth. The Chinese government was quick to enforce lockdowns to limit the pandemic and there was rapidly increasing demand for exports of PPE (personal protection equipment) and other Chinese-made products.

The case of neighbouring South Korea was different. Like China, the impact of the pandemic was more effectively contained than in other economies and growth in South Korea's economy was less affected. There was, however, little evidence in the data that by the end of 2020, South Korea's economy would recover to its pre-2019 position of strong economic growth.

The economies of the US and the UK had negative quarterly economic growth throughout 2020. Economists in these countries have disagreed about how best to increase the rate of economic growth after the pandemic. The governments of both countries introduced very high government spending programmes to encourage the return to economic growth in 2021. However, monetary policies have been widely promoted by many economists as an alternative to more traditional fiscal measures.

Source: OECD

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(a) Explain the meaning of 'negative economic growth'. [2]

(b) Which country shown in Fig. 1.1 experienced the most severe recession in 2020? Justify your answer. [2]

(c) State **two** likely economic reasons why China experienced strong economic growth starting in the second quarter of 2020 and consider which of these is likely to have generated the greater rate of growth. [4]

(d) Assess how economic recovery is likely to have affected employment and price stability in China. [6]

(e) Assess whether monetary policies are the best way for high-income countries such as the US and the UK to produce an economic recovery. [6]

Section B

Answer **one** question.

EITHER

2 **(a)** The price elasticity of supply (PES) for a new smartphone is estimated to be 0.8 in the short run and 1.8 in the long run.

Explain what these estimates mean for producers and consumers of smartphones **and** consider why the estimates differ. [8]

(b) Assess whether knowledge and understanding of price elasticity of demand (PED) or cross elasticity of demand (XED) is likely to be more useful to a producer of smartphones. [12]

OR

3 **(a)** Explain why the provision of bus and local rail (mass transit) services in cities is classified as a private good not a public good **and** consider why such services might only be provided by the private sector. [8]

(b) Assess whether bus and local rail systems in cities should receive substantial subsidies from governments. [12]

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Section C

Answer **one** question.

EITHER

4 **(a)** With reference to a country that is known to you, explain the main causes of unemployment **and** consider which of these causes is most significant. [8]

(b) Assess whether supply-side policy is the only way of reducing long-term unemployment in an economy. [12]

OR

5 **(a)** Explain how import tariffs might correct an imbalance in the current account of the balance of payments **and** consider whether these tariffs are the best way of correcting such an imbalance. [8]

(b) A country has a persistent deficit on the current account of its balance of payments.

Assess the likely consequences for the domestic and external economy of this country. [12]

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