Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay (Core) **October/November 2015**

1 hour 30 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer this question.
Brief answers only are required.

Section B
Answer any **one** question.

You may answer with reference to your own economy or other economies that you have studied where relevant to the question.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **4** printed pages and **1** Insert.

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Section A

Answer this question.

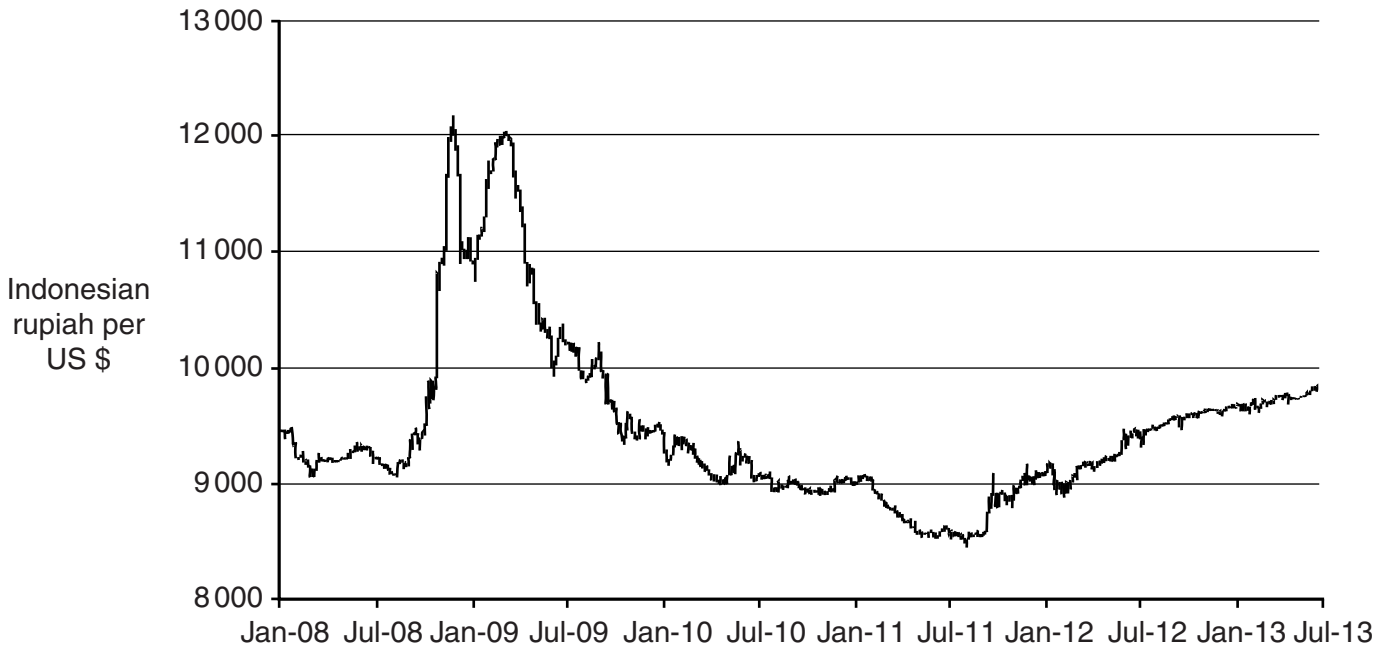
1 **The Indonesian Economy**

Extract 1: Indonesian rupiah weakens to lowest level in almost four years.

In 2012, the Indonesian rupiah's value against the United States (US) dollar fell to its lowest level since September 2009. This caused the cost of oil imports to rise, which resulted in a deficit on Indonesia's current account for the first time since 1997. However, recent developments might support the rupiah. In June, the 2013 Budget reduced fuel subsidies, which caused a price rise for fuel of 44%. Although this will put upward pressure on inflation, it is hoped that the reduction in fuel subsidies will have a positive impact on the Government Budget. Also, in June, Indonesia's Central Bank raised interest rates, which should take some pressure off the rupiah.

Source: Adapted from FocusEconomics 2013

Fig. 1: **Exchange rate of the Indonesian rupiah per US dollar**



Source: Thomson Reuters

Extract 2: Indonesia bans nickel exports.

Indonesia has started 2014 with a ban on exports of nickel, which is used to make stainless steel. Nickel prices increased as markets prepared themselves for a fall in global supply. It is hoped that the ban would mean that multinational companies would be forced to invest in factories in Indonesia so that the nickel is processed in Indonesia rather than just being mined and exported. This would create jobs in Indonesia and broaden Indonesia's manufacturing base.

Source: Sydney Morning Herald 2014

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Extract 3: Higher interest rates in the US cause concern in Indonesia.

Interest rates in the US look likely to increase and this will have an impact upon several emerging economies, including Indonesia.

Indonesia's central bank has resisted increasing interest rates but is monitoring events in the US. Inflation in Indonesia was stable at 8.4% in December 2013, but economic growth slowed to its lowest rate in four years. In addition, Indonesia's trade position is poor and there is a large outflow of foreign capital.

Source: The Observer 2014

(a) Describe the change in the value of the Indonesian rupiah between July 2009 and July 2013 shown in Fig.1. [2]

(b) Explain how the fall in the rupiah could cause the first current account deficit since 1997 as stated in Extract 1. [2]

(c) With the help of a diagram, explain how a cut in fuel subsidies would have contributed to the rise in the price of fuel by 44%. [4]

(d) **(i)** How could a rise in interest rates in the US affect Indonesia's balance of payments? [2]

(ii) With the help of a diagram, explain how this rise in US interest rates would be expected to cause a fall in the value of the Indonesian rupiah. [4]

(e) Discuss how any **two** changes described in the data might be expected to affect aggregate demand and aggregate supply in Indonesia and assess how prices and output might be affected. [6]

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[Turn over

Section B

Answer any **one** question.

2 **(a)** A study estimates that dark chocolate has a price elasticity of demand of (–)0.8 and that white chocolate has a price elasticity of demand of (–)1.4. Explain how chocolate producers could change price to increase total revenue for each type of chocolate. [8]

(b) Explain the factors that might cause a fall in demand for chocolate and discuss the extent to which chocolate producers have the power to stop this fall in demand happening. [12]

3 **(a)** Explain what is meant by the term 'money' and outline its characteristics in a modern economy. [8]

(b) Discuss whether money is able to perform all its functions effectively in an economy that is experiencing a high rate of inflation. [12]

4 **(a)** In a two-country world, one country is more efficient at producing one product and the other country is more efficient at producing another product. Explain why specialisation and trade usually benefit both countries. [8]

(b) Suppose one country is more efficient at producing both products. Discuss whether it is the case that specialisation and trade will always benefit both countries. [12]

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