Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/22**

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

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 **Turkey's economic policies**

Extract 1: Turkey's medium-term programme

In a press statement in 2014, Turkey's minister in charge of the economy, Ali Babacan, introduced Turkey's medium-term programme (MTP) for the period 2015–2017. He stated that the first priority of the MTP is solving the problem of inflation, second is the current account deficit and third is structural reforms.

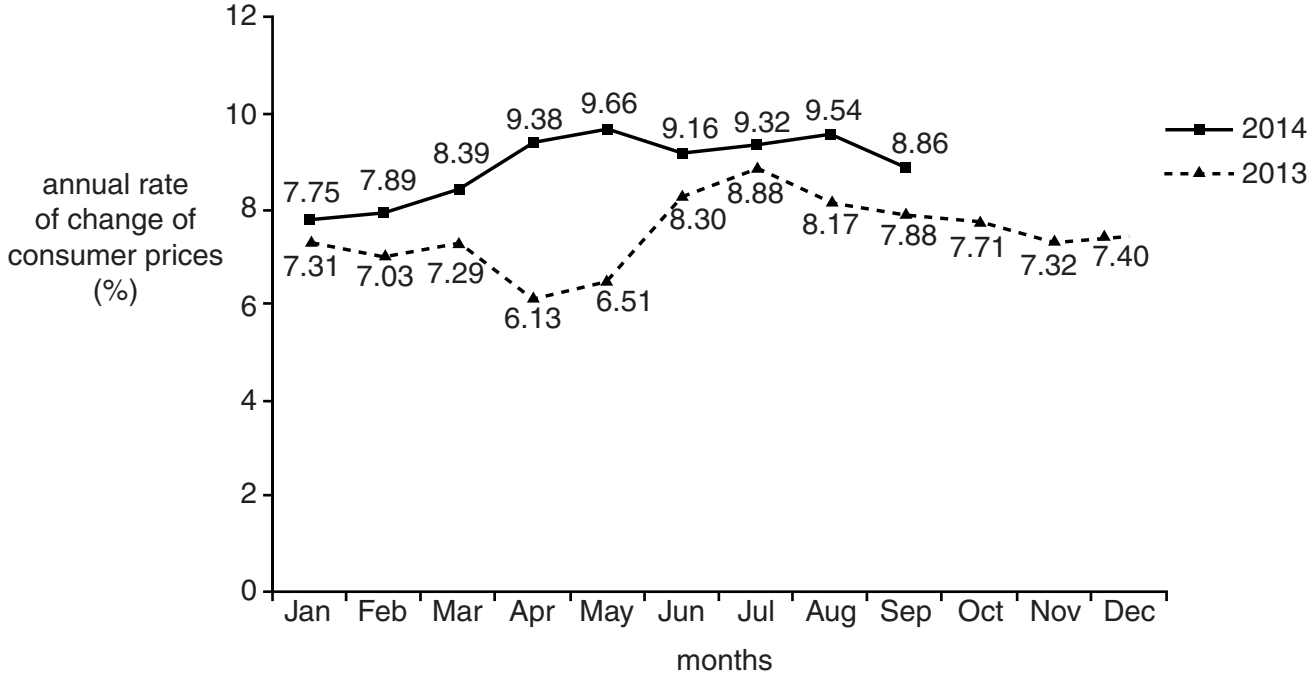
Tight fiscal policy will be pursued in order to reach Turkey's goals of lower inflation and a reduced current account deficit. Structural reforms are important to increase Turkey's potential growth, the minister said.

He announced that the inflation rate is expected to fall from 9.4% in 2014 to 6.3% in 2015 and 5.0% by 2017. The minister also stated that the unemployment rate is expected to drop from 9.6% in 2014 to 9.1% by 2017.

As the United States (US) economy recovers, the US central bank is expected to increase interest rates, causing the US dollar to continue to rise. The outcome of these policies might be harmful for Turkey's economy.

The minister claimed that Turkey's macroeconomic policies were already increasing saving in the economy and reducing consumer credit. By 2017 domestic savings are expected to rise to 15% of national income.

Fig. 1: Turkey's consumer price inflation rate, January 2013–September 2014



Source: *Daily Sabah*, 8 October 2014

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Table 1: Turkey's balance of payments current account, 2012–2013 (US$ million)

	2012	2013
Exports of goods	163 221	163 371
Imports of goods	–228 552	–243 394
Services	22 562	23 131
Income	–7 161	–9 355
Current transfers	1 433	1 181

Source: *www.turkstat.gov.tr*

(a) What happened to the balance on Turkey's current account between 2012 and 2013? [2]

(b) Use a production possibility curve diagram to show the intended outcome of the structural reforms in Turkey. [2]

(c) With the help of a demand and supply diagram, show how the expected change in US interest rates was likely to cause the US dollar 'to continue to rise'. [2]

(d) Consider whether the outcome of the interest rate changes in the US was likely to be 'harmful for Turkey's economy'. [4]

(e) Explain **two** factors that determine how the increase in consumer prices between 2013 and 2014 shown in Fig. 1 might affect the total value of Turkey's exports. [4]

(f) Discuss how 'tight fiscal policy' could be expected to help Turkey achieve the first priority of the MTP, and consider how effective this is likely to be. [6]

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[Turn over

Section B

Answer **one** question.

2 **(a)** Use examples to illustrate the difference between private goods and public goods, and explain why only private goods will be supplied in a free market economy. [8]

(b) 'The factor enterprise and the free working of the price mechanism always ensure a satisfactory outcome for consumers even when imperfect information exists.'

Discuss this view. [12]

3 **(a)** Explain the meaning of 'price elasticity of demand' and, using examples, outline the factors that would cause the demand for a good to be relatively price-elastic. [8]

(b) Discuss why entrepreneurs might want to change the price elasticity of demand for their products, and consider the extent to which this is achievable. [12]

4 **(a)** Using examples, explain the instruments of monetary policy and supply-side policy. [8]

(b) Discuss the advantages and disadvantages of supply-side policy and consider its effectiveness in an economy that is facing a labour shortage. [12]

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