Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/22**

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

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.

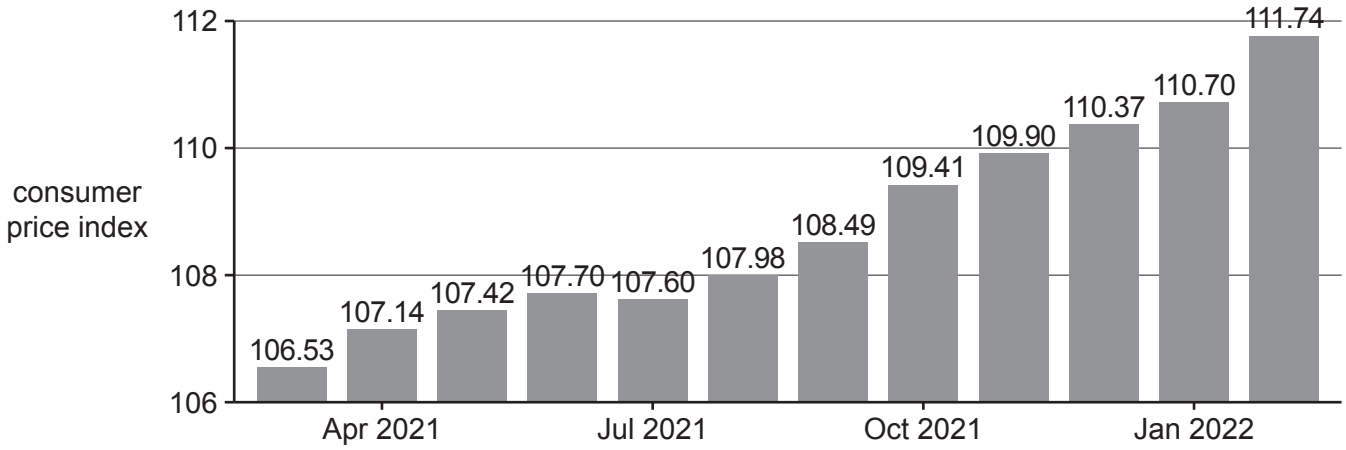
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Section A

Answer all parts of this question.

1 Dilemma for the European Central Bank (ECB)

The Eurozone consists of 19 European Union (EU) states that have agreed to use a common currency (the euro) and monetary policy, both of which are governed by the ECB. The ECB sets interest rates for all 19 members of the Eurozone and since July 2021 has aimed to maintain the rate of inflation at 2% in the medium term. Interest rates have been held at 0% since March 2016.



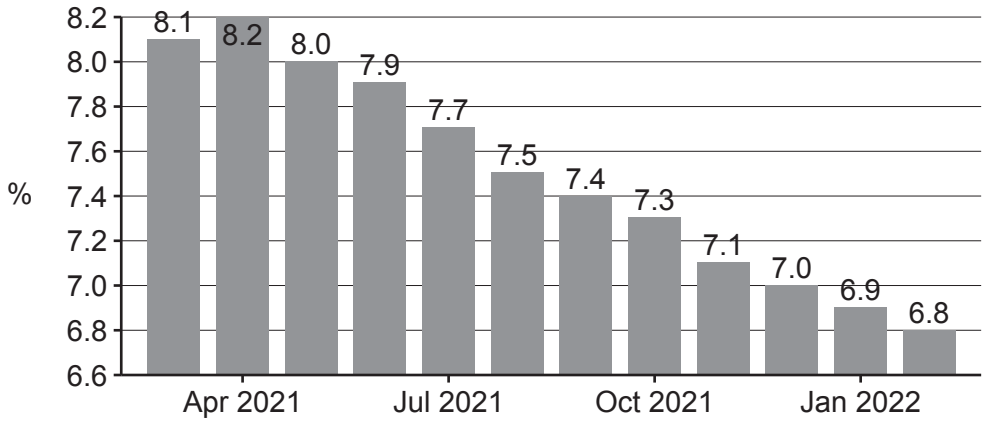
source: Tradingeconomics.com

Fig 1.1: Eurozone Consumer Prices Index (CPI) March 2021 – February 2022

In March 2022, the annual rate of inflation hit a record high for the Eurozone of 7.5% and is forecast to continue to rise throughout 2022. Additionally, according to the ECB vice president, annual economic growth is expected to fall from 4.6% at the end of 2021 to around 0% at the end of 2022. Most of the impact of these changes is expected to fall on consumers. Much higher energy costs and rising food prices tend to have a more severe effect on poorer households and those on fixed incomes.

The main causes of the rapid increase in the inflation rate are supply-side factors. The rise in energy prices result from a combination of the Covid-19 pandemic and the conflict between Russia and Ukraine which have reduced supplies of oil and gas. Additionally, the Eurozone labour market is increasingly suffering from a shortage of supply as unemployment has fallen to a record low of 6.8% in February 2022 with further falls predicted. Because the rise in the rate of inflation is almost exclusively supply-side driven, the ECB fears that this will lead to further falls in economic growth leading to a period of 'stagflation', where an economy experiences high inflation and low economic growth at the same time.

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source: Tradingeconomics.com

Fig 1.2: Eurozone % unemployment rate March 2021 – February 2022

All this leaves the ECB with a dilemma. Should it:

- increase interest rates substantially now to control the increasing rate of inflation and risk weakening economic growth even further, or
- increase them slightly in the hope that supply pressure will ease soon (this runs the risk of making high inflation more permanent if the pressure does not ease), or
- leave interest rates unchanged?

Sources, adapted from: reuters.com 31 March 2022
and reporting by Balazs Koranyi 1 April 2022

(a) Describe what has happened to consumer prices in the Eurozone between March 2021 and February 2022. [2]

(b) With the help of an aggregate demand and aggregate supply diagram, identify the main type of inflation in the Eurozone. [2]

(c) Consider the extent to which the shortage of supply of labour in the Eurozone may have contributed towards the increasing rate of inflation. [4]

(d) Using the concept of price elasticity of demand, assess the relative impact on poorer households, including those on fixed incomes, of rising prices of food and energy. [6]

(e) Assess the advantages and disadvantages of the ECB 'substantially' increasing the interest rate to control rising inflation. [6]

Section B

Answer **one** question.

EITHER

2 **(a)** Explain how the Gini coefficient is used to measure income inequality **and** consider the relative strength of **two** economic reasons suggested for such inequality in a low-income country. [8]

(b) Assess the extent to which government policies to redistribute income and wealth are likely to be successful. [12]

OR

3 **(a)** With the help of an example of each, explain the difference between a merit good and a demerit good **and** consider whether a subsidy given to a merit good will always be effective in increasing its consumption. [8]

(b) Assess whether fixing a minimum price is likely to be the best policy to reduce the consumption of a demerit good. [12]

Section C

Answer **one** question.

EITHER

4 **(a)** With the help of a diagram, explain what is meant by the circular flow of income in an open economy **and** consider the extent to which it can explain economic growth in such an economy. [8]

(b) Assess whether supply-side policy is the most effective way to achieve long-run economic growth. [12]

OR

5 **(a)** Explain what is meant by protectionism **and** consider the effectiveness of using tariffs as a method of protectionism. [8]

(b) Assess whether free trade is always better than a policy of protectionism for a developing economy that wishes to trade internationally. [12]

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