Cambridge Assessment International Education

# Cambridge International AS & A Level

**ECONOMICS** **9708/22**

Paper 2 Data Response and Essay **February/March 2021**

**1 hour 30 minutes**

*7310552908*

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.


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## Section A

Answer this question

**1 Challenges for the Japanese economy.**

**Table 1.1 Japan: Selected Economic Indicators 2014–2019**

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*Source: Cabinet Office of Japan in IMF World Economic Outlook, April 2019*

**Extract 1: Japanese consumer prices rose by only 1.0% in 2018**

Japan is the world's third-largest economy and continues its long battle to boost weak inflation. The

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In an attempt to boost inflation, the BOJ has persevered with low interest rates, and has repeatedly said it is not going to stop using this strategy, even as other central banks around the world begin raising interest rates.

*Source: The Japan Times, 18 January 2019*

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**Extract 2: Japan's government ready to use fiscal policy to offset economic risks**

Japan's government has signalled its readiness to increase government spending next year if it is necessary to offset risks to the economy that are likely to arise from the trade war between the United States and China. These risks could add to the pressure on Japan's government to increase its spending ahead of a planned increase in sales tax in October 2019.

In a long-term fiscal policy plan, the government said it is ready to use macro-economic policy 'without hesitation' if a downturn in foreign economies poses risks to Japan's economy. Despite this, the Japanese government plans to raise the sales tax to 10% from 8% in October, and this would reduce consumption spending, which makes up roughly 60% of Japan's aggregate demand, at a time of slower demand from abroad. The previous sales tax rise to 8%, from 5%, in 2014 hit consumption and was blamed for a slump in the Japanese economy.

*Source: The Daily Times, 16 July 2019*

**(a)** Calculate the rate of inflation in Japan from 2014 to the estimate in 2019. [1]

**(b)** With reference to Table 1.1 identify **one** piece of evidence that suggests that Japan has **not** been using an expansionary fiscal policy before 2019. [1]

**(c)** Explain why deflation, as experienced by Japan, discourages consumption spending. [2]

**(d)** Use a diagram to explain what you would expect to happen to the Yen : US dollar exchange rate if the Bank of Japan continued with low interest rates, 'even as other central banks around the world begin raising rates'. [4]

**(e)** Discuss how continuing with an expansionary monetary policy is expected to boost inflation and consider whether it is likely to be successful. [6]

**(f)** Discuss whether increases in government spending can offset risks to Japan's economy if a downturn in foreign economies occurs. [6]

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**[Turn over**

## Section B

Answer **one** question

**2** **(a)** Use production possibility curve (PPC) diagrams to explain the effect on an economy's output of

**(i)** increased use of its existing labour, and

**(ii)** an increased availability of natural resources. [8]

**(b)** Discuss the view that supply side policies to increase the supply of labour to an economy are likely to be more successful than those designed to increase the supply of entrepreneurship. [12]

**3** **(a)** Explain how you would use the concept of cross-elasticity of demand to measure the impact on the demand for cars when there is a rise in the price of fuel for cars and when there is a rise in the price of public transport. [8]

**(b)** A government is deciding whether to impose import controls to protect its car manufacturing industry.

Discuss the factors that should be considered in this decision, and whether these import controls can be justified. [12]

**4** **(a)** Explain what is meant by equilibrium price and quantity in the market for a good and how price and quantity will be affected by both a rise in the wage rate paid to the workers producing the good and a rise in wages paid to all workers in the economy. [8]

**(b)** Discuss whether government policies to influence the free market price for a good can ever improve the allocation of resources in that market. [12]

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