Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/23**

Paper 2 Data Response and Essay **May/June 2017**

1 hour 30 minutes

No Additional Materials are required.



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 **Question 1**.
Brief answers only are required.

Section B
Answer **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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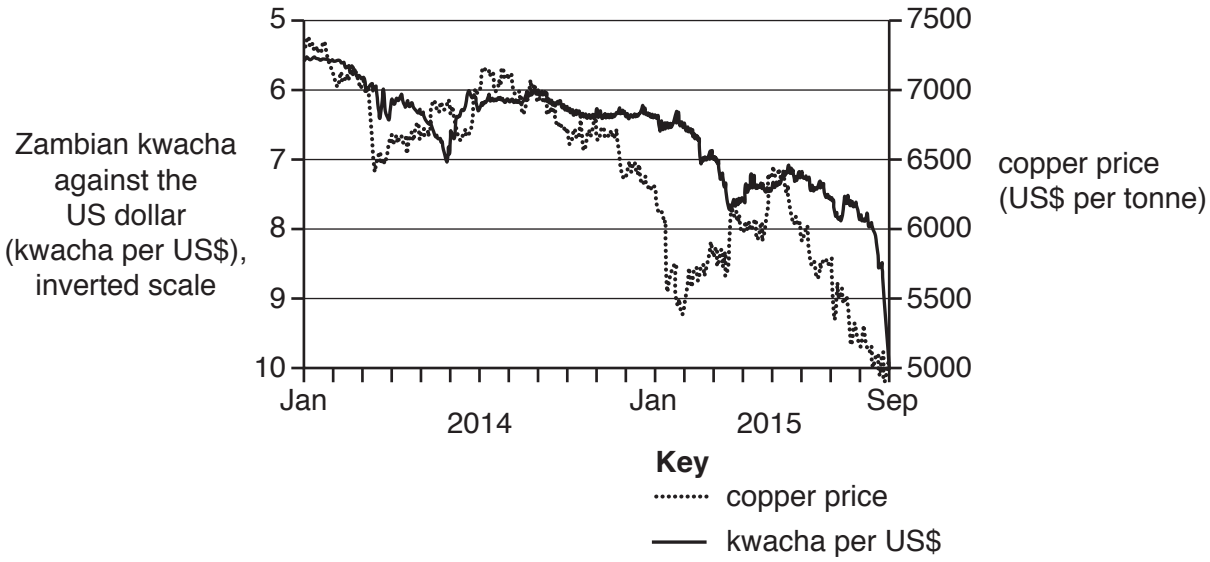
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Section A

Answer this question.

1 **Zambia bears the brunt of China's economic slowdown**

Fig. 1: Zambian kwacha and copper price



Source: Thomson Reuters Datastream

Zambia was one of Africa's main beneficiaries when China's economy was expanding. With copper its key export, China's huge demand for minerals helped the southern African nation enjoy a decade of economic boom. But as China's economy slows down, Zambia finds itself with real problems. A large mining group has announced it is to suspend production for 18 months. In addition, a Chinese-owned company has said it will suspend operations and cut jobs in Zambia because of the copper price. The situation highlights the vulnerability of Africa's resource-dependent nations to the fortunes of China.

Zambia is Africa's second biggest copper producer and depends on the metal for about 70% of its foreign exchange earnings and 25–30% of government revenue. Copper prices have fallen 18% this year, sliding to a six year low of below US$5 000 per tonne last month. As a result, Zambia has been ranked top of an index of African nations most exposed to China's slowdown. In 2012, Zambian exports to China amounted to 4.3% of Zambia's national income.

During the boom years, mining led to billions of dollars of investment. Much of this was foreign direct investment from China. The sector was a key driver of Zambia's economy, which grew by an annual average of 6.4% over the last decade – one of the world's fastest growth rates.

The Zambian government is now struggling to balance its budget. It is expected that the 2015 fiscal deficit will be much greater than previously estimated, and the government has pledged to reduce its spending. A further problem is that the weakness of Zambia's currency, the kwacha, risks feeding through into inflation.

The government has spoken of the need for economic diversification to reduce the country's dependence on copper. This is a tough task which China's slowdown has highlighted for many resource-rich African nations.

Source: Financial Times, 9 September 2015

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(a) **(i)** What is the overall trend in the value of the Zambian kwacha from January 2014 to September 2015 shown in Fig. 1? [1]

(ii) Explain why the economic slowdown in China has resulted in this change in the value of the kwacha. [3]

(iii) Explain how the change in the value of the kwacha might feed into inflation in Zambia. [4]

(b) Explain how the fall in China's demand for copper would be likely to affect each of the components of aggregate demand in Zambia. [6]

(c) Consider whether economic theory would support the view that diversification of the Zambian economy is the most effective way of tackling the problems it faces as a result of the slowdown of China's economy. [6]

Section B

Answer **one** question.

2 **(a)** Use the concept of income elasticity of demand to explain how a rise in incomes would affect the demand for an inferior good and for a necessary good. [8]

(b) Discuss the range of policies that are available to businesses to increase sales when incomes are falling. Consider which is most likely to be successful. [12]

3 **(a)** Explain the role of profit in an economy where the price mechanism operates to allocate resources. [8]

(b) Discuss whether resources are more effectively allocated in a planned economy or in a market economy. [12]

4 **(a)** Explain how the functions of money are affected when there is a high rate of inflation in an economy. [8]

(b) Discuss how effective monetary policy is likely to be in correcting both inflation and deflation when they each occur in an economy. [12]

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