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 2015**

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 **United States reduces dependence on foreign oil**

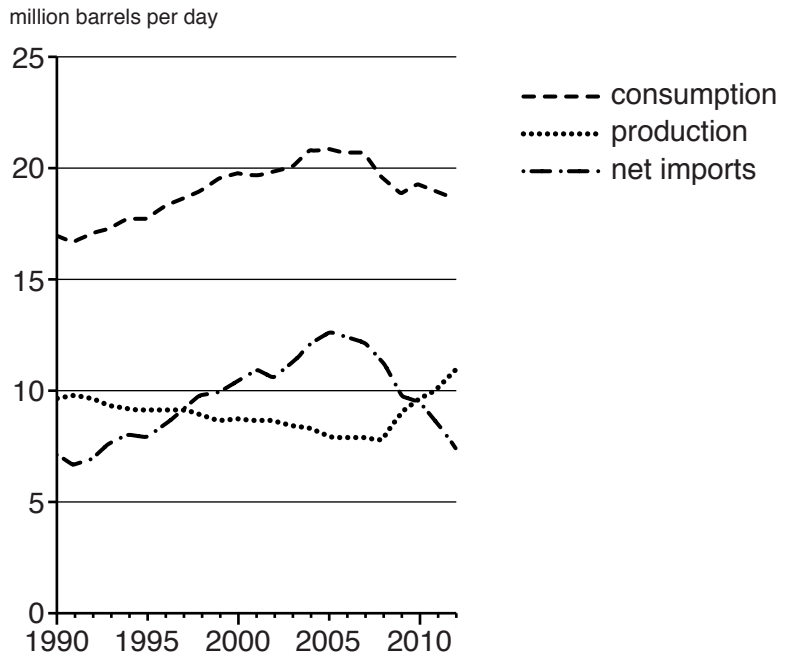
In 2001, a United States (US) energy report warned that by 2020 the US could be importing two-thirds of its oil. If US oil consumption continued rising and production continued falling, imports would increase from 10 million barrels per day to about 17.5 million per day.

The forecasts were both wrong. US oil production has soared while consumption has fallen. It now looks more likely that the US will have only limited, if any, net oil imports by the end of the decade. China has now replaced the US as the world's largest oil importing economy.

A new technique, known as hydraulic fracturing (fracking), has allowed access to new sources of oil in the US. As a result, US crude oil production has risen by 50% since 2008. In addition, the US now produces significant quantities of biofuel from corn ethanol. This is a substitute for gasoline (petrol) obtained from crude oil and its production has increased by more than 300% in recent years.

In addition to new US oil supplies, what has been happening to demand is just as important. Falling enthusiasm for cars among younger Americans has reduced the country's need for oil. Fewer young people are learning to drive and there have been declines in vehicle ownership per household and the total distance driven. At the same time, US cars are now more fuel-efficient.

Fig. 1: US oil consumption, production and net imports (1990–2012)



Source: Adapted from the US Energy Information Administration 'Energy Review'

Table 1: Annual average price of gasoline (petrol) in US

Year	US$ per gallon including taxes
2007	2.85
2008	3.32
2009	2.40
2010	2.84
2011	3.58
2012	3.70
2013 (March)	3.79

Source: US Energy Information Administration

(a) With reference to Fig. 1, explain the trend in US net imports of oil after 2005. [3]

(b) **(i)** With the help of a diagram(s), explain how the new sources of crude oil from hydraulic fracturing **and** the 'falling enthusiasm for cars among younger Americans' might be expected to cause a **fall** in the price of gasoline (petrol) in the US. [4]

(ii) Suggest and explain **one** factor that might have caused the price of gasoline (petrol) to **rise** in the US after 2009 despite these changes. [3]

(c) Explain the value that you would expect to find if you measured the relationship between gasoline (petrol) and biofuel using the concept of cross elasticity of demand. [4]

(d) Discuss how reducing dependence on foreign oil might affect aggregate demand in the US economy and the impact of this on prices and employment in the US. [6]

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[Turn over

Section B

Answer **one** question.

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

(b) Discuss how governments might attempt to make the supply of an essential good more responsive to a change in its price and assess the likely effectiveness of such attempts. [12]

3 **(a)** Explain how the contribution of each factor of production differs in an agricultural economy from that in an industrialised economy. [8]

(b) Discuss whether entrepreneurs or governments are more likely to cause economic growth in a mixed economy. [12]

4 **(a)** Explain what acts as money in a modern economy and what is likely to happen to the price level if the quantity of money increases significantly. [8]

(b) Explain how a significant rise in the general price level will affect the current account of the balance of payments of an economy and discuss whether this is likely to turn a deficit into a surplus. [12]

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