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Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay **October/November 2019**

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 Ethiopia to develop through infrastructure investment

Extract 1: Ethiopia economic overview

With 99.4 million people, Ethiopia has the second largest population in Sub-Saharan Africa. Its annual population growth rate was 2.5% in 2015. It is also one of the world's poorest countries. The country's per capita income of US$590 is substantially lower than the regional average. In 2011, 33.5% of the population lived in extreme poverty.

The economy has experienced strong and broad-based growth over the past decade, averaging 10.8% per year between 2003 and 2015 compared to the regional average of 5.4% per year. Private consumption and public investment have been the main drivers of aggregate demand in recent years.

In 2017, the government was implementing the second phase of its Growth and Transformation Plan (GTP II), due to run from 2015 to 2020. Its aim was to continue improvements in physical infrastructure through public investment, transforming the country into a manufacturing hub. The goal was to reduce poverty in Ethiopia by 2025.

Developments in the balance of payments in Ethiopia have been largely driven by the implementation of major infrastructure projects in the country that contributed to higher current account deficits, balanced by growing foreign direct investment (FDI) and long-term foreign borrowings.

Source: World Bank, April 2017

Extract 2: Ethiopia plans US$90 million infrastructure spending spree

Despite Ethiopia being a landlocked country, the vast majority of its imports and exports are conveyed by sea. The ports in neighbouring country Djibouti are crucial to Ethiopia because they are used for 90% of its trade.

In January 2017, a US$4 billion railway project was officially completed linking Ethiopia's capital, Addis Ababa, to the main port in Djibouti, cutting the travel time along the route from three days to just 12 hours. It was expected to cut the cost of transporting freight by a third, having a huge impact on trade flow and the lives of Ethiopians.

The project was partially built and funded by Chinese companies with the assistance of the Chinese government. China Railway Group and the China Civil Engineering Construction Corporation built the railway line, while China loaned Ethiopia US$2.49 billion to build the new railway. Contracts were awarded to Chinese firms to build various sections of the railway. Chinese investment in Ethiopia's infrastructure provides opportunities for Chinese steel and construction industries. China has an overcapacity in steel and needs to find markets for its excess supply. China also has the technical expertise and companies available to assist in major foreign infrastructure projects.

Chinese infrastructure investment in Ethiopia is not just limited to the railway network. Chinese firms are also building more than 65% of the new roads in Ethiopia including the prominent Addis Ababa ring road. As part of its policy of investing in infrastructure, the Ethiopian government is spending US$89 million of its own revenue upgrading the national road network.

Source: Neil Ford, African Business, 21 March 2017

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Table 1.1: Ethiopia's current account of the balance of payments, 2015

Balance of trade in goods and services (US$ million)	Current account balance (US$ million)
–14 275	–7427

Table 1.2: Ethiopia's Foreign Direct Investment inflows, 2012–2015 (US$ millions)

Year	2012	2013	2014	2015
	279	1281	2132	2168

Source for tables: IMF World Economic Outlook, October 2016

(a) (i) Suggest **two** reasons that would explain why Ethiopia's current account balance differs from its balance of trade in goods and services in 2015 as shown in Table 1.1. [2]

(ii) Explain **one** possible impact on Ethiopia's balance of trade in goods and services of operating the new railway line to Djibouti. [2]

(b) Identify **two** ways in which China's economy would benefit from the building of infrastructure in Ethiopia. [2]

(c) Use a production possibility curve to explain the opportunity cost that Ethiopia would face if it did not have access to help from China in building new infrastructure. [4]

(d) Consider whether a road network, such as that upgraded in Ethiopia with government funds, should be classified as a public good. [4]

(e) Use aggregate demand and aggregate supply analysis to discuss how output, employment and prices might be affected by the development of infrastructure in Ethiopia. [6]

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Section B

Answer **one** question.

2 **(a)** Explain, with the help of a diagram, the process through which the equilibrium price and equilibrium quantity of a good changes when there is an improvement in the technology underlying the production of that good. [8]

(b) Discuss the problems in applying supply-side policies in an economy and assess whether these problems can be overcome. [12]

3 **(a)** Explain how knowledge of the price elasticity of demand for a good can help businesses to assess the impact of price changes upon their total revenue. [8]

(b) 'Since the demand for a demerit good such as cigarettes is price inelastic, a tax on the product is a waste of time. What is needed is better awareness amongst consumers of the negative effects of smoking cigarettes.'

Discuss this view. [12]

4 **(a)** Explain how the terms of trade of an economy will be affected by changes in that economy's exchange rate. [8]

(b) Discuss, using examples, whether an expenditure-reducing or an expenditure-switching policy is the more effective response in economies faced with a deficit on the current account of the balance of payments. [12]

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