Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **October/November 2018**

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 The problems of measuring inflation

Inflation is a simple concept, but price indices are surprisingly hard to construct.

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Table 1.1: Changes in the US Consumer Price Index, April 2015–January 2016

	April 2015	July 2015	October 2015	January 2016
US Consumer Price Index (January 1983 = 100)	236.0	238.1	238.0	238.1

Source: Adapted from *www.tradingeconomics.com and US Bureau of Labor Statistics*

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(a) Using Table 1.1, calculate the percentage increase in prices in the US between April 2015 and January 2016. [2]

(b) Using examples, explain why the prices of products used to calculate the CPI are given weights. [2]

(c) Explain why the DPI is more likely to be used for measuring the rate of inflation in the future. [2]

(d) Explain how changes in supply might be the cause of a fall in the price of computers at a greater rate than the CPI. Use a diagram to support your answer. [4]

(e) Explain the implications of inflation for borrowers and savers. [4]

(f) Discuss whether monetary policy can operate effectively if inflation is not measured accurately. [6]

Section B

Answer **one** question.

2 **(a)** Explain how capital goods contribute to production in a modern economy and how capital is rewarded. [8]

(b) Discuss whether enterprise is crucial to the outward shift of the production possibility curve in a mixed economy. [12]

3 **(a)** Explain the factors that can affect the value of the price elasticity of supply for a product. [8]

(b) Discuss whether income elasticity of demand is the most useful measure of elasticity to a firm. [12]

4 **(a)** Explain the difference in the way tariffs and quotas operate as methods of protection. [8]

(b) Discuss the extent to which free trade should always be preferred to protectionism. [12]

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