Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay **February/March 2016**

1 hour 30 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer this question.
Brief answers only are required.

Section B
Answer any **one** question.

You may answer with reference to your own economy or other economies that you have studied where relevant to the question.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **4** printed pages and **1** Insert.

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Section A

Answer this question.

1 The impact of changes in the world energy market

Extract 1: The growth of solar power

As technology continues to improve rapidly, solar power is now so cheap that it competes with oil. Around 29% of electricity generating capacity added in the United States (US) in 2013 came from solar power. The average price of solar power in the US has dropped from US$6 per unit in 2010 to US$2.59 per unit in 2014. It is expected that this fall will continue to US$2.30 per unit by 2015 and US$1.60 per unit by 2020. We have now entered an era of falling energy prices that must damage the producers of oil, gas and other fossil fuels.

Source: *Daily Telegraph*, 9 April 2014

Fig. 1: Crude Oil Prices, 2014



Source: Highcharts.com

Extract 2: Venezuela vulnerable to falling oil prices

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1 **(a)** Compare the trend in the price of crude oil between April 2014 and June 2014 with that between June 2014 and September 2014. [2]

(b) Use a demand and supply diagram to show the change in the average price of a unit of solar power referred to in the article. [2]

(c) **(i)** What formula would you use to measure the relationship between the change in the price of solar power and the change in the demand for oil? [1]

(ii) What would you expect this measure to show in this case? Explain your answer. [3]

(d) In Venezuela the state-owned industry sells gasoline (petrol) at a price below the market price. Explain the likely economic effects if the price mechanism were allowed to operate without government interference in Venezuela. [6]

(e) Venezuela was facing a recession, high inflation and the government had problems in balancing its budget. Controls on foreign exchange and imports have been used to keep the exchange rate of Venezuela's currency, the bolivar, stable. Discuss whether a devaluation of the bolivar might be considered a 'dangerous step' or the solution to Venezuela's economic problems. [6]

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[Turn over

Section B

Answer **one** question.

2 **(a)** Explain, using examples, why the prices charged for merit goods and demerit goods in a free market do **not** reflect the value to consumers. [8]

(b) Discuss the effectiveness of subsidies and indirect taxes in ensuring that the correct prices for merit and demerit goods are charged in the market. [12]

3 **(a)** Explain **two** factors that are likely to make the supply of a product relatively price-inelastic. [8]

(b) Discuss the policies that governments might use to increase the price elasticity of supply of essential goods, and assess the likely effectiveness of such policies. [12]

4 **(a)** Outline the components of aggregate demand and explain **one** cause of an increase and **one** cause of a decrease in aggregate demand in an economy. [8]

(b) Compare **two** policies that may be considered to solve the problem of demand-pull inflation and evaluate which is likely to be the more effective. [12]

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