Cambridge Assessment International Education

# Cambridge International AS & A Level

**ECONOMICS** **9708/22**

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.


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## Section A

Answer this question.

**1 Rice farmers in Cambodia and Myanmar under pressure**

Rice farmers across Cambodia and Myanmar, in Southeast Asia, have been left searching for new markets for their crop after the European Union (EU) announced that it will now be imposing substantial tariffs on rice from both countries for the next three years. An investigation has confirmed that the increase in rice imports from these countries has been damaging to EU rice producers.

Representatives of EU farmers welcomed the decision, as the cheap rice imported from Southeast Asia has been contributing to EU farmers and labourers leaving agriculture and migrating to towns.

EU rice imports from the two Southeast Asian countries increased from 9000 tonnes in 2012 to 360 000 tonnes in 2017, leading to a sharp fall in the price of rice in the EU. In 2018, approximately 30% of all EU rice imports came from countries with duty-free status, with most being shipped in from Cambodia and Myanmar. The increase in low-price imports has caused serious difficulties for EU rice producers. Their market share in the EU dropped substantially from 61% to 29%.

Rice is currently grown across eight EU countries including Italy, whose government initially requested that the EU investigate the issue in March 2018 to protect the EU rice industry.

Cambodia and Myanmar have enjoyed duty-free rice exports to the EU since 2010, when tariffs on the crop were removed as part of a policy which aims to promote EU trade in goods with the world's 50 least-developed countries. Other more developed countries in Southeast Asia, including Thailand and Vietnam, have long been paying tariffs of around US$200 per tonne for rice exports to the EU. For both Cambodia and Myanmar, rice is a major export and the EU has become their most profitable market, so the new tariff has harmed their economies.

The EU is currently Cambodia's largest destination for rice exports, accounting for 43% of all exported rice. It is thought that Cambodia's rice industry could be put in a critical condition as a result of the EU tariffs. In order to offset the additional costs resulting from the tariffs, local rice farmers will have to cut production costs, and may need to grow different crops altogether. One suggestion is that government subsidies could make Cambodia's rice industry more competitive.

The impact of the tariff will ultimately depend on the extent to which EU consumers consider rice produced in the EU to be a good substitute for Cambodian rice. Consumers in Europe may not mind paying a bit more for Cambodian rice.

Myanmar is in a similar situation, as the EU has become one of Myanmar's major rice markets. Myanmar reached an all-time high of 293 000 tonnes of rice exported to the EU in 2017. But this could change now that there is a high barrier for entry to the EU rice market, forcing farmers to look closer to home for different buyers. Myanmar's Rice Federation stated that the EU's decision to levy tariffs on the country's rice exports had serious potential negative effects on Myanmar's economy.

*Source: Robin Spiess, Southeast Asia Globe, 18 January 2019*

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**Table 1.1 Myanmar and Cambodia: consumer prices (annual percentage change)**

| | 2016 | 2017 | 2018 | 2019* | 2020* |
|---|---|---|---|---|---|
| **Myanmar** | 6.8 | 4.0 | 7.1 | 6.8 | 7.5 |
| **Cambodia** | 3.0 | 2.9 | 2.5 | 2.5 | 2.5 |

*Projections

**Table 1.2 Myanmar and Cambodia: current account balances: (% of national income)**

| | 2016 | 2017 | 2018 | 2019* | 2020* |
|---|---|---|---|---|---|
| **Myanmar** | –4.3 | –4.7 | –2.0 | –4.0 | –5.0 |
| **Cambodia** | –10.9 | –10.5 | –13.6 | –12.7 | –11.8 |

*Projections

*Source: Asian Development Bank: Asian Development Outlook 2019*

**(a)** Compare the change in the price level in Myanmar with that in Cambodia between 2016 and 2018. [2]

**(b)** Compare the current account balance of Myanmar with that of Cambodia in 2018. [2]

**(c)** Explain any **two** policies that could improve the competitiveness of rice from Myanmar and Cambodia in the EU market. [4]

**(d)** Discuss **two** factors that will determine the extent of the impact the EU tariffs will have on the economies of Myanmar and Cambodia. [6]

**(e)** Discuss the view that the EU should give tariff-free access to the EU market to all producers of rice. [6]

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## Section B

Answer **one** question.

**2** In 2018 the UK government, concerned about the rise in obesity, particularly amongst young people, imposed a tax on producers of sugar-sweetened drinks.

**(a)** State what is meant by a demerit good, and with the help of a diagram(s) explain how a tax on producers can improve the allocation of resources in the market for sugar-sweetened drinks. [8]

**(b)** Compare the likely effectiveness of a policy of imposing minimum prices on demerit goods with **one** other policy to improve public health and consider which policy is more likely to be successful. [12]

**3** **(a)** Explain how the concept of cross-elasticity of demand can be used to distinguish between goods that are substitutes, those that are complements and those that have no relationship. [8]

**(b)** An economy is experiencing a fall in average incomes during a severe recession.

Discuss the extent to which the concepts of income elasticity of demand and price elasticity of demand might be useful to an entrepreneur in this economy and consider which would be more useful. [12]

**4** **(a)** Explain what is meant by deflation and use aggregate demand and aggregate supply diagrams to explain how it might arise in an economy. [8]

**(b)** Discuss whether a government should use monetary policy or fiscal policy to solve the problem of deflation in an economy. [12]

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