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Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/23**

Paper 2 Data Response and Essay **October/November 2020**

1 hour 30 minutes



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 [ ].

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Section A

Answer this question.

1 Malaysia's persistent trade surplus

Malaysia has the third highest income per head in South East Asia and, in the last six years, has experienced an average rate of growth approaching 6% per year. It is now a successful 'newly industrialised market economy' with a strong export sector. This strength is seen in its consistent surplus on its balance of trade in goods and services (see Fig. 1.1).

In the past, Malaysia's economy was firmly based on the production of basic raw materials such as rubber and tin. In more recent years, however, its growing prosperity has come about through it being a leading exporter of electrical appliances, electronic parts, petroleum and natural gas. China is its biggest export market, accounting for 16% of total exports in 2016, and a further 11% of exports go to the European Union (EU). Malaysia's economy though remains vulnerable to external shocks like the global financial crisis of 2007–2008, which led to capital outflows.

Despite what appears to be a strong external trade position, the foreign exchange rate of Malaysia's currency, the ringgit (RM), against the US dollar has experienced significant change since 2013 (see Fig. 1.2). Given the importance of trade in goods and services to its economy, any volatility and uncertainty of the ringgit's value may well hinder Malaysia in its drive to become a 'high income economy'.

Source: adapted from tradingeconomics.com/articles, accessed April 2018

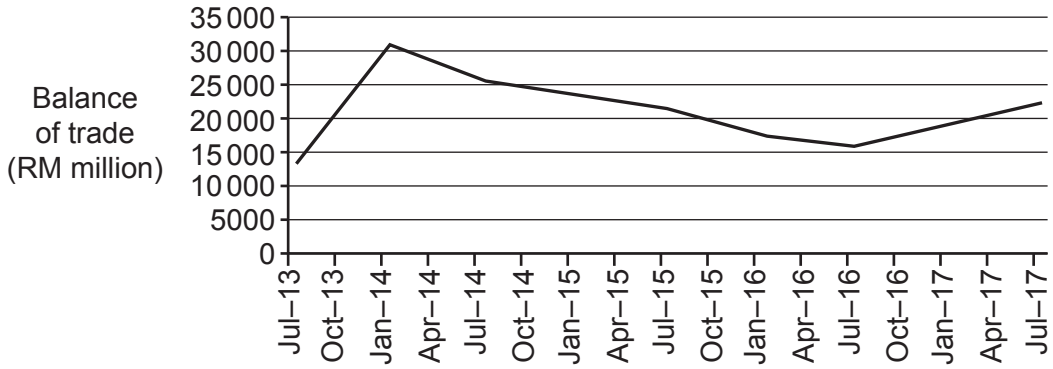


Fig. 1.1 Malaysia balance of trade in goods and services, July 2013–July 2017 (RM million)

Source: tradingeconomics.com, accessed April 2018

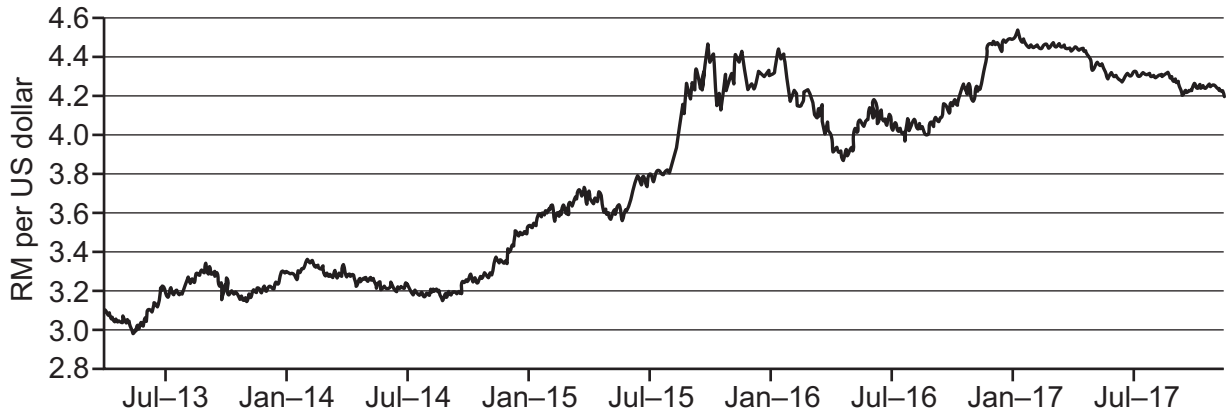


Fig. 1.2 Malaysia/US foreign exchange rate, July 2013–July 2017

Source: US Federal Reserve

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(a) State whether the Malaysian ringgit depreciated or appreciated against the US dollar over the period July 2013 to July 2017. Justify your answer. [2]

(b) **(i)** Describe the relationship you would expect between a change in the foreign exchange rate of a country and its balance of trade in goods and services. [2]

(ii) Explain whether the evidence in Fig. 1.1 and Fig. 1.2 confirms this relationship. [2]

(c) In July 2017, Malaysia's balance of trade in goods and services was RM22 045 million and its current account balance was RM9642 million.

Explain the reason for this difference. [2]

(d) Other than exchange rate changes, explain **two** possible reasons for Malaysia's increasing balance of trade in goods and services surplus from July 2016 to July 2017. [6]

(e) Discuss whether the Malaysian government should be concerned about persistent surpluses in its balance of trade in goods and services. [6]

Section B

Answer **one** question.

2 **(a)** Using diagrams, explain what might cause a market to be in disequilibrium, and how market forces would lead to equilibrium being restored. [8]

(b) Discuss whether the incidence of an indirect tax on a product always affects its consumers more than its producers. [12]

3 **(a)** Explain what is meant by income elasticity of demand and, with the help of examples, show how it can be used to determine whether a good is normal or inferior. [8]

(b) Discuss whether knowledge of price elasticity of demand or price elasticity of supply is more useful for a car manufacturer. [12]

4 A government embarks on a supply-side policy involving substantial additional funding for new road schemes and for new training schemes designed to raise labour productivity.

(a) Use an AD/AS diagram to explain the effects of this funding on the level of output in the economy. [8]

(b) Discuss the extent to which a supply-side policy involving new road schemes and new training schemes will increase the rate of inflation in the economy. [12]

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