Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/23**

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

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.

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Section A

Answer this question.

1 Luxembourg's answer to resource misallocation in the transport market

Congestion is unfortunately a very familiar feature of most road transport networks. It occurs when there is too much traffic relative to road capacity or more simply, when demand exceeds supply. Congestion means longer journey times and wasted fuel, which adversely affects car drivers and bus passengers. Roads are scarce resources, but usually there is no price for using them. This represents a misallocation of resources.

Fig. 1.1 shows the changes in passenger journeys by public transport in Great Britain (GB) since 1997/98. The government has tried various policies to encourage more use of bus transport in the capital city, London, as well as in the rest of GB. These policies include privatisation along with increased bus subsidies and higher taxes on car users. All have failed to improve the allocation of resources and the cost of all travel continues to rise at a faster rate than the cost of living (See Fig. 1.2). The price of using cars has risen by less than other forms of transport since 2010 and some experts have suggested that a minimum price for fuel should be introduced.

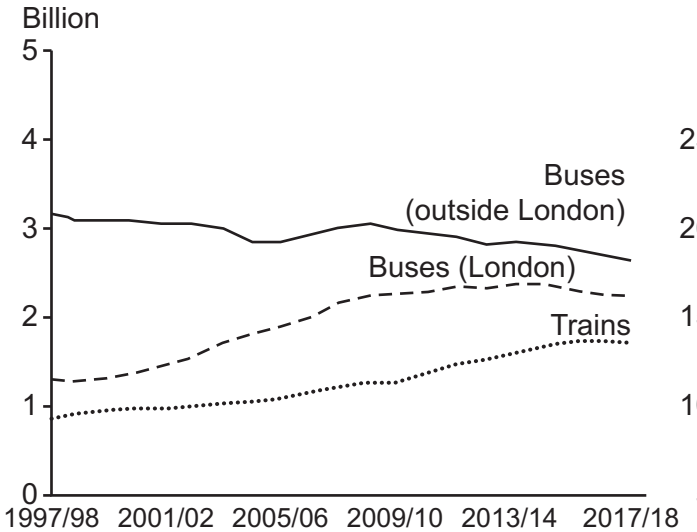


Fig. 1.1: Passenger journeys by type of public transport in Great Britain, 1997/98–2017/18 (billions)

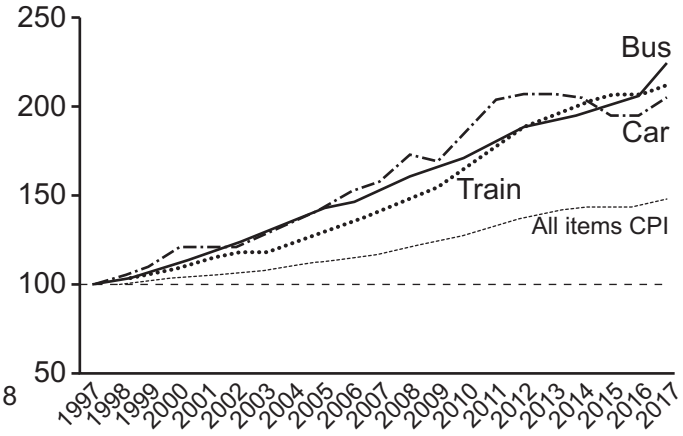


Fig. 1.2: Transport components in the Consumer Prices Index, 1997/98–2017/18 (base year 1997 = 100)

It is therefore interesting to see what Luxembourg, a relatively small European country, plans to do about its transport problems. From March 2020, the Luxembourg government has decided that all prices for public transport use (including buses and trains) will be removed, making travel by public transport free to consumers. The cost to its government is forecast to be almost US$1 billion per year.

Luxembourg's radical policy is one that should be given serious consideration in Great Britain and in other countries that face similar resource misallocation in their transport markets.

Source: Transport Statistics for Great Britain, 2018

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(a) **(i)** Use the information in Fig. 1.1 to describe the changes in the number of journeys by bus in Great Britain from 1997/98 to 2017/18. [2]

(ii) Using the information in Fig. 1.2, explain **one** of the changes you have identified. [2]

(b) Explain how opportunity cost can be applied to the Great British government's decision to subsidise public transport. [2]

(c) Explain whether public transport in Luxembourg has become a free good as a result of all prices being removed. [2]

(d) Discuss whether a minimum price for fuel would be effective in reducing the congestion caused by the demand for roads exceeding supply. [6]

(e) Discuss whether making public transport free to consumers is the best way to allocate resources in public transport markets. [6]

Section B

Answer **one** question.

2 Market research has estimated that the cross-elasticity of demand for hotels in Barbados with respect to the price of flights to Barbados is –2.5, and that the cross-elasticity of demand for flights to Antigua with respect to the price of flights to Barbados is +0.5.

(a) Explain what is meant by cross-elasticity of demand and what these values mean in terms of the effect of changes in the price of flights to Barbados on

(i) the demand for hotels in Barbados, and

(ii) the demand for flights to Antigua. [8]

(b) Growing pressures on the budget and on the environment from increasing tourist numbers to Barbados led the government to announce a new indirect tax on incoming tourists in June 2018.

Discuss the likely effectiveness of the new indirect tax in raising tax revenue and reducing tourist numbers. [12]

3 **(a)** Explain what is meant by aggregate supply and explain **one** reason why the aggregate supply curve of an economy would shift outwards in

(i) the short run, and

(ii) the long run. [8]

(b) Discuss whether an increase in aggregate demand would be of overall benefit for an economy. [12]

4 **(a)** Explain how a free trade area differs from a customs union and explain **two** reasons why countries move towards tariff-free trade. [8]

(b) Discuss the view that the gains from tariff-free trade are greater for countries who are net importers than for countries who are net exporters. [12]

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