Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/23**

Paper 2 Data Response and Essay **October/November 2022**

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 Pakistan's agriculture survives on subsidies

As in most developing countries, the agricultural sector in Pakistan is heavily dependent on subsidies. Agriculture is an important activity, employing 45% of the population. Domestic production is vital in providing food for its growing population. Farming in Pakistan is not very profitable and without subsidies, many farmers would be forced to leave their farms.

Despite subsidies, as shown in Table 1.1, the cost of production in Pakistan is much greater for a range of staple products than it is in India where farmers are more heavily subsidised.

Table 1.1: Cost of production after subsidies of selected products in Pakistan and India, 2018 (Pakistan Rupees per unit)

	Pakistan	India
Wheat	76	51
Cotton	127	88
Rice	124	68
Sugar cane	222	142
Maize	119	53

The higher cost of production in Pakistan has serious implications for Pakistan's participation in global trade in agricultural products. This problem is particularly critical as Pakistan seeks to increase exports to reduce a deficit on the current account of the balance of payments.

A complaint of farmers is that GST, a sales tax, is charged when they purchase fertilisers. In May, the government gave in to pressure and cut GST on fertilisers from 17% to 2%. Farmers' leaders want the tax to be completely removed from fertiliser sales. Their priority, however, is for a large increase in the subsidy paid to farmers to a level comparable to that paid to farmers in India. In Pakistan's current economic position this prospect appears to be remote.

Pakistan's farmers also complain about the subsidies that are paid to farmers in richer neighbouring countries. They strongly argue that these subsidies are unfair on farmers from developing countries and are holding back their economic development.

Source: Agriculture survives on subsidies, Amjad Mahmood, Dawn, 27 May 2019

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(a) Explain what might be the opportunity cost if the Pakistan government agreed to pay subsidies to Pakistan's farmers comparable to those paid to India's farmers. [2]

(b) **(i)** With reference to Table 1.1, state in which product group Pakistan's farmers are most disadvantaged. [1]

(ii) Explain how the lower level of subsidy currently paid to Pakistan's farmers is likely to affect Pakistan's trade in agricultural goods when competing with India in international markets. [3]

(c) Analyse, with the help of a diagram, how the sales tax on fertilisers affects the market for fertilisers in Pakistan. [4]

(d) Explain **two** other ways, apart from subsidies and reductions in sales tax, in which the government might support Pakistan's farmers. [4]

(e) Discuss whether agricultural subsidies should **not** be paid to farmers in countries which have lower opportunity costs in other areas of production. [6]

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[Turn over

Section B

Answer **one** question.

2 **(a)** Explain why demerit goods are over-consumed and merit goods are under-consumed. [8]

(b) Discuss the extent to which the introduction of a maximum price in a market will benefit consumers. [12]

3 **(a)** Explain the difference between a progressive direct tax and a regressive indirect tax, with an example of each. [8]

(b) Discuss whether an increase in direct taxes or an increase in interest rates is the more effective way of reducing inflation. [12]

4 **(a)** Explain how a higher rate of inflation in an economy compared to its trading partners and a decline in the exchange rate will each affect the terms of trade in an economy. [8]

(b) Since 2018, China and the United States (US) have been imposing tariffs on trade with each other.

Discuss the view that some will benefit and some will lose but the overall impact of these tariffs will be negative. [12]

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