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Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/22**

Paper 2 AS Level Data Response and Essays **October/November 2024**

2 hours

You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **three** questions in total:
  - Section A: answer Question 1.
  - Section B: answer **one** question.
  - Section C: 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 60.
- 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 all parts of Question 1.

1 Can economic growth in Chile reduce income and wealth inequality?

Chile is the world's biggest copper producer with 28% of global copper production and the second biggest producer of lithium with 22% of world production. Overall, mining contributes 11% of the country's Gross Domestic Product (GDP) and more than 50% of the value of the country's total exports. World copper and lithium prices have increased quickly since 2020. This has led to strong growth in GDP which is expected to increase by 3.5% in 2022, exceeding earlier estimates of 2.5% as world demand is expected to grow following the Covid-19 pandemic. Fig 1.1 shows the world price of copper in United States dollars (US$) per pound (lb) weight. A pound is 454 grammes.



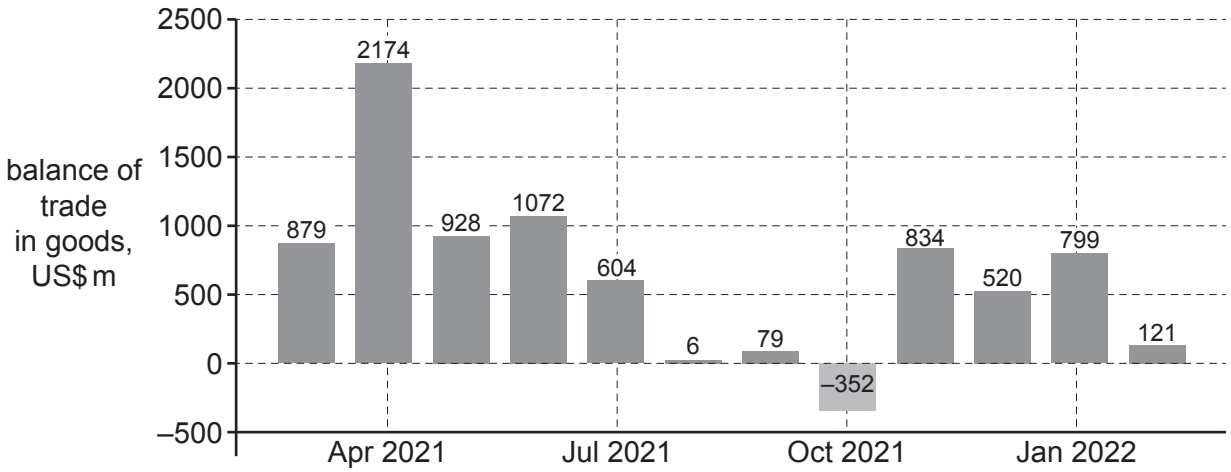
Source: *tradingeconomics, April 2022*

Fig 1.1: World copper price, 2017 to 2022

Economic growth in Chile has also been helped by the world's highest rate of vaccination against Covid-19 and a rapid economic recovery from the pandemic which has led to a large increase in consumer spending.

However, the trade in goods surplus has fallen substantially in February 2022. This is mainly because of a 9.2% fall in the revenue from copper exports due to the higher prices and a fall in world demand during the Covid-19 pandemic. There has also been a 38.3% increase in the value of imported consumer goods. As a consequence, the current account deficit has widened substantially to US$7.5bn in the first quarter of 2022 from a deficit of US$1.1bn in the first quarter of 2021 despite a surplus of US$50m in the secondary income account.

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Source: *tradingeconomics, April 2022*

Fig 1.2: Chile's balance of trade in goods, March 2021 to February 2022

One of the main benefits of Chile's increased prosperity in recent years has been a decline in the number of people living at or below the minimum income level of US$5.50 per day. However, Chile remains the most unequal country in the list of largely developed countries according to the Organisation for Economic Co-operation and Development (OECD) with an income gap 65% wider than the OECD average. In addition, although the Gini coefficient has fallen from 52.1 to 44.4, this is still higher than lower-income countries such as Haiti and El Salvador.

To try and reduce this inequality in income and wealth, the Chilean government has increased its expenditure on education from 3% of GDP in 1997 to 5.4% in 2018. Further recognition of the importance of education as a merit good is shown by the government increasing its education spending by 3.4% each year since 2018. Chile has also recently made all college tuition free of charge. It is hoped that this will reduce the gap in the quality of education received by the wealthiest and poorest students and open up opportunities for everyone.

Sources: Adapted from reuters.com 2 February 2022,
trade.gov/country-commercial-guides/chile-mining, 25 January 2022,
bcentral.cl/inicio and statista.com, April 2022

(a) Identify **two** possible reasons why the current account on the balance of payments in Chile is in deficit in the first quarter of 2022 despite the surplus on the balance of trade in goods. [2]

(b) Consider the likely success of **one** policy that Chile could use to reduce the imports of consumer goods. [4]

(c) Explain what is meant by the fall in Chile's Gini coefficient from 52.1 to 44.4. [2]

(d) Assess the extent to which 'the government increasing its education spending' may improve the incomes of poorer households in Chile. [6]

(e) Assess the likely impact of the rise in the world copper price from 2020 on the future economic growth of Chile. [6]

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Section B

Answer **one** question.

EITHER

2 **(a)** With the help of a diagram(s), briefly explain how the cause of a movement along the demand curve differs from the cause of a shift in the demand curve **and** consider the impact on the demand for one good of price changes in other goods. [8]

(b) Assess whether knowledge of income elasticity of demand or price elasticity of demand for its product is more useful to a business aiming to increase the total expenditure on its product during a period of economic growth. [12]

OR

3 **(a)** With the help of a production possibility curve (PPC) diagram(s), explain the difference between constant and increasing opportunity costs **and** consider how choices in deciding which type of goods to produce in the short run may influence future economic growth. [8]

(b) Assess whether a market economy is always the best economic system to effectively answer the three basic questions of resource allocation. [12]

Section C

Answer **one** question.

EITHER

4 **(a)** Explain **two** methods of measuring unemployment **and** consider the extent of the possible difficulties in obtaining an accurate measurement of unemployment. [8]

(b) Assess whether supply-side policy is likely to be equally successful in reducing both structural and cyclical unemployment. [12]

OR

5 **(a)** With the help of examples, explain the difference between the marginal rate of taxation and the average rate of taxation **and** consider whether a government should decide to increase the rate of indirect tax to raise additional revenue. [8]

(b) Assess whether the achievement of a balanced budget should always be a main government macroeconomic objective. [12]

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