Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **May/June 2019**

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 **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.

This document consists of **4** printed pages and **1** Insert.

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Section A

Answer this question.

1 Trade tensions between China and the United States

At a World Economic Forum meeting in Switzerland in 2017, the Chinese President re-affirmed his country's commitment to free trade and pledged never to start a protectionist 'trade war' or to benefit from a devaluation of its currency, the yuan. Meanwhile, the United States (US) President stated that the 'America First' doctrine means increased protectionism and he repeatedly threatened to impose tariffs and import quotas on Chinese goods.

During 2016, the value of the US dollar rose against most currencies. In contrast, the Chinese yuan weakened significantly from 6.20 yuan per US dollar at the end of 2014 to 6.95 yuan at the end of 2016. The US President has accused China of intentionally devaluing the yuan in order to boost China's export competitiveness. Despite strong downward pressure on its currency, China has attempted to keep the yuan–US dollar exchange rate relatively stable, costing more than US$2 trillion of its official foreign exchange reserves. China has stated that it does not want the yuan to fall in value any more than the US does, but no country has complete control over its exchange rate.

China, like Japan and Germany, usually has a current account surplus on the balance of payments, but China's current account surplus as a percentage of GDP fell in 2016 and the International Monetary Fund expects it to decrease further, as exports continue to fall.

There are three policy paths that a country can follow with regard to its exchange rate: a completely free float, a managed float or a fixed (pegged) exchange rate. Each of these has various advantages and disadvantages. At present, China's policy is a managed float, but some economists have argued that it is the yuan–US dollar exchange rate that is regarded as being especially important and so it might be better if China decided to fix (peg) the yuan to the dollar. Fig. 1.1 shows the yuan–US dollar exchange rate over three years.

Source: Adapted from China Daily, 10–12 February 2017

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Fig. 1.1: Yuan–US dollar exchange rate, 2014–2017



Source: Trading Economics

(a) Describe, using Fig. 1.1, how the value of the yuan against the US dollar has changed between 2014 and 2017. [2]

(b) The US President threatened to increase protectionism of the US economy.

Explain, using a diagram, how **one** of the methods of protection mentioned in the article can work. [4]

(c) Explain **two** effects of the fall in China's current account surplus for China's economy. [4]

(d) Explain **two** likely reasons why China has opted for a managed float exchange rate system. [4]

(e) Discuss who would be the winners and the losers from a protectionist 'trade war' between the US and China. [6]

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[Turn over

Section B

Answer **one** question.

2 **(a)** Explain, with the help of diagrams, how **(i)** constant and **(ii)** increasing opportunity costs determine the shape of an economy's production possibility curve. [8]

(b) Discuss what the most significant issues of transition are that a country will face as it moves from a planned economy to a mixed economy. [12]

3 **(a)** Explain, with the help of a diagram, the disadvantages to consumers of introducing a maximum price in a market for an essential food item. [8]

(b) Discuss whether the advantages of privatising an industry will always outweigh the disadvantages. [12]

4 **(a)** Explain, with the help of a diagram(s), how changes in aggregate demand and aggregate supply can cause inflation in an economy. [8]

(b) Discuss whether deflation is more of a problem in an economy than inflation. [12]

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