Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/23**

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.

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Section A

Answer this question.

1 Kwacha goes down in value by 10%, but inflation drops

A Government official has attributed the fall in the value of the Kwacha, Malawi's currency, to the end of the tobacco-selling season and the continued imports of farming equipment as a result of the Malawian Government's farm subsidy programme. A market analyst has commented that there is a need for Malawi to increase exports as a solution to the weak currency.

On a positive note, the National Statistics Institute of Malawi has announced that the inflation rate dropped 2.7 percentage points to 25.2% in July 2013. This is still the highest rate for the whole of the southern African region. Encouragingly, the rate of inflation is forecast to fall further to around 17% in December 2013.

Source: Adapted from the National Statistics Institute of Malawi

National Consumer Price Index of Malawi

Table 1: Selected CPI weights

	Category of spending			
	Food and non-alcoholic drinks	Alcoholic drinks and tobacco	Recreation and culture	Restaurants and hotels
Weights	50.2	2.5	2.2	1.3

Source: Adapted from the National Statistics Institute of Malawi

Table 2: Malawi selected price indices and the annual rate of inflation

		Food and non-alcoholic drinks	Alcoholic drinks and tobacco	Recreation and culture	Restaurants and hotels	Annual CPI inflation rate
2013	Jan	122.5	114.1	123.6	186.9	35.1
	April	127.9	126.0	134.6	191.0	35.8
	July	107.7	130.1	140.3	193.4	25.2
	Sept	117.1	130.5	144.7	197.9	21.7

Source: Adapted from the National Statistics Institute of Malawi

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Malawi targets tourism for foreign exchange says Government minister

The Government says that tourism is Malawi's next potential source of significant foreign exchange earnings now that demand for tobacco has fallen, following the success of the anti-smoking campaign. The Minister of Tourism and Culture stated that 'tourism has the potential to become a multi-billion Kwacha industry that can change the lives of many communities around the country'.

Source: Adapted from the Nyasa Times October 2013

(a) (i) Showing your calculation, determine the category of spending that has shown the biggest rise in price from January to September 2013. [2]

(ii) Why do the categories of spending have different weights in Table 1? [2]

(b) (i) Explain how the fact that Malawi has the highest inflation rate in the southern African region might be expected to affect Malawi's terms of trade. [2]

(ii) With the help of a diagram, explain how increasing exports could provide a solution to Malawi's weak currency. [3]

(c) (i) Draw a diagram to show the choice that Malawi faces when allocating its scarce resources between the production of tobacco and tourism. [2]

(ii) Explain **one** difficulty that Malawi might face in reallocating resources from the production of tobacco to tourism. [3]

(d) Discuss the factors that should be considered by the Malawian Government in deciding if it should develop its tourist industry and allow its tobacco industry to decline. [6]

Section B

Answer **one** question.

2 (a) With the help of diagrams, explain how economists use the concept of income elasticity of demand to distinguish between inferior goods and necessity goods. [8]

(b) Discuss how, during a worldwide recession when incomes in most countries are falling, economists might use the concept of income elasticity of demand to assess the impact of this recession. [12]

3 (a) Explain what economists mean when they describe a good as a 'demerit good' and, using a diagram, show why such goods will be overconsumed in a free market. [8]

(b) Discuss any **two** policies that might be used to deal with the problems caused by the consumption of demerit goods and consider which might be the more effective policy. [12]

4 (a) Define each component of aggregate demand and, using a diagram, show how a reduction in one of these components might reduce inflationary pressure in an economy. [8]

(b) Discuss the impact of a high rate of inflation on the consumers and producers in an economy and assess whether consumers or producers would suffer more. [12]

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