Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay **October/November 2021**

1 hour 30 minutes

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You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **two** questions in total:
  - Section A: answer Question 1.
  - Section B: answer **one** question.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.
- You may use a calculator.
- You may answer with reference to any economy you have studied where relevant to the question.

INFORMATION

- The total mark for this paper is 40.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **4** pages.

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Section A

Answer this question.

1 India no longer the world's fastest-growing economy

Table 1.1: India – components of aggregate demand as % of total demand

Components of aggregate demand as % of total demand	Quarter 4 2018	Quarter 1 2019
Consumption expenditure	58.9%	56.8%
Investment expenditure	34.5%	31.8%
Government expenditure	9.7%	9.9%
Export expenditure	21.8%	20.0%

Source: Trading Economics

India's income has grown at its slowest rate in almost five years, according to the latest data released by the government. In the past financial year - April 2018 to March 2019 - income grew by 6.8%. And in the quarter between January and March 2019, it expanded by just 5.8% - falling behind the rate of China's growth for the first time in nearly two years. This means India is no longer the world's fastest-growing economy. The new data make it clear that India is facing an economic slowdown.

Unlike China, India's growth in income has been driven by domestic consumption over the past 15 years. But data released over the past few months suggest that consumer spending is slowing, despite the continuing growth in incomes. Motorbike and scooter sales are down. Demand for bank loans has slowed and India's leading maker of fast-moving consumer goods, such as packaged food and drink, has reported slower revenue growth in the past quarter. However, sales of smartphones have continued to increase faster than incomes have been growing. All of these are important indicators for measuring the state of consumption spending.

The government has promised that it would cut income tax to ensure greater purchasing power and some economists believe that the government should also consider cutting business taxes in the next budget, which will be announced in July 2019. These measures should act as a stimulus for the economy.

India's government has promised to spend US$1.44 trillion to build roads and other infrastructure such as bridges and street lighting, but India's large budget deficit might restrict the government's options. Many observers say that this money will have to come from the private sector. Experts say that the widening fiscal deficit will hold back medium-term and long-term growth.

Weak exports have also been a problem when it comes to creating jobs. In response the government is expected to prioritise policies that will make Indian businesses more competitive.

Source: Sameer Hashmi, BBC News, 31 May 2019

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(a) Calculate import expenditure as a percentage of total demand in India in quarter 1 2019. [1]

(b) The Indian government promised that it would cut income tax to ensure greater purchasing power for consumers.

(i) Explain how economists would measure the impact of a cut in income tax upon the demand for different goods such as scooters and smartphones. [2]

(ii) With reference to the data, explain whether the impact of the income tax cut is likely to be the same on the demand for scooters and the demand for smartphones. [2]

(c) Using the information, identify **one** policy that could be considered a supply-side measure and explain how this policy could make Indian businesses more competitive. [3]

(d) Discuss whether the advantages of cutting interest rates in the Indian economy would outweigh the disadvantages. [6]

(e) Consider whether roads and other items of infrastructure in India would be better provided by the private sector or by the government in India. [6]

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[Turn over

Section B

Answer **one** question.

2 **(a)** Use a diagram(s) to explain how a production possibility curve can be used to show opportunity cost and why such a curve is usually drawn with increasing opportunity costs. [8]

(b) Discuss whether the principle of comparative advantage concludes that a movement to free trade will always result in an overall benefit for an economy. [12]

3 **(a)** Explain what is meant by consumer surplus and use diagrams to assess the impact on consumer surplus when an indirect tax is imposed on a good with price-elastic demand compared with the impact when the demand is price-inelastic. [8]

(b) A government is considering whether to adopt a policy of maximum price legislation in the market for food or to provide food subsidies to alleviate hunger in a period of food shortages.

Discuss whether maximum price legislation or food subsidies are more likely to alleviate hunger under these circumstances. [12]

4 **(a)** Explain what is meant by inflation and, using diagrams, show how it can arise both as a result of a shift in the aggregate demand curve and a shift in the aggregate supply curve. [8]

(b) Discuss whether the domestic effects of inflation are more serious than the external effects for an economy. [12]

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