Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **May/June 2020**

1 hour 30 minutes

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You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **two** questions in total:
  - Section A: answer Question 1.
  - Section B: answer **one** question.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.
- You may use a calculator.
- You may answer with reference to any economy you have studied where relevant to the question.

INFORMATION

- The total mark for this paper is 40.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **4** pages. Blank pages are indicated.

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Section A

Answer this question.

1 **The Lagos economy is working**

Nigeria discovered oil 50 years ago and is now the world's sixth biggest oil exporter. The recent increase in global oil prices has had a very large positive effect on the country's balance of trade and has also improved the country's terms of trade.

Lagos is the largest city in Nigeria, with a population of over 20 million, and has undergone a successful economic transformation in recent years. It has used the private sector to become the most productive and dynamic part of Nigeria's economy. The owner of one of Nigeria's largest companies has stressed the enormous economic progress that the country has made in recent years: "I'm a great believer in Nigeria because the opportunities here are enormous." His company's success shows what private enterprise can achieve in a mixed economy especially if it is provided with the right incentives by the government.

Most Nigerian entrepreneurs are operating in Lagos and entrepreneurship has certainly played a key role in the modern Lagos economy. Start-up initiatives have been encouraged and the need to be innovative has been increasingly recognised, leading to the development of new goods, services and markets. The city is the centre of thriving music, fashion, film and technology industries that have significant influence throughout Africa.

A 'free trade zone' on the edge of Lagos has been established where private sector firms pay no business taxes to the government and there are now numerous start-up enterprises that are thriving. The government aims to lower costs, reduce bureaucracy and make the economy more flexible and efficient with the hope of boosting trade. The zone is located next to a deep sea port and has good road connections with both the rest of Nigeria and other countries in the region.

Lagos is an important transport hub, with three major ports and West Africa's most important international airport. In 2016 the output of Lagos was valued at US$136 billion while Nigeria's total national output was valued at US$405 billion.

A former governor of the Nigerian central bank, has stated: "Since 2000, Lagos has been transformed. In terms of an improved infrastructure and a supportive economic environment, the government has given firms a greater opportunity to thrive."

Source: Adapted from The Financial Times, 26 March 2018

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(a) Calculate the percentage of Nigeria's national output that is accounted for by Lagos. [1]

(b) Distinguish between a country's balance of trade and its terms of trade. [3]

(c) Explain the contribution of the factor enterprise to the successful economic transformation of Lagos. [4]

(d) **(i)** Explain why 'free trade zones' (FTZ) can be considered a supply-side policy. [2]

(ii) Explain how measures to reduce protection through policies such as 'free trade zones' encourage specialisation and the development of comparative advantage in Nigeria. [4]

(e) Discuss whether government intervention to encourage private sector firms, in a mixed economy such as Nigeria, is always likely to be successful. [6]

Section B

Answer **one** question.

2 **(a)** Explain, with the aid of a production possibility curve (PPC) diagram, why scarcity makes choice inevitable for firms and how each choice has an opportunity cost. [8]

(b) Discuss the view that the only goods a government should produce are public goods. [12]

3 There is increasing concern about the impact of foreign holidays on the environment of the host country.

(a) Explain, with the aid of a demand and supply diagram, **two** factors that might cause an increase in the demand for foreign holidays. [8]

(b) Discuss whether an indirect tax on foreign holidays is likely to be effective in reducing the number of holidays taken. [12]

4 **(a)** Explain, with the aid of a diagram, **one** demand factor and **one** supply factor that can cause the depreciation of a foreign exchange rate. [8]

(b) Discuss whether an appreciation of a country's foreign exchange rate is likely to cause **both** a rise in inflation and a decrease in employment in its economy. [12]

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