Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/22**

Paper 2 AS Level Data Response and Essays **May/June 2023**

2 hours

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You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **three** questions in total:
  - Section A: answer Question 1.
  - Section B: answer **one** question.
  - Section C: 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 60.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **8** pages. Any blank pages are indicated.

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Section A

Answer all parts of Question 1.

1 Is Nigeria being held back by its dependence on oil and gas?

Nigeria has about half of West Africa's population with approximately 202 million people and one of the largest populations of young people in the world. With an abundance of natural resources, it is Africa's biggest oil exporter, and has the largest natural gas reserves on the continent.

Nigeria is highly vulnerable to the global economic disruption caused by the COVID-19 pandemic, particularly due to the steep decline in oil prices. Nationally, 40% of Nigerians live in poverty, while another 25% are vulnerable and could fall into poverty due to the pandemic.

Oil accounts for 80% of Nigeria's export revenues, a dominant position that it has occupied since the 1970s. Many people believe that Nigeria needs to move further away from its dependence on oil and natural gas. Initial attempts at diversification have produced limited gains as the policies have been aimed mainly at the domestic market to create jobs and to improve living standards. There needs to be a focus on export-orientated manufacturing that should boost economic growth as it has done in countries such as Malaysia and Indonesia.

Based on the experience of these countries, more open trade and competition policies would help to diversify the economy, especially as the African Continental Free Trade Area (ACFTA) takes effect. Nigeria needs to create at least five million new jobs each year to employ its growing population of young people.

Table 1.1 Nigeria: key economic indicators

	2016	2017	2018	2019	2020
Economic growth rate (% change in real Gross Domestic Product (GDP) per year)	1.6	0.8	1.9	2.2	–1.8
Inflation rate (% change in Consumer Price Index (CPI) per year)	15.7	16.5	12.1	11.4	12.8
Current account balance (% of GDP)	0.7	2.8	1.30	–3.8	–3.7
Government budget balance (% of GDP)	–3.9	–5.4	–4.5	–4.3	–5.2
Unemployment rate (% of labour force)	7.0	8.4	8.5	8.5	9.0

Source : Global economy.com

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Nigeria's economy entered a recession in 2020 due to fall in crude oil prices caused by falling global demand and measures to fight the spread of COVID-19. Inflation rose in 2020 due mainly to higher food prices, the removal of fuel subsidies and an increase in the price of electricity. The budget deficit also worsened in 2020 because the COVID-19 pandemic caused higher government spending and lower tax revenues, adding to the national debt.

Nigeria's national debt is sustainable at 25% of GDP, but interest payments are high, accounting for about 50% of government spending. Nigeria's government could improve its finances by reforming domestic tax collection. Non-oil tax revenue is equivalent to just 4% of GDP. An increase in the rate of value-added tax (VAT) from 5% to 7.5% in 2020 resulted in less revenue than forecast because of the recession. A wider tax base could help the budget, but this will require significant reform to reduce both tax evasion and a large informal economy.

Sources: Adapted from: World Bank in Nigeria Nov 2020
and: IMF News, African Department, February 2020
and: African Development Bank Group: Nigeria Economic outlook, 2021

(a) Compare the government budget balance of Nigeria in 2016 with the government budget balance in 2020. [2]

(b) Using a production possibility curve (PPC) diagram, demonstrate the impact of the rising level of unemployment on the Nigerian economy. [2]

(c) Consider the extent to which the removal of fuel subsidies in Nigeria would lead to an increase in inflation. [4]

(d) Assess whether using supply-side policy is the best way to diversify the Nigerian economy away from its dependence on oil and natural gas exports. [6]

(e) Assess whether adjusting the collection of direct tax or indirect tax is likely to be more effective in increasing the tax revenue collected by the Nigerian government. [6]

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Section B

Answer **one** question.

EITHER

2 **(a)** With the help of a diagram(s), explain what is meant by consumer surplus and producer surplus **and** consider whether a rise in the price of a product because of higher costs of production is likely to always reduce the consumer surplus. [8]

(b) A government wishes to keep the price of an essential food, such as rice, affordable to help low-income households.

Assess whether a policy of fixing the maximum price for an essential food is likely to be more effective than a policy of making transfer payments to low-income households. [12]

OR

3 **(a)** With the help of a diagram(s), explain what is meant by equilibrium in a market **and** consider the extent to which the equilibrium price and equilibrium quantity are likely to change for a product following an increase in the wages for labour across the whole economy. [8]

(b) Entrepreneurs are vital in an economy to achieve long run economic growth.

Assess whether encouraging entrepreneurship or increasing another of the factors of production will be a more effective way to achieve long-run economic growth. [12]

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Section C

Answer **one** question.

EITHER

4 **(a)** Two countries each produce two products and wish to trade with each other.

Explain the difference between the principles of absolute advantage and comparative advantage **and** consider whether the principle of comparative advantage is always the more important influence when each country is deciding whether to trade with each other. [8]

(b) Assess whether protectionism is the best way to correct a deficit in the current account of the balance of payments. [12]

OR

5 **(a)** Explain the difference between cost-push and demand-pull inflation **and** consider which is more likely to occur if there is a depreciation in the exchange rate of a country with few natural resources. [8]

(b) Assess whether monetary policy is the only way to control a high rate of inflation. [12]

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