Cambridge International AS & A Level

**Cambridge International Examinations**
Cambridge International Advanced Subsidiary and Advanced Level

**ECONOMICS** **9708/21**

Paper 2 Data Response and Essay (Core) **May/June 2014**

**1 hour 30 minutes**

No Additional Materials are required.

*0205298623*

**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 **3** printed pages, **1** blank page and **1** insert.


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## Section A

Answer this question.

### Problems put the brakes on India's economic growth

**1** With developed economies heavily in debt, the ability of the BRICs (Brazil, Russia, India and China) to drive the global economic engine is increasingly in doubt. China's growth has slowed to its lowest rate in three years. Brazil's growth has decreased and Russia is heavily dependent on oil and energy prices, which are falling. India's growth has slowed but is still high by the standards of developed countries, though well below the levels required to maintain economic momentum and improve the living standards of its citizens.

However, there are still positives in the Indian story. There is a youthful population, a large domestic demand and high savings. But India's economic difficulties, including its weak international position and inadequate infrastructure, threaten to overwhelm the country's potential. In critical sectors such as power, transport and utilities more investment is needed, and although its workforce is young and growing, there is a shortage of skills.

The country is running a current account deficit of more than 3% of GDP. The cause is slowing exports as a result of weakness in India's trading partners and higher imports, mainly purchases of commodities and oil (India imports around 75% of its crude oil).

In addition, India has a weak external position. It has around US$ 270bn in currency reserves. But foreign debts that must be repaid in the current year are about 40–45% of this amount.

*Source: Adapted from The Independent*

**Table 1: Selected Economic Indicators for India 2007–2013**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012* | 2013* |
|---|---|---|---|---|---|---|---|
| **Gross Domestic Product % change** | 10.0 | 6.9 | 5.9 | 10.1 | 6.8 | 4.9 | 6.0 |
| **Inflation Index 2001=100** | 130.7 | 141.7 | 157.1 | 175.9 | 191.5 | 211.1 | 231.5 |
| **Current Account Balance US$ billion (bn)** | –8.08 | –30.97 | –25.91 | –52.22 | –62.75 | –74.54 | –69.07 |
| **Exchange Rate: Indian Rupees per US$** | 41.3 | 43.5 | 48.3 | 45.7 | 46.6 | 52.1 | 52.9 |

*Forecast

*Source: The World Bank and other international organisations*

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**(a)** **(i)** Calculate the rate of inflation in India between 2001 and 2011. [1]

**(ii)** Calculate the expected rate of inflation in India between 2011 and 2013. [1]

**(b)** With the use of a production possibility curve explain the opportunity cost to India of choosing to produce transport facilities rather than education services. [4]

**(c)** Explain how the provision of improved transport facilities and education services might develop the productive potential of the economy in India. [4]

**(d)** India's exchange rate depreciated between 2010 and 2011.

With reference to the data explain, using supply and demand analysis, what might have contributed to this change in India's exchange rate. [4]

**(e)** Given the changes in the exchange rate shown in Table 1 between 2010 and 2013, discuss whether the changes in the current account balance over this period are what economic theory predicts. [6]

## Section B

Answer **one** question.

**2** **(a)** Explain whether you would expect the price elasticity of supply of an agricultural product, such as rice, in a market to be elastic or inelastic. [8]

**(b)** Discuss the extent to which a government can increase the supply of an agricultural product to an economy in the short-run and in the long-run. [12]

**3** **(a)** Explain the difference between private goods and public goods, and why it is possible for a business to make a profit in the supply of private goods but not in the supply of a public good. [8]

**(b)** Discuss the view that a market economy is always preferable to a planned economy because of the existence of the price mechanism. [12]

**4** **(a)** Explain what is meant by the term 'money' and outline its characteristics in a modern twenty-first century economy. [8]

**(b)** Discuss whether money is able to perform all of its functions in an economy that is experiencing a high rate of inflation. [12]

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Question 1 © Satyajit Das; Problems galore put the brakes on India's economic potential; The Independent; 06 November 2012.

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