Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **May/June 2022**

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. Any blank pages are indicated.

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Section A

Answer this question.

1 **Inflation in Bangladesh**

The annual inflation rate in Bangladesh, as measured by changes in the Consumer Prices Index (CPI), has varied in the period from 2009 to 2019 between 5.4% and 11.4%. The average annual rate of inflation over this period has been 6.7%, one of the highest in Asia.

Table 1.1: Bangladesh Annual Inflation Rate, February 2009 to 2019

Year	Inflation Rate (% change in CPI)
2009	5.4
2010	8.1
2011	11.4
2012	6.2
2013	7.5
2014	7.0
2015	6.2
2016	5.5
2017	5.7
2018	5.5
2019	5.5

Source: World Bank

The relatively high rate of inflation has been caused by price rises in both the food and the non-food sectors. In terms of the food sector, there have been significant rises in the price of fish, chicken and vegetables, particularly onions. In terms of the non-food sector, price rises have been significant in healthcare, transport and energy resources such as gas.

The Bangladesh Government is concerned about the possible consequences of a relatively high rate of inflation. It has now therefore set an annual inflation rate target of 5.5%.

The central bank of Bangladesh has the maintenance of price stability as one of its main objectives. It uses monetary policy to control the rate of increase of prices in the country. However, there is always the possibility that tough monetary policies could do more harm than good to an economy, compared with the possible use of fiscal policy.

The central bank recognises that inflation can be caused by both demand-pull and cost-push factors in the economy. A particular cause of inflation is the increase in wages. The Wage Rate Index (WRI) rose in December 2019 by 6.6% compared with a 6.4% rise in the index in November.

Source: Adapted from 'Inflation hits 9-month high', The Daily Star, Bangladesh, 16 October 2019, accessed on 24 February 2020

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(a) Describe the trend in the annual inflation rate of Bangladesh between 2009 and 2019. [2]

(b) Explain why price changes in the food and the non-food sectors in Bangladesh are treated differently when calculating the CPI. [2]

(c) Explain **one** domestic consequence and **one** external consequence for Bangladesh of having 'a relatively high rate of inflation'. [4]

(d) Analyse, with the help of aggregate demand and aggregate supply diagrams, how increasing wages can cause **both** demand-pull and cost-push inflation in Bangladesh. [6]

(e) 'However, there is always the possibility that tough monetary policies could do more harm than good to an economy, compared with the possible use of fiscal policy.'

Discuss whether monetary policy or fiscal policy is more likely to be effective in controlling inflation. [6]

Section B

Answer **one** question.

2 When a planned economy introduces the price mechanism to allocate some resources, a mixed economy arises.

(a) Explain, using examples, why merit goods are classified as private goods rather than public goods. [8]

(b) Discuss the advantages of a mixed economy and whether it is always preferable to a planned economy. [12]

3 **(a)** Explain **two** factors that determine the price elasticity of supply of a manufactured product. [8]

(b) Taxes are often placed on manufactured products, even those that are necessities with few substitutes.

Discuss whether the incidence of a tax on a manufactured product always falls mainly on the producer. [12]

4 **(a)** Explain why a fixed exchange rate could cause difficulties for a country that has one. [8]

(b) Protectionism can take different forms in different countries.

Discuss whether export subsidies are always a better method of protectionism than tariffs. [12]

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