Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 AS Level Data Response and Essays **October/November 2024**

2 hours

8815727313

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.

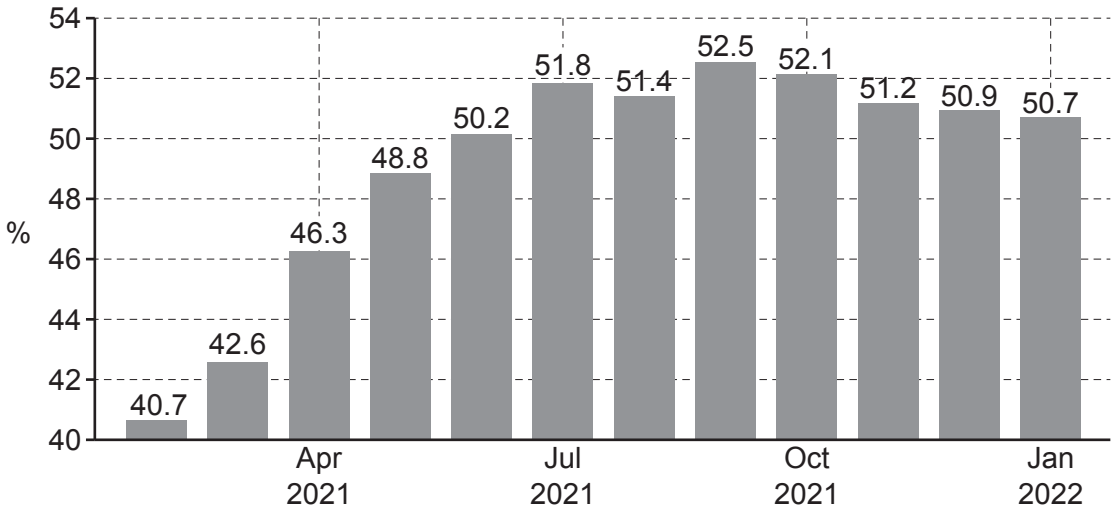
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Section A

Answer all parts of Question 1.

1 **Inflation in Argentina**

Argentina's annual inflation rate increased from just over 40% in February 2021 to just over 50% in January 2022. Argentina's annual inflation rate, as measured by changes in the consumer price index (CPI) over 12 months is shown in Fig. 1.1.



Source: tradingeconomics.com, 19 October 2022

Fig. 1.1 Annual rate of inflation in Argentina, February 2021 to January 2022

Argentina has the fifth highest inflation rate in the world after Venezuela, Sudan, Suriname and Zimbabwe. It is forecast to continue to rise during 2022 to reach an annual rate of between 55% and 58% by the end of the year. One of the main reasons for this high rate of inflation is excessive growth of the money supply. The need to lower the rate of inflation in Argentina is considered essential by many economists.

The government of Argentina has tried to control the increase in the rate of inflation by imposing maximum prices on 1432 products. This has the advantage of limiting price increases, but such a policy can also have a number of disadvantages. One such disadvantage is the creation of excess demand in markets.

Another policy has been to increase interest rates. In January 2022, Argentina's central bank raised its main interest rate from 38% to 40%, but many economists argued that this increase was insufficient to control inflation. This is because the real interest rate will be negative. A more appropriate monetary policy would be to lift the interest rate above the inflation rate so that the real interest rate will be positive.

Source: Adapted from: Buenos Aires Times, 15 February 2022

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(a) Using the data in Fig. 1.1, describe the trend shown in the annual inflation rate in Argentina over the period February 2021 to January 2022. [2]

(b) Explain what is meant by 'the real interest rate will be negative' in Argentina in January 2022. [2]

(c) Consider the extent to which having 'the fifth highest inflation rate in the world' is likely to be a problem for Argentina's economy. [4]

(d) Assess whether the potential benefits of introducing maximum prices on 1432 products in Argentina are likely to outweigh the potential disadvantages. [6]

(e) Assess the potential benefits and limitations of using monetary policy to control inflation in a country such as Argentina. [6]

Section B

Answer **one** question.

EITHER

2 **(a)** Explain the determinants of supply for an agricultural product, such as rice, **and** consider which of these determinants is likely to be of the greatest significance at the present time. [8]

(b) Assess whether the supply of agricultural products is likely to be more price elastic or less price elastic than the supply of manufactured products. [12]

OR

3 **(a)** With the help of a diagram, explain the significance of a position within a market economy's production possibility curve (PPC) **and** consider whether such a position is likely to be permanent. [8]

(b) Assess whether consumers always benefit when the government of a mixed economy reduces the role of the market mechanism in allocating resources. [12]

Section C

Answer **one** question.

EITHER

4 **(a)** Explain **two** possible causes of economic growth **and** consider whether the consequences of economic growth for an economy will always be positive. [8]

(b) Assess whether a government should always aim for an expansionary fiscal policy rather than a contractionary fiscal policy. [12]

OR

5 **(a)** Explain the potential advantages of free trade **and** consider whether such advantages are always greater than the potential disadvantages of free trade. [8]

(b) Assess whether an economy will always benefit from having a surplus on the current account of its balance of payments. [12]

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Section A

Answer all parts of Question 1.

1 Can economic growth in Chile reduce income and wealth inequality?

Chile is the world's biggest copper producer with 28% of global copper production and the second biggest producer of lithium with 22% of world production. Overall, mining contributes 11% of the country's Gross Domestic Product (GDP) and more than 50% of the value of the country's total exports. World copper and lithium prices have increased quickly since 2020. This has led to strong growth in GDP which is expected to increase by 3.5% in 2022, exceeding earlier estimates of 2.5% as world demand is expected to grow following the Covid-19 pandemic. Fig 1.1 shows the world price of copper in United States dollars (US$) per pound (lb) weight. A pound is 454 grammes.



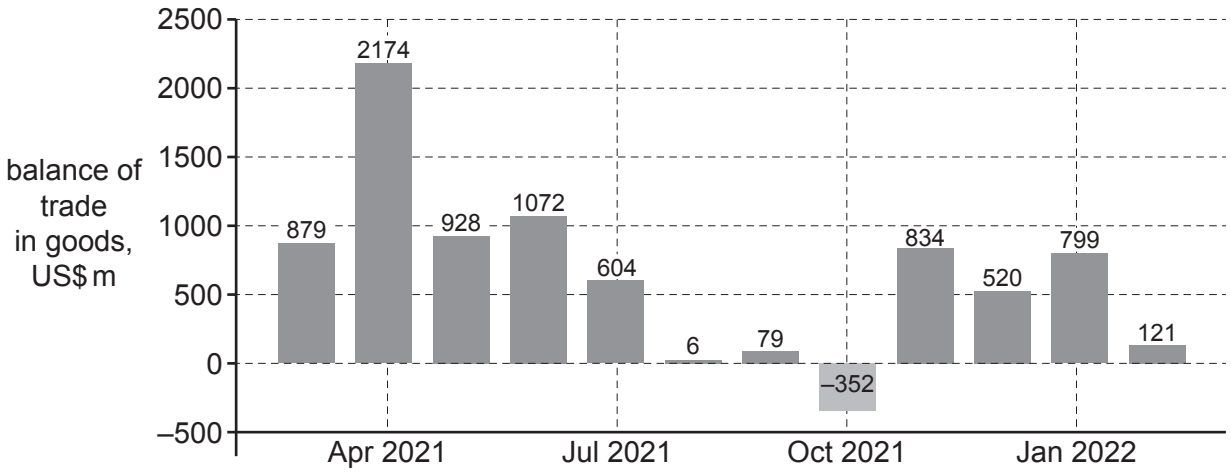
Source: *tradingeconomics, April 2022*

Fig 1.1: World copper price, 2017 to 2022

Economic growth in Chile has also been helped by the world's highest rate of vaccination against Covid-19 and a rapid economic recovery from the pandemic which has led to a large increase in consumer spending.

However, the trade in goods surplus has fallen substantially in February 2022. This is mainly because of a 9.2% fall in the revenue from copper exports due to the higher prices and a fall in world demand during the Covid-19 pandemic. There has also been a 38.3% increase in the value of imported consumer goods. As a consequence, the current account deficit has widened substantially to US$7.5bn in the first quarter of 2022 from a deficit of US$1.1bn in the first quarter of 2021 despite a surplus of US$50m in the secondary income account.

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Source: *tradingeconomics, April 2022*

Fig 1.2: Chile's balance of trade in goods, March 2021 to February 2022

One of the main benefits of Chile's increased prosperity in recent years has been a decline in the number of people living at or below the minimum income level of US$5.50 per day. However, Chile remains the most unequal country in the list of largely developed countries according to the Organisation for Economic Co-operation and Development (OECD) with an income gap 65% wider than the OECD average. In addition, although the Gini coefficient has fallen from 52.1 to 44.4, this is still higher than lower-income countries such as Haiti and El Salvador.

To try and reduce this inequality in income and wealth, the Chilean government has increased its expenditure on education from 3% of GDP in 1997 to 5.4% in 2018. Further recognition of the importance of education as a merit good is shown by the government increasing its education spending by 3.4% each year since 2018. Chile has also recently made all college tuition free of charge. It is hoped that this will reduce the gap in the quality of education received by the wealthiest and poorest students and open up opportunities for everyone.

Sources: Adapted from reuters.com 2 February 2022,
trade.gov/country-commercial-guides/chile-mining, 25 January 2022,
bcentral.cl/inicio and statista.com, April 2022

(a) Identify **two** possible reasons why the current account on the balance of payments in Chile is in deficit in the first quarter of 2022 despite the surplus on the balance of trade in goods. [2]

(b) Consider the likely success of **one** policy that Chile could use to reduce the imports of consumer goods. [4]

(c) Explain what is meant by the fall in Chile's Gini coefficient from 52.1 to 44.4. [2]

(d) Assess the extent to which 'the government increasing its education spending' may improve the incomes of poorer households in Chile. [6]

(e) Assess the likely impact of the rise in the world copper price from 2020 on the future economic growth of Chile. [6]

Section B

Answer **one** question.

EITHER

2 **(a)** With the help of a diagram(s), briefly explain how the cause of a movement along the demand curve differs from the cause of a shift in the demand curve **and** consider the impact on the demand for one good of price changes in other goods. [8]

(b) Assess whether knowledge of income elasticity of demand or price elasticity of demand for its product is more useful to a business aiming to increase the total expenditure on its product during a period of economic growth. [12]

OR

3 **(a)** With the help of a production possibility curve (PPC) diagram(s), explain the difference between constant and increasing opportunity costs **and** consider how choices in deciding which type of goods to produce in the short run may influence future economic growth. [8]

(b) Assess whether a market economy is always the best economic system to effectively answer the three basic questions of resource allocation. [12]

Section C

Answer **one** question.

EITHER

4 **(a)** Explain **two** methods of measuring unemployment **and** consider the extent of the possible difficulties in obtaining an accurate measurement of unemployment. [8]

(b) Assess whether supply-side policy is likely to be equally successful in reducing both structural and cyclical unemployment. [12]

OR

5 **(a)** With the help of examples, explain the difference between the marginal rate of taxation and the average rate of taxation **and** consider whether a government should decide to increase the rate of indirect tax to raise additional revenue. [8]

(b) Assess whether the achievement of a balanced budget should always be a main government macroeconomic objective. [12]

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Section A

Answer all parts of Question 1.

1 **Global coffee bean prices reach a new high**

Coffee is big business, especially in the United States (US). The global market was worth nearly US$110 bn in 2020, with production around 10 m tonnes of coffee beans. 95% of this production came from thousands of small-scale producers in South America, Central America, Asia and Africa. If present trends continue, production is forecast to triple by 2050. The Arabica coffee bean price was at a 10-year high in January 2022, having more than doubled in 2021. Fig. 1.1 shows the world price of coffee in United States dollars (US$) per pound (lb) weight. A pound is 454 grammes.



Source: tradingeconomics.com, 18 February 2022

Fig. 1.1: Arabica coffee bean price, 2002 to 2022

So how can this huge price increase be explained? The main cause was a series of weather events affecting Brazil, the world's largest producer of high quality Arabica coffee beans. Its market share is 35% of total global supply. There was severe drought in early 2021 that reduced the number of 'cherries', which contain the beans on coffee bushes. The crop yield was further damaged by frosts that followed the drought. As a result of these weather events, Brazil produced its smallest volume of quality coffee beans for ten years.

In addition, the production of cheaper low-quality Robusta coffee beans in Vietnam was badly affected by storms which stripped the bushes of their 'cherries'. Overall, there was a very large decrease in the global supply of all coffee beans.

Supply issues affecting major producing countries like Brazil and Vietnam mean that the volume of coffee beans produced regularly fluctuates between 'high' years and 'low' years. Producers try to reduce their risks through buffer stock schemes in order to maintain a regular income stream. This type of scheme is particularly important for the many small-scale subsistence producers who have no other source of income.

The dramatic weather events of 2021 have been exceptional, although a few large-scale producers in Brazil who survived the immediate impact of drought and frost should gain from the huge rise in the price of coffee beans. But what about the thousands of other producers elsewhere who lack power in the market? The most likely outcome is that they will once again become victims of the unpredictable global market for coffee beans.

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(a) Use a demand and supply diagram to show why there was a 'huge' increase in the price of Arabica coffee beans in 2021. [2]

(b) Is the price elasticity of supply of coffee beans likely to be elastic or inelastic in any one year? Justify your answer from the information provided. [2]

(c) Consider whether a buffer stock scheme is likely to be successful in reducing the price fluctuations shown in Fig. 1.1. [4]

(d) Assess the extent to which coffee bean producers will gain from the huge increase in coffee bean prices in 2021. [6]

(e) Assess the likely impact of the fluctuations in coffee bean prices on the economies of major producers such as Brazil and Vietnam. [6]

Section B

Answer **one** question.

EITHER

2 **(a)** With the aid of examples, explain the characteristics of public goods and free goods **and** consider whether free-of-charge vaccinations offered by a government should be classified as a free good. [8]

(b) Assess whether the expected benefits of providing healthcare services free of charge at the point of use exceed the likely costs. [12]

OR

3 **(a)** Explain **two** economic reasons for inequality in the distribution of income and wealth **and** consider why inequality in the distribution of wealth cannot easily be measured. [8]

(b) Assess which policies are likely to be most effective in redistributing income. [12]

Section C

Answer **one** question.

EITHER

4 **(a)** In 2021, year-on-year inflation in many economies increased to a level not experienced for fifty years.

With the help of a diagram, explain what is meant by cost-push inflation **and** consider whether this type of inflation has affected your own economy since 2021. [8]

(b) Assess whether the potential benefits of an increasing rate of inflation outweigh the potential costs for an economy. [12]

OR

5 **(a)** Explain **two** methods of protection in international trade **and** consider which of these is likely to have the bigger impact on employment and output in the economy which imposes them. [8]

(b) Assess whether protectionism is always the best way of reducing a deficit on the current account of the balance of payments. [12]

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