Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 AS Level Data Response and Essays **May/June 2024**

2 hours

8737215146

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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Section A

Answer all parts of Question 1.

1 Will an increase in exports lead Sri Lanka back into economic growth?

In May 2022, Sri Lanka had to admit that it was unable to pay its debts to other countries for the first time in its history. As a result, in February 2023 it was forced to obtain a loan of US$3bn from the International Monetary Fund (IMF). The question is now, can Sri Lanka trade its way out of trouble?

The main problem faced by Sri Lanka for many years has been a lack of international competitiveness. Despite a growth in exports between 2000 and 2018, over the same period, they fell as a share of the economy from 39% to 23% of Gross Domestic Product (GDP). As a result, the country has found itself unable to earn enough foreign currency to pay for essential imports of food and fuel.

Table 1.1: Sri Lanka balance of trade in goods and services, US$ million, January 2022 to January 2023.

January 2022	March 2022	May 2022	July 2022	September 2022	November 2022	January 2023
–858	–762	–404	–123	–205	–450	–410

For many years, Sri Lanka has enjoyed a comparative advantage in growing and exporting tea. However, the ban on imports of fertilisers in 2021 which cut yields by a fifth and an overreliance on outdated methods of production have had a disastrous impact. Another major export is textiles, but these rely heavily on imported raw materials that have rapidly increased in price following the COVID-19 pandemic and the conflict in Ukraine. So, what alternatives exist for Sri Lanka?

Unlike in other Asian nations, Sri Lanka does not appear to have a plan to develop any new comparative advantage. Probably the most likely option would appear to be to take full use of its position at the centre of Indian Ocean shipping lanes by developing its ports. Sri Lanka could become a major shipping hub which would extend opportunities for exports. For example, approximately a third of the world's oil is transported across the Indian Ocean.

Other options include allowing the Sri Lankan rupee to depreciate to boost exports because it is felt that the currency is overvalued. There are also suggestions that all import tariffs should be removed. Sri Lanka is currently one of the most protected economies in the World and removing tariffs may help attract much needed foreign investment and encourage local industries to become more efficient.

The question now is, could the introduction of these options lead Sri Lanka back into economic growth?

Source: Adapted from Ben Chu, Economics Editor, BBC Newsnight article and tradingeconomics.com, February 2023

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(a) Using Table 1.1:

(i) Identify the overall trend in Sri Lanka's balance of trade in goods and services between January 2022 and January 2023. [1]

(ii) Calculate the percentage change in Sri Lanka's balance of trade in goods and services between January 2022 and January 2023. [1]

(b) Explain what is meant by 'Sri Lanka has enjoyed a comparative advantage in growing and exporting tea.'. [2]

(c) Consider the extent to which depreciation of the Sri Lankan rupee could improve the country's balance of trade in goods and services. [4]

(d) Assess whether the removal of all protectionism is likely to reduce the balance of trade deficit. [6]

(e) Assess the extent to which supply-side policies will be able to 'lead Sri Lanka back into economic growth'. [6]

Section B

Answer **one** question.

EITHER

2 **(a)** With the use of examples, explain the difference between public goods and merit goods and consider whether markets will always provide enough of both goods. [8]

(b) Assess whether a planned economic system should always switch to a mixed economy. [12]

OR

3 **(a)** With the help of a formula, explain what is meant by the income elasticity of demand for a product and consider the extent to which demand for the product will always rise at the same rate as the income of its consumers. [8]

(b) Assess the extent to which price elasticity of supply or cross elasticity of demand is more useful to businesses. [12]

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Section C

Answer **one** question.

EITHER

4 **(a)** Explain **three** of the components of aggregate demand and consider the extent to which they may be increased without leading to inflation. [8]

(b) The Chinese government has re-emphasised its commitment to rebalancing the economy from one focused mainly on investment and exports to one aiming to increase the proportion spent on domestic consumption.

Assess the extent to which it would be possible to achieve this by fiscal policy alone. [12]

OR

5 **(a)** Explain **three** causes of unemployment and consider which cause is likely to be most damaging to a high-income economy. [8]

(b) Assess which expansionary macroeconomic policy would be most likely to enable a government to meet its economic objective of a low rate of unemployment. [12]

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