Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay **February/March 2018**

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 **Venezuela's worsening economic crisis**

Table 1.1: Venezuela – Economic Indicators 2014–2017

	2014	2015	2016 (estimated)	2017 (estimated)
Inflation: average % change in consumer prices	62.2	121.7	481.6	1642.8
Growth: % change in real output	–3.9	–5.7	–8.0	–4.5
Unemployment: % of labour force unemployed	7.2	7.4	17.4	20.7

Source: International Monetary Fund

Venezuela is suffering the worst economic crisis in its history. Ordinary people in this oil-rich country are regularly going without food. Angry, hungry mobs are queuing outside almost empty supermarkets. The government has declared a state of emergency, food is being transported under armed guard, and basic necessities are being rationed. People have to queue for hours and sometimes overnight to receive basic commodities, such as rice and cooking oil.

Venezuela has the largest known oil reserves in the world — even greater than Saudi Arabia. In the past the government used money from oil exports to fund its own expenditure and to support domestic consumption. In addition, more than 1200 private companies in a wide range of sectors, such as sugar plantations and dairy farms, were nationalised. But in 2015 the oil price fell by 50% and this resulted in a shortage of money to fund government spending. The government maintained their spending by printing money, fuelling inflation.

As Venezuela's currency, the bolivar, was losing value, those holding bolivars increasingly exchanged them for US dollars. As a result, a restriction was placed upon those who could legally buy US dollars and the exchange rate was fixed. Unable to buy US dollars legally, businesses turned to the black market, where the value of the US dollar soared. While the official exchange rate is 10 bolivars per US dollar, the bolivar now trades on the black market at more than 1000 bolivars per US dollar. The collapse of the currency is made worse by oil's continuing low price — Venezuela can no longer rely on its oil exports bringing back enough US dollars, which means it can't import enough goods, leading to shortages.

The government tried to ration basic foodstuffs and fix their prices, but as a result it became unprofitable for Venezuelan companies to make such things, and as a consequence they have simply disappeared from the shops into other illegal markets.

Source: The Guardian, 22 June 2016

(a) Use a production possibility curve diagram to show what is expected to happen to the Venezuelan economy between 2014 and 2017. [2]

(b) Explain what the change in the price of oil in 2015 and the resulting fall in Venezuela's earnings from oil exports suggest about the price elasticity of demand for Venezuelan oil. [2]

(c) Explain why price controls have resulted in shortages of basic foodstuffs in the shops in Venezuela. Use a demand and supply diagram to support your answer. [4]

(d) With reference to the data, analyse how both demand-pull and cost-push pressures could explain the change in the rate of inflation shown in Table 1.1. [6]

(e) Discuss whether the estimated rate of inflation in Venezuela will allow the bolivar to continue to perform all of its functions as money. [6]

Section B

Answer **one** question.

2 **(a)** Explain how governments face increasing opportunity cost in their decision-making. Use a production possibility curve diagram to support your answer. [8]

(b) Discuss whether decision-making is more effective when undertaken by governments in a planned economy rather than by individuals in a free market economy. [12]

3 **(a)** Explain the way in which economists measure how much the supply of a good changes as its price changes. Explain **two** factors that influence the result. [8]

(b) Discuss how supply-side policies might increase the stock of capital goods and the quantity of labour supplied to an economy. Consider whether these policies will be effective for each of these factors of production. [12]

4 **(a)** Describe what is meant by a rise in an economy's terms of trade. Outline how a change in an economy's exchange rate and its domestic price level might each cause this to come about. [8]

(b) Discuss whether a rise in an economy's terms of trade is likely to be of overall benefit to that economy. [12]

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