Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **May/June 2016**

1 hour 30 minutes

No Additional Materials are required.

5514292096

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.

© UCLES 2016

CAMBRIDGE International Examinations

Section A

Answer this question.

1 **The Fiji economy: a positive outlook**

Fiji is a small island country in the Pacific with a population of 860 000. In 2014 its economy was reported to be continuing to grow steadily. It remained on course for a fifth consecutive year of expansion, boosted by high tourist arrivals and visible export earnings, particularly from sugar. The factors that were expected to restrict growth in 2015 included ongoing dry weather conditions causing lower output of agricultural goods, with the exception of sugar.

Table 1: Selected economic indicators for Fiji

	2014 estimate	2015 forecast
Economic growth rate %	3.3	3.0
Inflation rate %	3.0	3.5
Current account balance as % share of GDP	–6.0	–7.0

Source: *Asian Development Bank, 2014*

Consumption remained strong in the first five months of 2014, and imports of consumer goods, mainly vehicles, rose by 15.6%. Personal remittances increased, boosting consumption expenditure.

The tourism sector – Fiji's main source of foreign exchange – continued to perform strongly. Visitor arrivals increased by 4.0% year-on-year, with 4.6% more visitors from Australia and 11.6% more from New Zealand, but there was a significant fall in visitor arrivals from Japan.

Sugar production increased, aided by government investments in new technology that improved efficiency of production and reduced price.

Despite higher growth, inflationary pressures were eased by declining international commodity prices. However, annual average inflation in 2014 was not expected to fall below 3.0%, as economic activity was expected to revive. In addition, continuing dry weather was affecting the food supply.

Despite the positive growth outlook, increased investment is needed to improve productivity and address supply-side capacity constraints.

Source: *Asian Development Outlook 2014 Update*

© UCLES 2016

(a) How and where would revenue from tourist arrivals in Fiji be recorded in Fiji's balance of payments? [2]

(b) Use a supply and demand diagram to show how the government investment referred to in the article affected the price of sugar produced in Fiji. [2]

(c) Explain what the changes in sugar's contribution to visible export earnings and in the price of sugar might suggest about the price elasticity of demand for sugar. [3]

(d) Using aggregate demand and aggregate supply analysis, explain why inflationary pressures remained subdued in Fiji despite higher growth. [3]

(e) Explain how increased investment could address supply-side capacity constraints in the Fiji economy. [4]

(f) Discuss any economic factors that might help to explain the changes in visitor arrivals to Fiji from Australia and Japan. [6]

© UCLES 2016

[Turn over

Section B

Answer **one** question.

2 **(a)** Explain the meaning of the term 'equilibrium price and quantity' in the market for a good or service, and show how a new equilibrium position is established when there is a decrease in demand. [8]

(b) Discuss whether attempts to help poorer consumers through the introduction of a maximum price for necessities can ever be successful. [12]

3 **(a)** Outline the functions of the factor enterprise in a modern economy, and explain how enterprise responds to a rise in the demand for a good. [8]

(b) Discuss why some goods and services are provided by private enterprise and others are provided by the government in a mixed economy. [12]

4 **(a)** Explain what might cause a favourable movement in an economy's terms of trade. [8]

(b) Discuss whether overall a favourable movement in an economy's terms of trade would be likely to have positive or negative effects on the economy. [12]

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

© UCLES 2016