Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **May/June 2021**

1 hour 30 minutes



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. Any blank pages are indicated.

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Section A

Answer this question.

1 Vietnam's exports of fruit and vegetables to exceed US$4 billion

The value of Vietnam's fruit and vegetable exports reached US$1.3 billion in the first four months of 2018, a year-on-year increase of 30%, according to the Vietnam Ministry of Agriculture. With a high export growth rate in the past four years, the sector is expected to exceed the export target of US$4 billion set for 2018.

A government spokesperson stated that because world trade in fruit and vegetables is worth US$230 billion a year, with an annual growth rate of 3% to 5%, there is more scope for Vietnam to increase its fruit and vegetable exports. The spokesperson said that Vietnam must use more land to grow crops to export and build additional modern food processing facilities to take advantage of these opportunities.

The increase in the export of fruit and vegetables will add to Vietnam's current account balance. Fig. 1.1 below shows the balance of the current account of the balance of payments for Vietnam from Q1 2016 to Q2 2018.

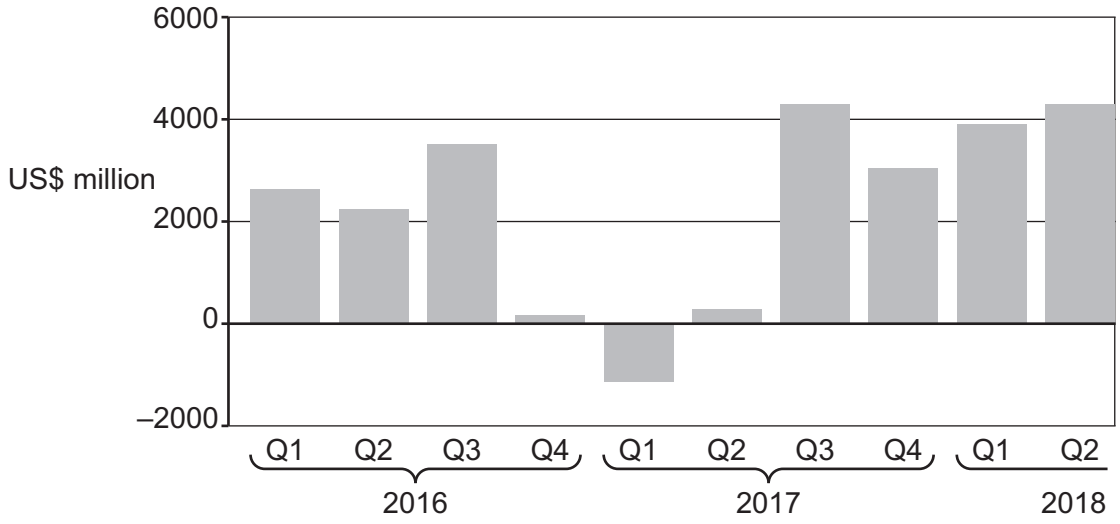


Fig. 1.1 Vietnam's current account balance, Q1 2016 to Q2 2018 (US$ million)

Source: tradingeconomics.com, accessed October 2019

Despite its impressive results in exporting fruit and vegetables, Vietnam faces possible risks because it relies very heavily on China, its biggest fruit and vegetable importer. China accounted for 77% of Vietnam's exports of fruit and vegetables in the first four months of 2018 while the United States, its second biggest importer, accounted for just 2.8% and Japan, its third biggest importer, accounted for 2.7%. Some analysts believe that Vietnam's agricultural sector in general, and fruit and vegetable producers in particular, should explore other potential countries for their exports.

According to the Vietnam Fruit and Vegetable Association, fruit and vegetable exporters face additional costs in complying with administrative burdens on trade, such as strict hygiene and food safety regulations. Vietnam's producers need to ensure that product quality is as high as possible and production costs as low as possible if they are to succeed.

Source: adapted from Vietnam News, 7 May 2018

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(a) **(i)** Describe the overall trend in Vietnam's current account balance between Q1 2017 and Q2 2018. [1]

(ii) Calculate the value of Vietnam's exports of fruit and vegetables to China in the first four months of 2018. [1]

(b) Explain **one** possible demand factor and **one** possible supply factor that could have caused the increase in Vietnam's export sales of fruit and vegetables. [4]

(c) Explain how complying with administrative burdens on trade will affect Vietnam's supply of fruit and vegetables for export. [2]

(d) Discuss whether the risks of Vietnam relying very heavily on the Chinese market for the export of its fruit and vegetables are greater than the potential benefits. [6]

(e) Using aggregate demand and aggregate supply analysis, discuss the possible impact on Vietnam's economy of a sustained increase in its net exports. [6]

Section B

Answer **one** question.

2 **(a)** Explain whether private goods, free goods and public goods will all be sold in a free market economy. [8]

(b) Discuss whether the direct provision of goods and services by the government prevents the price mechanism from working effectively. [12]

3 **(a)** With the aid of diagrams, explain how consumer surplus is affected by a decrease in the price of a luxury product with many substitutes, and of an essential product with few substitutes.[8]

(b) Discuss the extent to which knowledge of the income elasticity of demand for its product is likely to be more useful to a business than knowledge of the cross elasticity of demand for its product. [12]

4 **(a)** With the aid of a diagram(s), explain **one** demand factor and **one** supply factor that would cause the value of a currency in a floating exchange rate system to depreciate. [8]

(b) Discuss how likely it is that monetary policy would be successful in reducing inflation in an economy with a floating exchange rate. [12]

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