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 2017**

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 **Question 1**.
Brief answers only are required.

Section B
Answer **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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Section A

Answer this question.

1 **Japan's Economic Difficulties**

Table 1: Japan Consumer Prices Index, June 2013–December 2015

	Consumer Prices Index 2010 June = 100
2013 June	99.8
2013 December	101.0
2014 June	103.4
2014 December	103.4
2015 June	103.7
2015 December	103.6

Source: MIAC, JMA

Table 2: Japan Consumer Prices Index, Categories of Spending

Category of Spending	Weighting	Year on Year % price change December 2015
Food	25.3	2.4
Housing	21.2	–0.1
Fuel, light and water charges	7.0	–6.6
Household goods	3.5	2.3
Clothing and footwear	4.1	1.8
Medical care	4.3	0.8
Transport and communication	14.2	–2.8
Education	3.3	1.5
Culture and recreation	11.5	2.2
Miscellaneous	5.6	0.7

Source: MIAC, JMA

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Japan's economy shrunk by 0.4% in the second quarter of 2015. This was as a result of weak domestic consumption and slow exports. Should the economy continue to contract for another quarter and inflation expectations start to fall, expansionary monetary policy is likely to be introduced.

Private consumption, which accounts for about 60% of Japan's national income, fell 0.8%, partly because of weak overall wage growth and partly because of bad weather. Household spending has struggled to recover following a sales tax rise last year, which was part of the government's aim to push up prices to achieve its 2% inflation target. Despite wage rises at some big firms and labour shortages, it has been a struggle to convince people to spend much more money on consumer goods after last year's sales tax rise. Increasing consumption is proving even more difficult given falling oil prices. Exports dropped 4.4% in the same quarter. The sharp plunge was partly due to disappointing demand for Japanese products, especially in the US and China. The slowdown in China, a major market for Japanese exporters, has further raised concerns.

It is now two years since Japan's prime minister, Shinzo Abe, introduced his policy, sometimes called 'Abenomics'. This aims to revive the economy, boosting growth and conquering years of deflation. The programme called for more government spending, large increases in the money supply and reforms to a highly regulated economy. But the pace of reforms has been slow, particularly in the protected agricultural sector. The poor figures on the economy resulted in the central bank stating it will not yet meet its 2% inflation target – a key part of Abenomics – although the bank insists that healthy price rises are around the corner.

Source: Agence France-Presse in the Guardian

(a) Use Table 1 to identify **two** periods when the Consumer Prices Index fell in Japan. [2]

(b) Explain how Table 2 could be used to support the view that falling oil prices have contributed to downward pressure on consumer prices. [2]

(c) With reference to the year on year price changes shown in Table 2, explain which category of spending had the greatest impact on the real income of the average household in Japan in 2015. [4]

(d) Explain whether expansionary monetary policy is likely to increase prices and help Japan to achieve its target inflation rate of 2%. [6]

(e) Discuss whether all individuals and firms in Japan would benefit from a rise in the rate of inflation. [6]

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[Turn over

Section B

Answer **one** question.

2 **(a)** Explain how economists use the concept of income elasticity of demand to distinguish between different types of goods. [8]

(b) Discuss whether an understanding of price elasticity of demand is of more benefit to a producer of agricultural goods than an understanding of income elasticity of demand. [12]

3 **(a)** Show the difference between a movement along, and a shift in, a production possibility curve. Explain what might cause each to occur. Use diagrams to support your answer. [8]

(b) Discuss the way in which resources are allocated in planned economies and free market economies. Consider which type of economic system is likely to have the more beneficial outcome. [12]

4 **(a)** Describe the four components of the current account of the balance of payments. Explain what might cause a deficit in this account. [8]

(b) Discuss the ways in which expenditure-reducing and expenditure-switching policies attempt to remove a current account deficit. Assess which approach is preferable. [12]

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