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 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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CAMBRIDGE International Examinations

Section A

Answer this question.

1 European Union (EU) to boost protection of steel industry as imports flood in

The EU is expected to strengthen its protection against steel imports, possibly as early as October 2016, as a global trade war in steel intensifies and steel imports keep flooding into the EU.

The EU has strengthened trade defences over the past year, imposing anti-dumping tariffs on a range of steel products. These tariffs range from 18% to 25% for imports of steel from China. It is expected that these duties will be increased in October. EU data shows that 27% of steel imports come from China. The EU now has 37 anti-dumping and anti-subsidy measures in place for steel products, 15 of them against China.

China, which produces half of the world's 1.6 billion tonnes of steel, has struggled to reduce its estimated 300 million tonnes of overcapacity, but the Chinese government denies its firms are dumping by selling steel at below the cost of production. It says global steel overcapacity is due to the collapse of demand after the 2008 financial crisis. Countries from Asia to the Americas disagree with China. The United States (US) claims that the Chinese government is subsidising its steel industry and that this is a form of protectionism that gives Chinese steelmakers an unfair advantage in world markets. It has imposed tariffs of up to 450% on some types of Chinese steel. India has also imposed tariffs on steel imports from a number of countries including China, Japan, Russia, Brazil, Indonesia and South Korea.

Source: EurActiv.com with *Reuters,* August 2016

Table 1.1: EU exports and imports of goods to and from China 2010–2015 (billions of euros)

	2010	2011	2012	2013	2014	2015
Exports of goods	113.5	136.4	144.2	148.2	164.6	170.4
Imports of goods	283.9	295.1	292.1	280.1	302.1	350.4

Source: Eurostat

Table 1.2: EU exports and imports of services to and from China 2010–2015 (billions of euros)

	2010	2011	2012	2013	2014	2015
Exports of services	19.5	21.7	25.2	27.7	29.1	36.0
Imports of services	17.2	17.7	19.6	21.1	22.9	25.7

Source: Eurostat

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(a) **(i)** How does the EU's balance of trade in goods with China in 2015 compare with the balance in 2010? [2]

(ii) How does the EU's services balance in trade with China differ from its balance of trade in goods with China over the period 2010 to 2015? [2]

(b) Outline why the US would claim that subsidies to Chinese steel makers give them an 'unfair advantage in world markets'. [2]

(c) With the help of a diagram explain how the imposition of import tariffs on steel will protect domestic producers of steel in India. [4]

(d) **(i)** Explain who could lose in China as a result of the imposition of tariffs on Chinese steel. [2]

(ii) Explain who could lose in the EU as a result of the imposition of tariffs on Chinese steel. [2]

(e) With reference to the principle of comparative advantage, discuss whether the increase in exports of EU services to China could justify free trade in the market for steel. [6]

Section B

Answer **one** question.

2 **(a)** Explain the significance of cross elasticity of demand values that are negative, positive and zero. [8]

(b) Discuss the extent to which the concepts of price elasticity of demand, income elasticity of demand and price elasticity of supply would be helpful to an organisation responsible for the growth of tourism to a holiday resort. [12]

3 **(a)** Explain how the rate of deflation is measured and the impact of a period of deflation on an economy. [8]

(b) Analyse how fiscal policy and monetary policy could be used to solve the problem of deflation. Assess which policy is likely to be more effective. [12]

4 **(a)** Explain the features of a public good. Consider whether a motorway (highway) provides an example of a public good. [8]

(b) Discuss whether increased government spending on a country's infrastructure will always lead to a rise in the rate of inflation. Use aggregate demand and aggregate supply analysis to support your answer. [12]

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