Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/22**

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.

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Section A

Answer **all** questions.

1 **Egypt's economic difficulties**

Table 1.1: Egypt, selected economic indicators, 2014–2019

	Consumer Price Index (base year 2000)	Current account balance (US$ billion)	Unemployment rate (% of total labour force)
2014	304	–2.356	13.4
2015	337	–12.182	12.9
2016	371	–18.659	12.7
2017	453*	not available	12.6*
2018	530*	not available	11.8*
2019	587*	not available	10.7*

* International Monetary Fund (IMF) estimates

Source: International Monetary Fund, World Economic Outlook Database, April 2017

Egypt's Central Agency for Public Mobilization and Statistics (CAPMAS) reported that Egypt's annual inflation rate surged to 32.9% in April 2017, compared to 10.9% in 2016. This is considerably higher than the expected rate that was estimated by the IMF shown in Table 1.1.

Inflation had been rising in Egypt since the decision of the Central Bank of Egypt (CBE) in November 2016 to float Egypt's currency (the Egyptian pound) in a move that caused a 50% depreciation in its value against the US dollar. This came as part of the Egyptian government's reform programme, started in 2014, to reduce the budget deficit and acquire a US$12 billion loan from the IMF to ease the US dollar shortage that had restricted Egypt's business activity.

A macroeconomic research group has said that 'The sharp rise in inflation could largely be attributed to the effects of the weaker Egyptian pound. Inflation was also made worse by levying a new indirect tax called Value Added Tax (VAT), and cutting subsidies on energy in November 2016.' On the same day as the CBE floated the Egyptian pound it raised the interest rate by 3 percentage points to 14.75%.

Egypt's VAT replaced the previous sales tax, which economists said created market distortions. It was expected to broaden the tax base in a country where the government struggles to collect income tax because of a large informal economy and widespread tax avoidance. The VAT does not apply to basic goods and services to protect the poor.

Source: Islam Al Naggar, Egypt Today, 10 May 2017, and Reuters, 29 August 2016

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(a) **(i)** What happened to Egypt's current account balance between 2014 and 2016? [1]

(ii) With reference to Table 1.1 calculate the percentage rate of inflation in Egypt between 2016 and 2017 that was estimated by the IMF. [1]

(b) Identify **two** Canons of Taxation satisfied by Egypt's new VAT. [2]

(c) Explain how the decline in the value of the Egyptian pound could cause demand-pull inflation and cost-push inflation in Egypt. [4]

(d) Explain how the estimated changes in unemployment in Table 1.1 might be expected to affect the current account balance of Egypt after 2016. [6]

(e) Discuss whether the Egyptian government's fiscal and monetary policies in the article are likely to succeed in curing the inflation problem. [6]

Section B

Answer **one** question.

2 **(a)** Explain how economists use the concept of elasticity to distinguish between inferior goods and necessary goods when consumer incomes change. [8]

(b) Discuss how businesses might attempt to change the price elasticity of demand for their products and consider which approach is most likely to be successful. [12]

3 **(a)** Distinguish between regressive and progressive taxes and explain whether you would use an income tax or a specific indirect tax to make post-tax incomes more equal. [8]

(b) Discuss whether subsidies on the production of **all** types of good will lead to an improved allocation of resources. [12]

4 **(a)** Explain, using examples, what is meant by 'protectionism' and show with the help of a diagram how export subsidies can be considered as a form of protectionism. [8]

(b) Discuss the arguments that are used to justify protectionism and consider whether these arguments can ever be justified. [12]

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