Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 AS Level Data Response and Essays **October/November 2025**

2 hours

1461351986

You must answer on the enclosed answer booklet.

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- Answer **three** questions in total:
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- 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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Section A

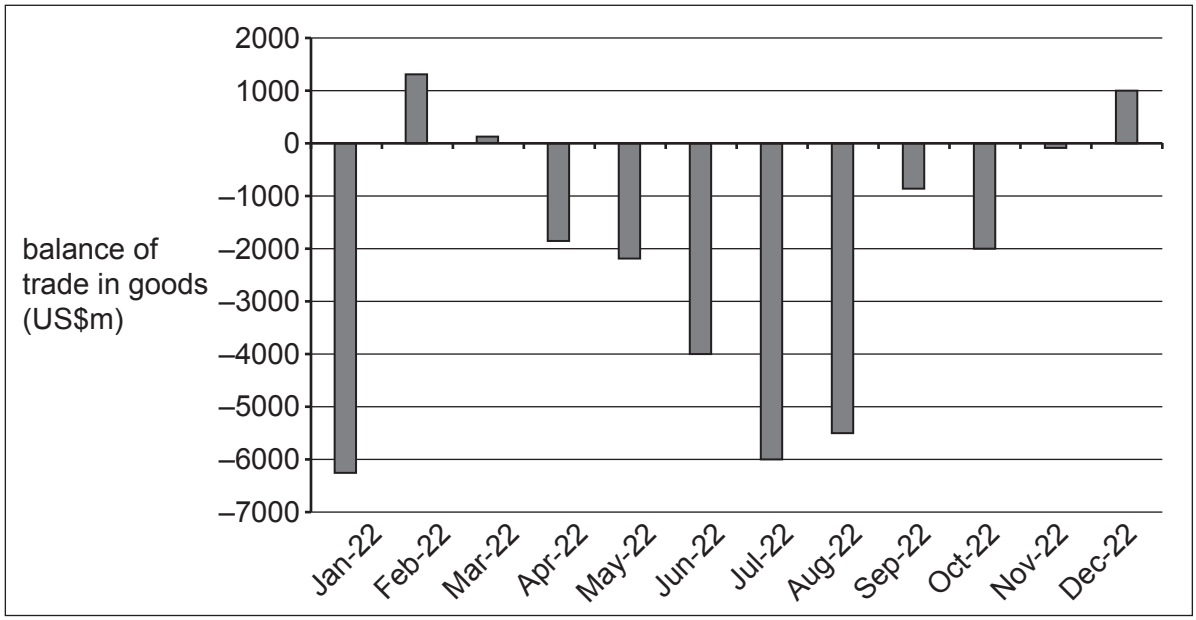
Answer all parts of Question 1.

1 Mexico's backward-looking energy policy is bad for the country and the planet

In 2023, Mexico's energy policies looked increasingly out of step with those in the rest of the world. The Mexican President reversed recent reforms of Mexico's energy market. These reforms increased the role of private sector firms. He changed the balance of the mixed economy by prioritising state-owned companies and stressed that Mexico should produce its own energy rather than importing it.

The government invested in a new oil refinery and decided to keep coal-fired power stations running. It also gave state-owned electricity and oil companies priority over private sector rivals, so it was harder for private firms to obtain permits to generate electricity or to explore for oil.

Mexico has traditionally exported crude oil and imported natural gas. However, the new plan is that the oil will be used to generate the country's electricity. There has been a global shift towards energy self-sufficiency but it is unclear whether Mexico has the capacity to produce enough electricity for its 130 million people. There may also be an impact on the country's balance of trade in goods which was in deficit for nine months of 2022, as shown in Figure 1.1.



Source: tradingeconomics.com

Fig. 1.1 Mexico's balance of trade in goods, January 2022 to December 2022

Energy is likely to become more expensive. Operating costs of the state-owned electricity producers are significantly higher than their private sector rivals. Its old and inefficient plants are expensive to maintain. These costs will be passed on to the consumer, either directly or by the government having to spend more on subsidies to keep down the price.

The environment will also suffer. Mexico will see less investment in renewable energy because of its change in energy policy. In the past, domestic and foreign firms in the private sector did much of the investing. The policy change means that Mexico is unlikely to meet its pledge to produce 35% of its electricity from renewable sources by 2024.

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The impact of the energy policy may be felt in the economy more broadly. The earlier energy reforms had helped to bring manufacturers to Mexico by making power cheaper and more reliable. Now the uncertainty is deterring investors.

The opportunity cost of Mexico's new energy policy is huge. Economists reckon that Mexico could have produced almost half its electricity from renewable sources long before its target of 2050. Multinational companies were looking at Mexico as an alternative location to other countries, but because of Mexico's change in energy policy, those companies are likely to go elsewhere.

Source: Adapted from: 'Mexico's energy policy', The Economist, The World Ahead 2023, published 2022

(a) Using the information provided, explain whether Mexico is a mixed economy. [2]

(b) Explain what is meant by 'The opportunity cost of Mexico's new energy policy is huge.' [2]

(c) Consider the extent to which direct provision of electricity in Mexico through state-owned companies may be advantageous to consumers. [4]

(d) With the help of a diagram, assess whether the potential advantages of providing a subsidy to keep down the price of electricity in Mexico will outweigh the potential disadvantages. [6]

(e) Assess the potential benefits and limitations of Mexico keeping its oil to generate the country's electricity. [6]

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[Turn over

Section B

Answer **one** question.

EITHER

2 **(a)** With the help of a formula, explain what is meant by price elasticity of demand for a product **and** consider the importance of time in determining whether demand for the product is likely to be relatively price elastic or relatively price inelastic. [8]

(b) Assess whether knowledge of a product's income elasticity of demand is more important to a firm producing it than knowledge of its cross elasticity of demand. [12]

OR

3 **(a)** With the help of examples, explain the nature and characteristics of free goods and private goods (economic goods) **and** consider the significance of the distinction between these two types of good. [8]

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

Section C

Answer **one** question.

EITHER

4 **(a)** Explain the possible causes of frictional unemployment and technological unemployment **and** consider whether some element of frictional unemployment is inevitable in an economy. [8]

(b) Assess whether the consequences of technological unemployment are likely to be more serious than those of cyclical unemployment. [12]

OR

5 **(a)** Explain **two** tools of protection used by a country when trading internationally **and** consider whether one is likely to have more of an impact on the country's economy than the other. [8]

(b) Assess whether all consumers, all producers and the government in a country will benefit equally from protectionism. [12]

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ECONOMICS **9708/22**

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2 hours

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Section A

Answer all parts of Question 1.

1 How do we make sure cocoa bean farmers get paid a living wage?

Chocolate is very big business.

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Perhaps the long-term solution is to reduce the country's dependence on cocoa bean exports and diversify into other products that can offer more and better paid job opportunities.

Source: Adapted from Reuters, 4 April 2023

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(a) **(i)** Identify **one** possible reason for the value of price elasticity of demand (PED) for chocolate. [1]

(ii) Calculate the percentage change in the value of global sales of chocolate between 2017 and 2026, as shown in Table 1.1. [1]

(b) With the help of a demand and supply diagram, demonstrate why cocoa bean prices continued to fall in 2023. [2]

(c) Consider whether a buffer stock system controlled by the government of Ivory Coast would be likely to prevent fluctuations in the price of cocoa beans. [4]

(d) Assess the extent to which the use of a minimum pricing policy would be the best way to ensure cocoa bean farmers get paid a living wage. [6]

(e) Assess the advantages and disadvantages of Ivory Coast continuing to specialise in the production and export of cocoa beans. [6]

Section B

Answer **one** question.

EITHER

2 **(a)** With the help of a diagram, explain the difference between producer surplus and consumer surplus **and** consider the extent to which producers always gain when the price of a product increases due to higher costs of production. [8]

(b) Assess the view that a business should be more concerned about the income elasticity of demand for its product than its cross elasticity of demand when incomes are falling. [12]

OR

3 **(a)** With the help of a diagram, explain the difference between a movement along a production possibility curve (PPC) and a shift of this curve **and** consider whether a decision to produce more of one product will always incur an equal opportunity cost. [8]

(b) Assess the extent to which it is always necessary to increase the size of the labour factor of production in order to cause an outward shift of the production possibility curve. [12]

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Section C

Answer **one** question.

EITHER

4 **(a)** Explain **three** components of the current account of the balance of payments **and** consider the extent to which a depreciation in the exchange rate will always lead to a surplus on the current account. [8]

(b) Assess the extent to which the use of supply-side policy would be the best way to reduce a deficit on the current account of the balance of payments. [12]

OR

5 **(a)** With the help of an aggregate demand and aggregate supply (AD/AS) diagram, explain why **two** components of AD may increase **and** consider the extent to which an increase in AD will always lead to inflation. [8]

(b) Assess the view that the effects of a high rate of inflation are always more damaging for consumers than for firms. [12]

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Section A

Answer all parts of Question 1.

1 Malaysia's uncertain economic prospects

Malaysia is an emerging middle-income country. Its increasing population is an important factor in promoting future economic growth. The country, however, faces two underlying problems. First, the fertility rate, the average number of children a woman can expect to give birth to, has fallen consistently as Malaysia's economy has developed. This rate is now below the critical level where a population replaces itself. Second, Malaysia has an ageing population, with an increasing proportion of its population over 65 years of age. In 2015 the average age of Malaysia's population was 28.2 years; in 2030 it is forecast to reach 34.1 years. Malaysia's forecast total population to 2027 and its ageing population from 2017 to 2022 are shown in Figs. 1.1 and 1.2 below.

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Fig. 1.1 Total population of Malaysia, 2017 to 2027

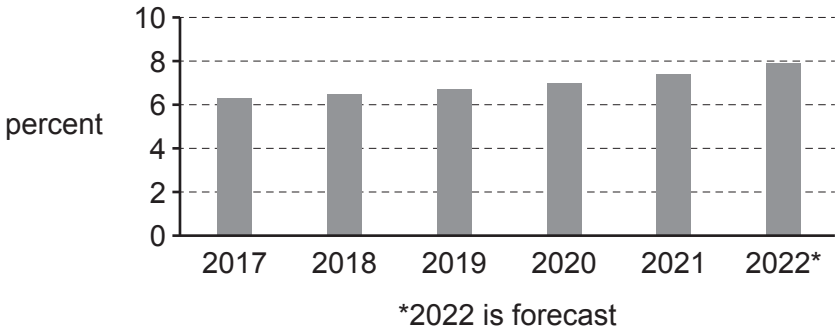


Fig. 1.2 Share of population older than 65 years in Malaysia, 2017 to 2022

The key issue for Malaysia's government is whether it is prepared for this fundamental shift in its population. There is plenty of scope for optimism. The economy appears to have recovered from the shock of the COVID-19 pandemic. Its growth rate in 2021 and the 2022 forecast was above the government's target of 5.1%, with substantial growth in exports of electrical and electronic goods, palm oil, gas and oil supplies. Unemployment is below 4% and the current account of the balance of payments was projected to have a record surplus in 2022.

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Economists, however, fear that Malaysia's government and its people are not ready to meet the challenges of an ageing population. In a recent survey, 70% of respondents felt it was the duty of the young to take care of the elderly, but they were also concerned that the economy could not cope with the pressure on its human capital and other resources. More resources will have to be allocated to meet the needs of the elderly.

It was further argued that Malaysia needed a proper plan for dealing with this situation. According to one economist, free childcare for working parents was essential and tax incentives should be used to keep more elderly workers in employment.

Source: Saw Yee Fung, Low rates impact on Malaysia's human capital and economic development, The Star (KL) 15 October 2022.

(a) Use the information in Figs. 1.1 and 1.2 to compare the change in Malaysia's total population from 2017 to 2022 with the change in its ageing population from 2017 to 2022. [2]

(b) Explain **one** example of 'what to produce' in Malaysia that may have to change in order to meet the needs of its ageing population. [2]

(c) With the help of a production possibility curve (PPC) diagram, consider the extent to which Malaysia's productive capacity is likely to change with its projected change in total population. [4]

(d) Assess whether the Malaysian government should provide free childcare to working parents. [6]

(e) Excluding net exports, assess the likely impact of the change in Malaysia's total population on aggregate demand. [6]

Section B

Answer **one** question.

EITHER

2 **(a)** In 2022 the supply of root ginger from Nigeria, Africa's biggest producer, fell by 20%. Market demand was expected to grow by more than 5%.

With the help of a demand and supply diagram, explain how the market equilibrium for root ginger in Nigeria is likely to change **and** consider how certain you are of the new market price. [8]

(b) Assess the ways in which producers of root ginger might be able to stabilise their incomes. [12]

OR

3 **(a)** The Gini coefficient for South Korea was estimated to be 0.39 in 2019 and 0.33 in 2022.

Explain what this data means, how it might be used by the government of South Korea **and** consider its usefulness. [8]

(b) Assess why it is easier for a government such as that of South Korea to redistribute income rather than redistribute wealth. [12]

Section C

Answer **one** question.

EITHER

4 **(a)** For your economy or for one that is known to you, explain **three** causes of inflation **and** consider which of these causes is likely to be most important in 2025. [8]

(b) Assess whether supply-side policy or demand-side policy is the better way of reducing this inflation. [12]

OR

5 **(a)** Explain **two** reasons why an economy may have a deficit on the current account of its balance of payments **and** consider whether its government is likely to be concerned about this deficit. [8]

(b) Assess whether it is better to use protectionist policies or contractionary policies to reduce a deficit on the current account of the balance of payments. [12]

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Section A

Answer all parts of Question 1

1 Will stronger economic growth in the United States (US) lead to high inflation?

The US has experienced stronger economic growth than countries in Europe and elsewhere since the COVID-19 pandemic. In terms of Gross Domestic Product (GDP), it had particularly strong growth over the fourth quarter of 2023 of 3.3%. This far exceeded economists' expectations of 2%. This means that annual growth for 2023 was 2.5% which was better than other high-income economies. It is on target to do the same in 2024 as shown in Fig 1.1.

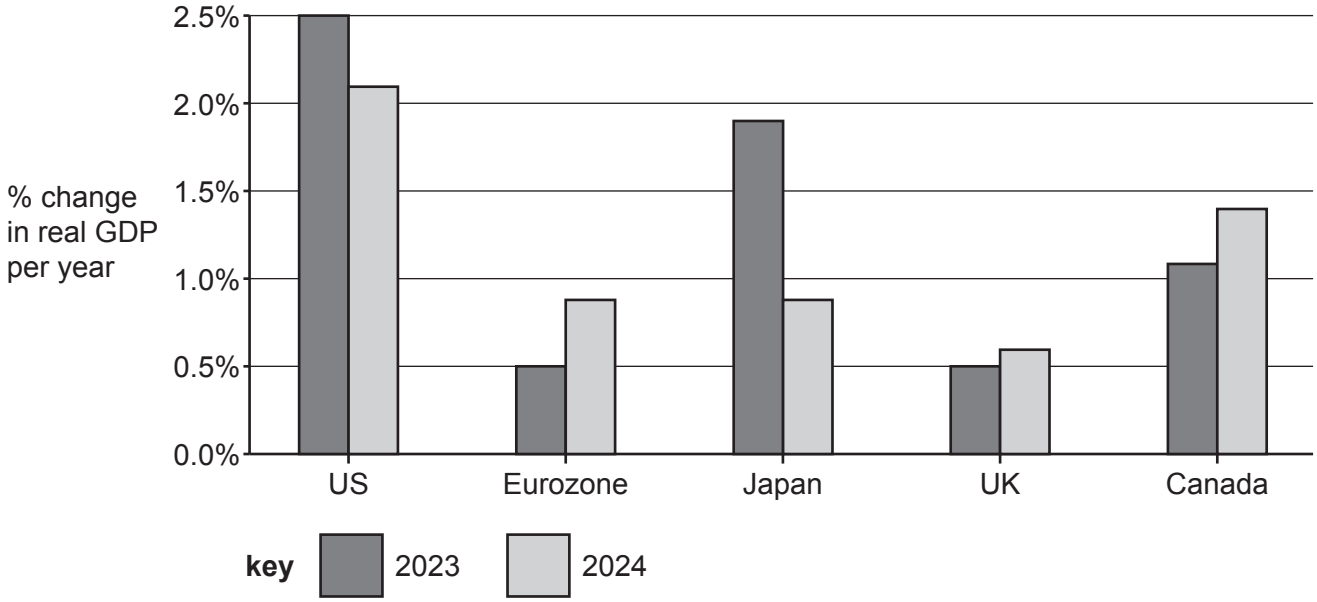


Fig. 1 International Monetary Fund (IMF) economic growth forecasts for 2023 and 2024

Economists have suggested that the strong economic growth in the US was caused by both demand and supply factors. In 2020, the US government responded to the COVID-19 pandemic by injecting US$5 trillion into the economy. Spending in many areas included more generous unemployment benefits and grants to small firms. This huge financial stimulus, much bigger than other countries, has been credited with maintaining consumer spending which represents 70% of aggregate demand.

On the supply side of the economy, existing flexible labour markets enabled firms to make workers redundant. This encouraged firms to invest in new technologies, leading to increased productivity and continued expansion in the long run. As firms expanded, they employed more workers causing disposable incomes to rise. Finally, the US is a net exporter of energy and therefore firms did not suffer the huge increase in energy costs faced by firms in Europe caused by the conflict in Ukraine. This has allowed the US to keep inflationary pressure under control.

In March 2024, however, the rate of inflation in the US rose much faster than expected as its level of unemployment fell, leading to an increase in consumer spending. Although this may lead to further economic growth and the benefits this brings, there are costs associated with inflation that may need to be dealt with. One policy that could be used is to increase interest rates, but US interest rates were already at their highest level for more than two decades because of earlier inflationary pressures. The hope had been that interest rates might start to fall, but now there are

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fears that any cuts in interest rates will be delayed or even worse, it might even be necessary to increase them further.

Sources: Adapted from BBC News articles: US economy sees surprisingly strong growth, 13 February 2024, US inflation jumps, 11 April 2024 and US jobs boom raises doubts about rate cuts, 5 April 2024

(a) Compare the forecast rates of economic growth for the US and Eurozone between 2023 and 2024. [2]

(b) Explain **one** reason why the IMF uses percentage change in real GDP and not percentage change in nominal GDP when measuring economic growth. [2]

(c) Explain, with the help of a diagram, why an increase in productivity in US firms may reduce the price of their products and consider whether this will always be the outcome. [4]

(d) Assess whether the costs of inflation are always likely to be greater than the benefits of inflation for the US. [6]

(e) Assess the extent to which maintaining interest rates at a high level will be the best policy for the US to control inflation. [6]

Section B

Answer **one** question.

EITHER

2 **(a)** Explain what is meant by the incidence of an indirect tax **and** consider the extent to which it is possible for the incidence to pass from a producer of a good to a consumer of that good. [8]

(b) Assess the extent to which a government should subsidise the production of merit goods to increase the consumption of these goods. [12]

OR

3 **(a)** Explain what determines elastic and inelastic price elasticity of supply (PES) **and** consider the extent to which the value of PES may differ between an agricultural good and a manufactured good. [8]

(b) Firms will often try to estimate elasticity values to judge the possible success of decisions to change prices or to introduce new products.

Assess the extent to which an understanding of income elasticity of demand (YED) may be more useful than cross elasticity of demand (XED) in increasing the income from sales for a firm. [12]

Section C

Answer **one** question.

EITHER

4 **(a)** Using **two** tools of protection, explain what is meant by protectionism **and** consider the extent to which these two tools may benefit an economy. [8]

(b) Assess the extent to which the principle of comparative advantage should be the main factor to consider when countries decide whether to trade with each other. [12]

OR

5 **(a)** Explain the difference between structural unemployment and cyclical unemployment **and** consider the extent to which structural unemployment is likely to be more damaging to an economy than cyclical unemployment. [8]

(b) Low unemployment is a macroeconomic policy objective for a government.

Assess the extent to which this is most likely to be achieved by supply-side policy. [12]

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