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Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/23**

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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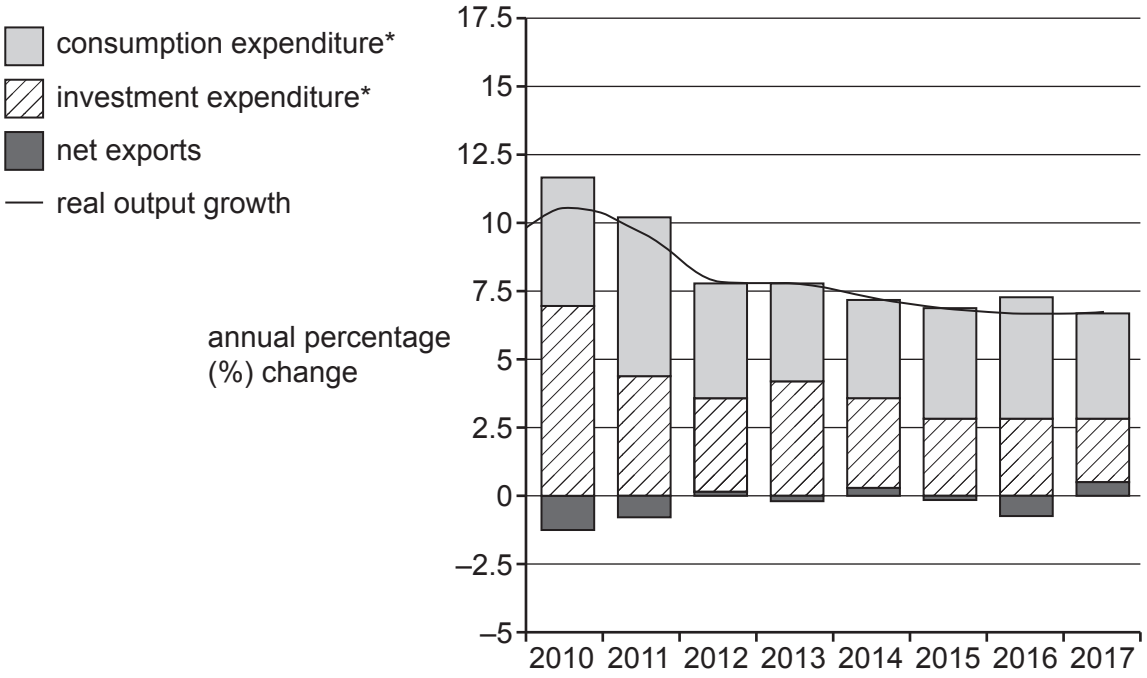
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Section A

Answer this question.

1 **China's uncertain economic prospects**

Fig. 1.1 below shows growth in real output by components of aggregate demand in China from 2010 to 2017.



* Consumption expenditure and investment expenditure include both public sector and private sector expenditure, so government expenditure is not shown separately.

Fig. 1.1

Table 1.1 below shows the annual percentage (%) change in new car sales in China from 2010 to 2017.

Table 1.1

Year	% change
2010	33.2
2011	5.2
2012	7.1
2013	15.7
2014	9.9
2015	7.6
2016	14.9
2017	2.4

Source: knoema.com, October 2019

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In 2018, real output in China's economy grew by 6.6%, its lowest figure this century (see Fig. 1.1). Many economists believe that growth in China's real output will continue to be around this level over the next few years.

In looking to the future, the Chinese government has sought to restructure its economy. This has resulted in an increased contribution from domestic consumption, with less reliance on large-scale manufacturing in favour of quality manufacturing. For Chinese consumers, buying a house is the main priority, followed by purchasing a new car. Table 1.1 shows the annual rate of change in new car sales from 2010 to 2017.

China's plans for maintaining its growth in real output at a rate of around 6.6% are threatened by ongoing tensions over trade with the United States (US). These tensions provide a real threat to China meeting even its most pessimistic growth targets for real output. Various studies have estimated the effects of a protectionist trade war with the US on China's economy. These estimates are all negative and range from –0.6% to –1.4% of real output.

Source: China Daily, 19 February 2019

(a) Use the data in Fig. 1.1 to describe how the contribution to real output growth of the different components of aggregate demand in China has changed from 2010 to 2017. [2]

(b) **(i)** What relationship might you expect between the rate of growth in real output and sales of new cars in an economy? [1]

(ii) Consider whether the evidence in Fig. 1.1 and Table 1.1 supports this relationship. [2]

(c) State **one** protectionist measure that may be adopted by the US in a trade war with China and explain what effect this would have on consumers and producers in the US. [3]

(d) Discuss whether cuts in direct taxes would increase the demand for all types of consumer goods in China. [6]

(e) Discuss whether increasing domestic consumption is the best way for China to maintain the growth in real output at the current rate 'over the next few years'. [6]

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Section B

Answer **one** question.

2 **(a)** Explain how the fundamental economic problem is addressed in a planned economy and in a market economy. [8]

(b) Discuss the view that in a mixed economy the only role of government should be to provide public goods and the supply of merit goods should be left to the private sector. [12]

3 **(a)** Using the concept of price elasticity of demand, explain why increasing the price of the product is:

(i) a bad idea for a firm producing a product that constitutes a large proportion of household income, and

(ii) a good idea for a firm producing a product that constitutes a small proportion of household income. [8]

(b) Discuss whether cross elasticity of demand or income elasticity of demand is likely to be more useful in assisting a firm in its pricing decisions. [12]

4 **(a)** Explain how inflation is measured and why a rising rate of inflation may be of concern to consumers and producers. [8]

(b) Discuss whether a policy of increasing interest rates is the best way of controlling a rising rate of inflation in an economy. [12]

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