Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **October/November 2022**

1 hour 30 minutes

5459822026

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. Any blank pages are indicated.

© UCLES 2022

Section A

Answer this question.

1 Governments and markets

Prices, according to economists, are determined by supply and demand. In many times and places, however, prices have been set by governments. For example, in January 2020, the government of Argentina updated its list of maximum prices, setting guidelines for over 300 products. Consumers, via a smartphone app, can report any prices of these products that are above the maximum.

The World Bank has collected data on the extent to which the governments of developing economies have intervened in markets to set prices. Table 1.1 shows the results of this research.

Table 1.1: Government intervention in product markets to influence prices in developing economies

Product market	Percentage of governments intervening in the market to influence price	Examples
Energy	89	Petrol in Iran
Food	76	Bread in Benin Rice in Haiti
Building materials	13	Cement in Burkina Faso

Source: Adapted from 'In a fix', The Economist, 11 January 2020

Governments generally impose price controls for one of three reasons:

- to redistribute income in an economy: maximum prices help the poor afford the necessities of life, whereas minimum prices support the livelihoods of farmers
- to stabilise a market: governments use stocks to smooth fluctuations in the price of a commodity like cocoa, buying when there is excess supply in the market and selling when there is excess demand
- to control inflation: maximum prices have been used in many countries

Many economists have been critical of the use of price controls by governments. In a market without government intervention, a product's price acts as a signal of its scarcity and an incentive to overcome scarcity. However, minimum prices can lead to food rotting in warehouses while maximum prices can lead to hoarding and black markets.

Another reason not to impose price controls in an economy is that they can be very unpopular. For example, in Santiago, the capital city of Chile, an increase in the minimum price on the public transport system led to widespread unrest in 2019. In the same year, the government of Iran decided to raise the minimum price of fuel sharply and suddenly, leading to a great deal of protest.

A representative of the World Bank has stated that one reason not to impose price controls in an economy is that they can be hard to remove, expressing the view that 'it is better not to have them in the first place.'

Source: Adapted from 'In a fix', The Economist, 11 January 2020

© UCLES 2022

(a) Explain how 'a product's price acts as a signal of its scarcity'. [2]

(b) Explain **one** possible reason why the Government of Iran may have decided to raise the minimum price of fuel in 2019. [2]

(c) Explain, with the help of a diagram, how an effective minimum price would affect the market for a basic food, such as rice in Haiti. [4]

(d) 'Governments use stocks to smooth fluctuations in the price of a commodity like cocoa.'

Consider whether government action to smooth fluctuations helps the workings of the price mechanism. [6]

(e) Discuss whether maximum price controls will always be effective in controlling inflation. [6]

Section B

Answer **one** question.

2 **(a)** Explain **two** factors that will determine the price elasticity of demand for a particular brand of car and how this price elasticity of demand may change over time. [8]

(b) Discuss whether knowledge of price elasticity of demand or income elasticity of demand would be of greater use to a business that produces cars. [12]

3 **(a)** Explain, with the use of a diagram(s), how the production possibility curve of an economy could be affected by a decrease in the quantity of labour available, but an increase in its quality. [8]

(b) Discuss whether supply side policies will be successful in increasing the quantity and quality of the factor enterprise in a modern economy. [12]

4 **(a)** Explain, with the use of a diagram(s), **two** factors that could bring about a depreciation in the value of a country's exchange rate in a freely floating exchange rate system. [8]

(b) Discuss whether protectionist policies would be the most effective way to correct a current account deficit on the balance of payments in an economy. [12]

© UCLES 2022

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 Cambridge Assessment. Cambridge Assessment is the brand name of the University of Cambridge Local Examinations Syndicate (UCLES), which is a department of the University of Cambridge.

© UCLES 2022