Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/23**

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.

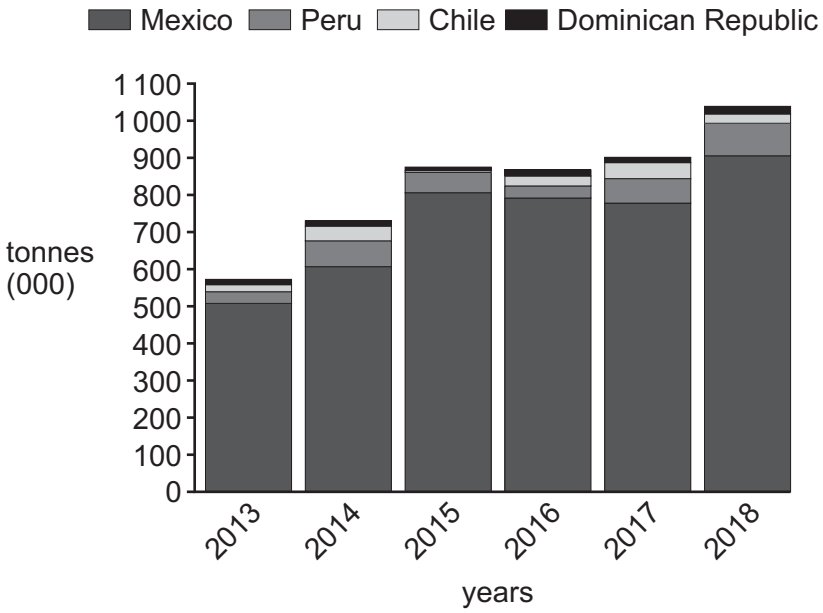
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Section A

Answer this question.

1 **The changing market for avocados**

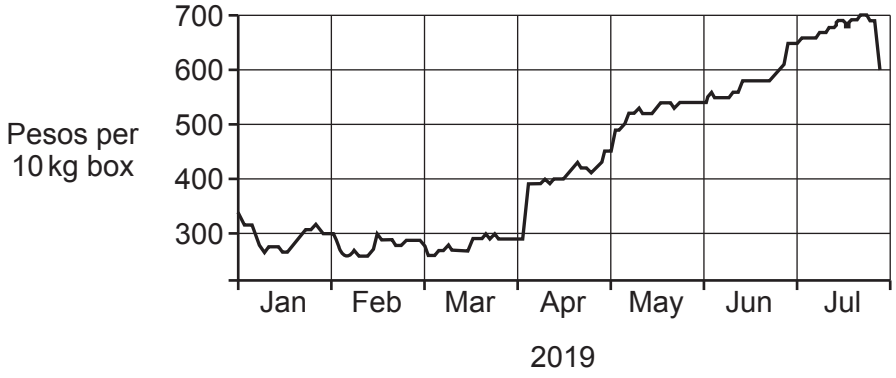
The global consumption of avocados has increased in the last few years, particularly in the United States (US) but also in China and parts of Europe. This growth is largely due to the increasing popularity of 'guacamole' (smashed avocado) and the health benefits claimed for its regular consumption. The US is the largest importer of avocados with supplies coming mainly from Central and South American producers as shown in Fig. 1.1.



Source: Avacados show growth in volume, www.thepacker.com

Fig. 1.1: US Avocado imports by country, 2010 to 2018

The supply of avocados is unpredictable. It is estimated that to produce one kilogram of avocado requires 2000 litres of water. Consequently, production is highly susceptible to drought conditions such as those that affected Central American growers in 2018. When this happens, the price of avocados increases as shown in Fig. 1.2.



Source: Mexican Ministry of Economy

Fig. 1.2: Wholesale price of Mexican avocados in the US, January to July 2019 (pesos per 10 kg box)

A shortage in supply provides an opportunity for new producers to enter the global market. Kenya, for example, has expanded its productive capacity and signed an agreement to supply the Chinese market. Even some New Zealand farmers switched from dairy to avocado production.

The global market for avocados is expected to continue to grow over the next few years. Rising prices will continue to increase production. It should be recognised, however, that there are increasing objections to higher production. In Mexico, for example, farmers have cleared forests to cultivate more avocados. This has put a strain on water supplies and raised concerns about the effects of the farmers' actions on climate change. These concerns have led one market research report to conclude that 'the price mechanism is not working to allocate resources successfully.'

Source: Global avocado market, Mordor Intelligence, Avocado market trends 2020, Inspira Farms

(a) Describe the change in the level and source countries of the US's imports of avocados from 2013 to 2018. [2]

(b) **(i)** Calculate the percentage change in the wholesale price of Mexican avocados between April 2019 and the end of July 2019. [1]

(ii) Explain **one** possible demand reason and **one** possible supply reason for this change in price. [4]

(c) Using the information provided, consider whether the supply of avocados is price elastic or price inelastic in the short run and in the long run. [4]

(d) Explain, with the help of a production possibility curve diagram, the opportunity cost to a New Zealand farmer of converting from dairy to avocado production. [3]

(e) Discuss whether the price mechanism in the avocado market is working to allocate resources successfully. [6]

Section B

Answer **one** question.

2 **(a)** A government has decided to spend money building a new barrier to prevent flooding across a city. Explain why this flood defence barrier is likely to meet the characteristics of a public good. [8]

(b) Education and healthcare are considered to be merit goods.

Discuss why merit goods are provided by both the private sector and the public sector. [12]

3 **(a)** Explain the difference between cost-push inflation and demand-pull inflation. [8]

(b) Discuss whether a contractionary monetary policy is the best way to reduce the rate of inflation. [12]

4 **(a)** Explain why some countries consistently have a deficit on the current account of the balance of payments. [8]

(b) Discuss the extent to which expenditure-switching policies and expenditure-reducing policies might be able to reduce such a deficit. [12]

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