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 2017**

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 **Question 1**.
Brief answers only are required.

Section B
Answer **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.

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Section A

Answer this question.

1 **Concern in Vietnam over trade with China**

Table 1: The Value of Vietnam's Trade in Goods with Selected Trading Partners: January–July 2014

	United States	China	Japan	South Korea	Germany
Exports of Goods (US$ billion)	15.9	8.6	8.5	3.7	2.9
Imports of Goods (US$ billion)	3.7	23.7	6.9	12.2	1.4

Source: Vietnam Customs

Tycoon to the rescue as cheap Chinese goods overwhelm Vietnam's economy

Vietnam is enjoying rapid growth but its small businesses are being overwhelmed by a huge influx of cheap, mass-produced goods from China. These goods are undercutting the prices of domestically produced items. A Vietnamese entrepreneur has a rescue plan designed to support new business start-ups. He has spent US$27 million developing his V+ shopping mall. He is now offering new businesses rent-free 50-year leases in the mall, which is located in Hanoi – as long as they sell only Vietnamese-made products. He is also urging the Vietnamese government to introduce this idea nationwide to prevent the closure of tens of thousands of businesses each year and encourage customers to buy Vietnamese products.

"China exports to the world at very, very low prices and that's put huge pressure on the Vietnamese economy," he explained. "I'm a businessman, I understand why firms can't develop. Without this kind of support, Vietnamese businesses will perish." China's recent devaluation of its currency, the yuan, triggered fears of China overwhelming Vietnam with even cheaper goods. As a result, Vietnam's central bank devalued the Vietnamese currency, the dong.

Despite the Vietnamese dislike of Chinese products, their prices make them unavoidable when Vietnamese businesses lack funds and household budgets are modest. There have been calls for boycotts of Chinese goods but they have all failed miserably.

An economist at the Asian Development Bank, however, said the V+ concept showed good intentions but the government should only support firms with the potential to compete. "There needs to be a change in the government's policy," he said. "It needs to move away from subsidies for all goods towards targeted subsidies for industries with the potential to compete."

Source: Martin Petty, The Times, 18 April 2015

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(a) **(i)** State the country shown in Table 1 that has the greatest deficit on its balance of trade in goods with Vietnam. [1]

(ii) Identify the **three** other components of the balance of payments that would allow you to calculate the current account balance of Vietnam with that country. [3]

(b) Explain any **two** factors that would determine the impact of China's decision to devalue the yuan upon Vietnam's trade with China. [4]

(c) Explain how subsidies for all Vietnamese goods **and** a boycott of Chinese goods are expected to help Vietnamese goods to compete with Chinese goods. Use supply and demand diagrams to support your answer. [6]

(d) Discuss whether the principle of comparative advantage would justify the support of Vietnam's government for the development of all industries in Vietnam or just those that have the potential to compete. [6]

Section B

Answer **one** question.

2 **(a)** Explain the difference between public goods and private goods. Consider why profit can be made through the supply of one type of good, but not the other. [8]

(b) Discuss why merit goods may be under-consumed in a mixed economy. Consider whether maximum prices or education campaigns would be more effective in ensuring that these goods are supplied in appropriate quantities. [12]

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

(b) Discuss the ways in which businesses might attempt to increase the price elasticity of supply of their products. Assess whether these attempts are likely to be successful. [12]

4 **(a)** Explain what is used as money in a modern economy. Consider how an increase in the money supply can cause inflation. [8]

(b) Discuss the consequences of high inflation. Consider whether the internal consequences can ever be more serious than the external consequences in an economy that has extensive foreign trade. [12]

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