Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay **October/November 2016**

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 **Free Trade and Protectionism**

The US wins World Trade Organisation (WTO) trade enforcement disputes

The US has won a major victory at the WTO on behalf of the nation's farmers and the poultry industry. The WTO found in favour of the US in a dispute challenging India's ban on agricultural imports from the US such as poultry, meat, eggs and live pigs, allegedly to protect India from the spread of disease. The panel agreed that India's ban broke international trade rules and was imposed without sufficient scientific evidence.

This is the fourth major WTO victory that the US has announced this year. The US government is determined to extend economic opportunity for US workers, farmers and businesses.

Earlier US victories at the WTO in 2014 were:

- In June, the WTO found that China broke rules by imposing unjustified extra import duties on US cars. In 2013, an estimated US$5.1 billion of US car exports were covered by those duties.

- In August, the WTO found that China broke WTO rules by imposing quotas on Chinese exports of tungsten and molybdenum. These are important raw material inputs used by US manufacturers of products such as car batteries, wind turbines, energy-efficient lighting, steel, petroleum and chemicals.

- Also in August, the WTO agreed with the US that Argentina's import-licensing requirement and other import restrictions broke international trade rules. The Argentine measures unfairly restricted imports of US goods, potentially affecting billions of dollars of US exports, including computers, industrial and agricultural chemicals, transport equipment, machine tools, parts for oilfield rigs and refined fuel oil.

Source: The Prairie Star*, 19 October 2014*

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Table 1: US Trade in Goods with India 2009–2014

	2009	2010	2011	2012	2013	2014
Exports (US$ millions)	16 441	19 249	21 542	22 106	21 842	23 600
Imports (US$ millions)	21 166	29 533	36 155	40 513	41 845	45 228

Source: US Census Bureau

(a) (i) Compare the US balance of trade with India in 2009 with that in 2014. [2]

(ii) Explain **two** factors, other than India's ban on US agricultural products, that could explain the change in the US balance of trade that you have identified. [4]

(iii) In addition to the balance of trade in goods, what other balances would you require to calculate the US current account balance with India? [2]

(b) (i) Use a diagram to show how an import duty on a product affects its price. [2]

(ii) What is likely to determine the extent of the change in sales when an import duty is imposed on US cars in China? [2]

(iii) Explain a possible reason why China imposed export quotas on tungsten and molybdenum. [2]

(c) Consider whether the protectionist measures adopted by countries such as India, China and Argentina regarding trade with the US could ever be justified. [6]

Section B

Answer any **one** question.

2 **(a)** Explain, with the help of a diagram, what happens in the market for a product when the price of a substitute increases, and how economists would measure the relationship between these two products. [8]

(b) Discuss how habit-forming demerit goods and goods with lots of substitutes are each likely to respond to price rises, and consider the extent to which knowledge of their likely response would be useful to government policymakers. [12]

3 **(a)** Explain any **two** factors that cause the supply of a product to be price-inelastic. [8]

(b) Discuss the policies that a government might adopt to increase the price elasticity of supply of agricultural goods in an economy and consider which policy is likely to be most effective. [12]

4 **(a)** Explain what is used as money in a modern economy and how an increase in the quantity of money can cause prices to rise. [8]

(b) Discuss the policy options available to a government faced with inflation, and consider which is most likely to be effective. [12]

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