Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/23**

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 **4** pages.

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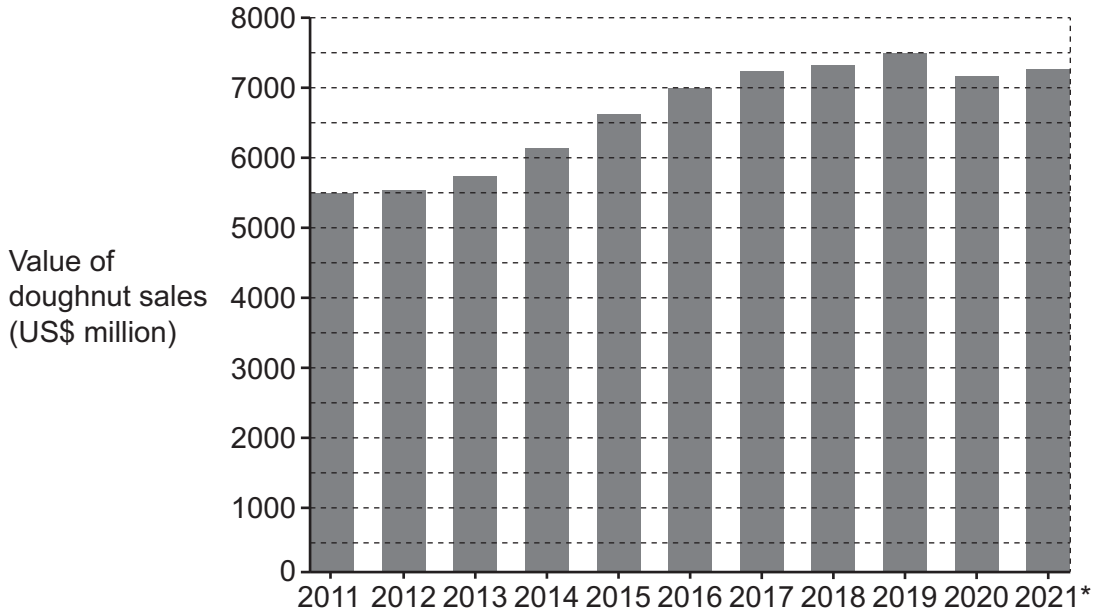
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Section A

Answer all parts of Question 1.

1 Are doughnuts demerit goods?

Consumers love to eat doughnuts. In 2019, 10 billion of these deep-fried sugar-coated products were consumed in the United States (US). Fig. 1.1 shows that the US market increased steadily from 2011 to 2019. Doughnuts are widely available throughout the US. There are specialist shops selling their branded products almost everywhere; local coffee shops invariably sell 'hole in one' doughnuts as a popular breakfast snack to tempt consumers on their way to work. The growing number of shops selling doughnuts has been an important reason behind overall market growth.



* Data for 2021 is estimated

Source: ibisworld.com, March 2021

Fig. 1.1 Doughnut market size in the US, 2011 to 2021

The COVID-19 pandemic has had a varying impact on the US doughnut market. Despite having less income, many consumers have continued to buy small luxuries such as doughnuts which remain affordable and can provide some short-term relief from the stresses of the pandemic. Overall, sales of doughnuts fell in 2020 and are forecast to remain below their 2019 peak into 2021. Reasons for this fall in demand are that consumers are making fewer shopping trips and in cities, more people are working from home and therefore not buying their daily coffee and doughnut snack.

In the United Kingdom (UK), more so than in the US, there are growing concerns about the increase in sugar consumption amongst children. This increase comes from soft drinks, chocolate biscuits and sweets (candy) as well as from jam-filled doughnuts, all of which are widely available in supermarkets and local convenience stores. In 2021, it was estimated that a third of teenagers and two thirds of adults in the UK were overweight. This has increased the pressure on the UK government to end online advertising of a range of products including doughnuts. It has been estimated that viewing one minute of advertising for products like doughnuts leads to a child consuming an additional 14.2 calories. Moreover, a ban on advertising sugary foods would result in children consuming the equivalent of 62 million fewer doughnuts a year in the UK.

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(a) Using the data in Fig. 1.1, calculate the percentage change in the value of sales of doughnuts in the US from 2011 to 2019. [2]

(b) Explain **one** reason why the US market for doughnuts contracted in 2020. [2]

(c) Comment on whether the demand for doughnuts in the US is income elastic or income inelastic. [2]

(d) Explain why a doughnut might be regarded as a demerit good. [2]

(e) With the help of a diagram, assess how the market for sugary foods in the UK might be affected by a ban on online advertising. [6]

(f) Assess the likely effects on UK consumers and the UK government of a ban on online adverts for sugary foods. [6]

Section B

Answer **one** question.

EITHER

2 **(a)** Explain, with the help of examples, the significance of the size and sign of the coefficient of income elasticity of demand for the classification of a good **and** consider how confident you are of this classification. [8]

(b) When the price of a product changes, it usually changes the consumer surplus in the market.

Assess how variations in price elasticity of demand for a product determine the extent of changes in consumer surplus in a market. [12]

OR

3 **(a)** Explain why government intervention may be required to provide merit goods **and** consider why such intervention may not always be successful. [8]

(b) Assess the effectiveness of government intervention through buffer stock schemes in agricultural markets. [12]

Section C

Answer **one** question.

EITHER

4 **(a)** With the help of a circular flow of income diagram, explain how equilibrium is determined in an open economy **and** consider whether a budget deficit or a trade deficit is more likely to cause lasting disequilibrium. [8]

(b) Assess whether an increase in investment in new infrastructure projects will always have a positive impact on the circular flow of income in an economy. [12]

OR

5 **(a)** Explain how monetary policy may be able to reduce the rate of inflation in an economy **and** consider the likely success of this policy. [8]

(b) Assess how governments use macroeconomic intervention to achieve their macroeconomic objectives. [12]

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