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Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/24**

Paper 2 AS Level Data Response and Essays **October/November 2025**

2 hours

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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 Will stronger economic growth in the United States (US) lead to high inflation?

The US has experienced stronger economic growth than countries in Europe and elsewhere since the COVID-19 pandemic. In terms of Gross Domestic Product (GDP), it had particularly strong growth over the fourth quarter of 2023 of 3.3%. This far exceeded economists' expectations of 2%. This means that annual growth for 2023 was 2.5% which was better than other high-income economies. It is on target to do the same in 2024 as shown in Fig 1.1.

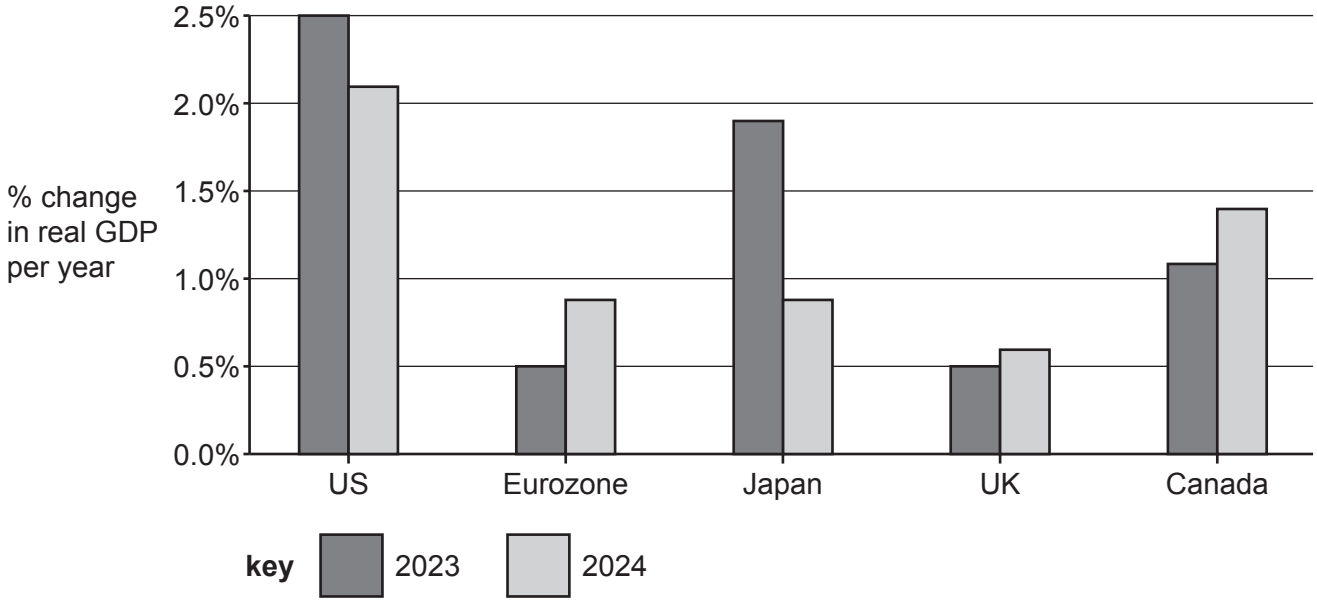


Fig. 1 International Monetary Fund (IMF) economic growth forecasts for 2023 and 2024

Economists have suggested that the strong economic growth in the US was caused by both demand and supply factors. In 2020, the US government responded to the COVID-19 pandemic by injecting US$5 trillion into the economy. Spending in many areas included more generous unemployment benefits and grants to small firms. This huge financial stimulus, much bigger than other countries, has been credited with maintaining consumer spending which represents 70% of aggregate demand.

On the supply side of the economy, existing flexible labour markets enabled firms to make workers redundant. This encouraged firms to invest in new technologies, leading to increased productivity and continued expansion in the long run. As firms expanded, they employed more workers causing disposable incomes to rise. Finally, the US is a net exporter of energy and therefore firms did not suffer the huge increase in energy costs faced by firms in Europe caused by the conflict in Ukraine. This has allowed the US to keep inflationary pressure under control.

In March 2024, however, the rate of inflation in the US rose much faster than expected as its level of unemployment fell, leading to an increase in consumer spending. Although this may lead to further economic growth and the benefits this brings, there are costs associated with inflation that may need to be dealt with. One policy that could be used is to increase interest rates, but US interest rates were already at their highest level for more than two decades because of earlier inflationary pressures. The hope had been that interest rates might start to fall, but now there are

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fears that any cuts in interest rates will be delayed or even worse, it might even be necessary to increase them further.

Sources: Adapted from BBC News articles: US economy sees surprisingly strong growth, 13 February 2024, US inflation jumps, 11 April 2024 and US jobs boom raises doubts about rate cuts, 5 April 2024

(a) Compare the forecast rates of economic growth for the US and Eurozone between 2023 and 2024. [2]

(b) Explain **one** reason why the IMF uses percentage change in real GDP and not percentage change in nominal GDP when measuring economic growth. [2]

(c) Explain, with the help of a diagram, why an increase in productivity in US firms may reduce the price of their products and consider whether this will always be the outcome. [4]

(d) Assess whether the costs of inflation are always likely to be greater than the benefits of inflation for the US. [6]

(e) Assess the extent to which maintaining interest rates at a high level will be the best policy for the US to control inflation. [6]

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Section B

Answer **one** question.

EITHER

2 **(a)** Explain what is meant by the incidence of an indirect tax **and** consider the extent to which it is possible for the incidence to pass from a producer of a good to a consumer of that good. [8]

(b) Assess the extent to which a government should subsidise the production of merit goods to increase the consumption of these goods. [12]

OR

3 **(a)** Explain what determines elastic and inelastic price elasticity of supply (PES) **and** consider the extent to which the value of PES may differ between an agricultural good and a manufactured good. [8]

(b) Firms will often try to estimate elasticity values to judge the possible success of decisions to change prices or to introduce new products.

Assess the extent to which an understanding of income elasticity of demand (YED) may be more useful than cross elasticity of demand (XED) in increasing the income from sales for a firm. [12]

Section C

Answer **one** question.

EITHER

4 **(a)** Using **two** tools of protection, explain what is meant by protectionism **and** consider the extent to which these two tools may benefit an economy. [8]

(b) Assess the extent to which the principle of comparative advantage should be the main factor to consider when countries decide whether to trade with each other. [12]

OR

5 **(a)** Explain the difference between structural unemployment and cyclical unemployment **and** consider the extent to which structural unemployment is likely to be more damaging to an economy than cyclical unemployment. [8]

(b) Low unemployment is a macroeconomic policy objective for a government.

Assess the extent to which this is most likely to be achieved by supply-side policy. [12]

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