Cambridge International AS & A Level

**Cambridge International Examinations**
Cambridge International Advanced Subsidiary and Advanced Level

**ECONOMICS** **9708/23**

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

**1 hour 30 minutes**

No Additional Materials are required.

*9803481139*

**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.

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CAMBRIDGE International Examinations

## Section A

Answer this question.

**1** **Economic problems in Kyrgyzstan**

### Rouble decline affects Kyrgyzstan

Kyrgyzstan is a developing economy which has a border with Russia. At the local market in the capital, Bishkek, the price of meat increased by 9% in six weeks in 2014. A local butcher said that as a result sales had fallen. 'I usually sell 400 kilos of meat every month, but in September I sold only 250 kilos,' she complained. In Bishkek, food prices increased by up to 25% over 12 months. Another shopkeeper increased what he charged for flour by 15%, but sales did not decline by very much. 'We all need flour because we all need to eat bread, macaroni, dough,' he said. 'It's not something people can cut back even if it becomes very expensive.'

Meanwhile, a sharp decline in the value of Russia's currency, the rouble, since early September is having an impact upon countries across Central Asia, where economies are dependent on remittances (transfers of income) from workers in Russia. By October 2014 the value of the rouble had fallen 20% against the US dollar since the start of the year. The fall had accelerated in September as the price of oil – Russia's main export – dropped to a four-year low. As local currencies followed the value of the rouble downward, the costs of imported essentials rose.

In Kyrgyzstan, remittances from the millions of workers in Russia have started to fall. In recent years, these cash transfers have contributed the equivalent of about 30% of national income to Kyrgyzstan's economy. As the rouble depreciates, however, it purchases fewer US dollars to send home. Any further drop may significantly reduce consumer demand.

This month the International Monetary Fund said it expects consumer prices in Kyrgyzstan to increase by 8.0% in 2014 and 8.9% in 2015, compared with 6.6% last year. One factor that could have an effect is a policy shift at Russia's central bank, which has already spent over US$50 billion this year attempting to protect the value of the rouble. Some people have condemned efforts to support the currency, arguing that a weaker rouble is good for exports.

In Kyrgyzstan the central bank has used some of its limited reserves to reduce the fall in the currency. Nevertheless, Kyrgyzstan's currency, the som, has fallen in value by 12% against the US dollar this year.

*Source: Adapted from Asia Times Online, October 2014*

**(a)** **(i)** Calculate the price elasticity of demand for meat in Bishkek. [2]

**(ii)** How does the price elasticity of demand for meat differ from the price elasticity of demand for flour in Bishkek? [2]

**(iii)** How might an economist explain this difference? [2]

**(b)** With the help of a supply and demand diagram, explain how the Russian central bank is 'attempting to protect the value of the rouble'. [3]

**(c)** Consider the extent to which the economic performance of Kyrgyzstan would be affected by the fall in remittances from Russia. [5]

**(d)** Discuss whether the actions of the Russian and Kyrgyzstan governments in protecting the value of their currencies are likely, on balance, to have benefited their economies. [6]

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## Section B

Answer any **one** question.

**2** **(a)** Distinguish between the concepts of market equilibrium and disequilibrium and show what happens in a free market for a good when disequilibrium exists. [8]

**(b)** Discuss whether subsidies or improved information is the more effective policy to deal with the problems raised by the under-consumption of merit goods. [12]

**3** **(a)** Explain with the help of a diagram why production possibility curves are usually drawn with increasing opportunity costs, and show how they can be used to illustrate scarcity. [8]

**(b)** Discuss whether it is likely that economies that have an increase in labour and a high rate of technological innovation will come nearer to solving the economic problem. [12]

**4** **(a)** Using diagrams, explain how rising raw material prices and a fall in the rate of interest might cause different types of inflation. [8]

**(b)** Discuss how the policy chosen to reduce the rate of inflation will be influenced by the cause of the inflation. Consider which type of inflation is most difficult to reduce and why. [12]

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