Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/22**

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 Economic prospects reverse in Latin America

Over the past decade, Brazil boomed and grew rich by selling raw materials to China. Brazil's economy averaged 3.6% annual growth, peaking at a rate of 7.5% in 2010. Its currency, the Brazilian Real, substantially increased in value.

By comparison, Mexico saw lower growth, partly because it was tied to a faltering United States (US) economy. Mexico also suffered from deep problems of its own, for example, a poor education system and a rise in violent crime, deterring tourists and investors. Mexico's economy averaged 2.6% annual growth over the past decade, while its currency, the Mexican Peso, fell slightly in value.

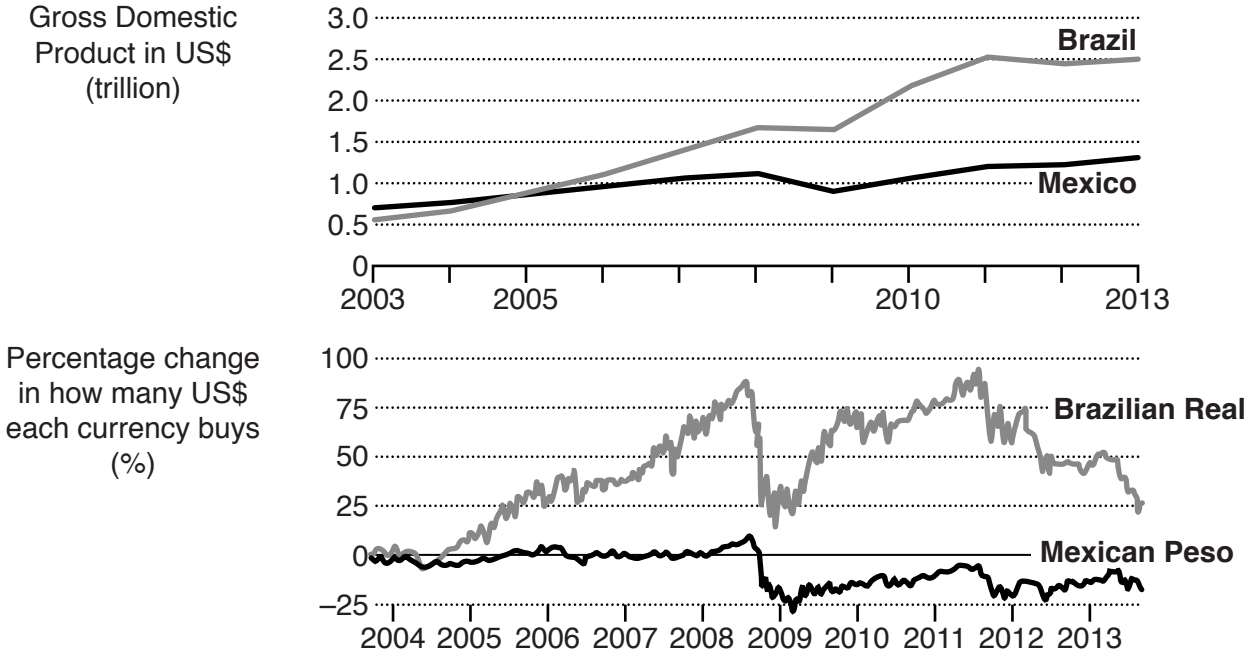
From 2011, it was Brazil's turn to struggle as China's demand for its raw materials decreased. In 2013 alone, Brazil's currency depreciated by more than 10%. The Brazilian Government largely wasted the boom years, investing little in roads and other infrastructure that could have supported its development. In addition, many households borrowed money to finance a consumer boom including a rapid rise in imports of luxuries from the US. As a result, a significant trade deficit in goods and services developed.

Meanwhile, the Mexican Government used the past decade to significantly strengthen its economy, improving the education system and making its telecommunications, financial and energy sectors more efficient. Economists now expect the country to grow more rapidly when Mexico's biggest trading partner, the US, recovers economically. Also, Mexico exports manufactured goods to a growing European market. At the same time, Mexico has maintained a relatively small trade deficit that can be financed easily by long-term foreign investment in its companies and factories.

Source: The Wall Street Journal, September 2013

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Fig. 1: A Tale of Two Countries



Sources: *IMF (GDP); (The Wall Street Journal) Market Data Group*

(a) Use production possibility curves to compare Brazil's economy in 2013 with its economy in 2003. [2]

(b) **(i)** Using Fig. 1, explain what has happened to the value of the Brazilian Real in 2013 compared with 2004. [2]

(ii) Explain **one** possible reason for the stability of the Mexican Peso from 2004 to 2008 shown in Fig. 1. [2]

(iii) With the help of diagrams, explain how the different economic experiences of Brazil and Mexico after 2011 mentioned in the text could explain the changes in currency values shown in Fig. 1. [4]

(c) Explain how the approach of the Mexican Government 'during the past decade' is more likely to generate an expansion of the economy than the approach of the Brazilian Government during this period. [4]

(d) Identify and evaluate the usefulness of any further information that might be helpful in assessing the future prospects of the Brazilian and Mexican economies. [6]

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[Turn over

Section B

Answer **one** question.

2 **(a)** Explain how economists measure the way in which demand for a good changes when income changes and, with the help of a diagram, show why some goods are classified as 'inferior goods'. [8]

(b) Discuss how useful governments might find the concepts of price and income elasticity of demand when setting economic policy. [12]

3 **(a)** Using examples, explain the difference between merit goods and public goods and show why it is possible for profit to be made in the supply of one of these types of good but not the other. [8]

(b) Discuss why merit goods are undersupplied in a free market economy and consider the effectiveness of **one** policy to deal with this problem. [12]

4 **(a)** Explain how a declining exchange rate and a high rate of inflation in an economy might affect that economy's terms of trade. [8]

(b) Discuss the advantages and disadvantages to an economy of a fall in that economy's terms of trade and consider whether the overall effects are likely to be beneficial. [12]

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