Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/22**

Paper 2 AS Level Data Response and Essays **October/November 2023**

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.

Section A

Answer all parts of Question 1.

1 **Electric cars create challenges for oil producers**

Oil companies are facing uncertainty in 2020 as the COVID-19 pandemic causes a collapse in demand for their product, but car producers are predicting the pandemic will help accelerate the use of electric cars. Looking ahead, cuts in investment by oil companies as their revenues fall could reduce supply enough to cause a rise in oil prices. This makes electric cars more attractive just as car producers increase production.

Table 1.1 Selected data from the oil and car industries, 2014 to 2020

	2014	2015	2016	2017	2018	2019	2020
Average real global price of oil (US$ per barrel)	93.2	48.5	43.3	50.8	65.2	57.0	39.7
Global sales of electric cars (millions)	N/A	0.6	0.8	1.3	2.1	2.2	2.3

Sources: Macrotrends.net and World Economic Forum

However, the rise of electric car sales could slow within the next few years due to a worldwide shortage of the supply of lithium needed for car batteries. Demand for lithium could triple by 2025 to one million tonnes per year and then double again to two million tonnes per year by 2030. A typical lithium mine produces 30 000 tonnes per year which means the market needs approximately four new mines per year to meet demand. However, it usually takes about six years to discover, develop and put a lithium mine into production.

Rising global sales of electric cars are impacting on world oil producers. The boom years for the oil industry are over as economies start to deal with climate change. This will have significant implications for petrostates (countries whose economies are almost totally reliant on oil and gas).

Volatile oil prices, as illustrated in Table 1.1, have already left many petrostate governments struggling. The governments of most Middle Eastern oil producing countries cannot maintain a balanced budget at the 2020 average oil price of around US$40. Years of unstable oil revenues have left these countries with significant levels of national debt.

Venezuela offers a cautionary tale. Serious mismanagement has caused its oil output in 2020 to drop to about 10% of its 2000 level. Gross domestic product (GDP) has fallen by more than 75% in the past 5 years and more than 5 million people have left the country.

The solution is diversification. Wealthy Middle East states, such as Oman and Saudi Arabia, are investing in renewable energy and international tourism. Attempts at change by less wealthy petrostates such as Venezuela are hampered by a lack of capital at home and because they are often unable to attract international investors. As a result, they tend to focus on short-term rather than long-term economic growth.

Ultimately, many petrostates are likely to need outside support to diversify their economies. In addition to financial aid, it is suggested that wealthy countries should also offer technical assistance such as retraining workers, help designing new tax systems and support with the adoption of renewable energy.

Sources: Adapted from: Matthew Green and Simon Jessop, Reuters, 19 May 2020 and: STV news PA Media, August 2021 and: energymonitor.ai/policy, April 2021

(a) Using the data in Table 1.1, calculate the percentage change in the average real global price of oil between 2014 and 2020. [2]

(b) Explain why the price of oil on the world market fell in 2020. [2]

(c) With the help of a diagram, explain why the supply problem referred to may lead to increases in the price of electric cars in the future and consider **one** policy that may be used to overcome this supply problem. [4]

(d) Explain whether unemployment caused by the diversification of petrostates away from oil and gas production is likely to be cyclical or structural and consider which type of unemployment is likely to be more damaging to these economies. [6]

(e) Assess whether diversification is likely to be more successful in Venezuela or Saudi Arabia as they reduce their dependence on oil production. [6]

Section B

Answer **one** question.

EITHER

2 **(a)** With the help of a formula, explain what is meant by the term price elasticity of demand for a product **and** consider the extent to which it allows an entrepreneur to determine the effect of price changes on the total expenditure on their product. [8]

(b) Assess whether the concept of price elasticity of supply or cross elasticity of demand will be more useful to a business wanting to increase its total sales in a growing economy. [12]

OR

3 **(a)** With the help of examples, explain the difference between free goods and public goods **and** consider the view that public goods can never be provided in a market economy. [8]

(b) The provision of merit and demerit goods differs from the provision of other private goods.

Assess the view that the consequences of imperfect information are more serious in a market economy than in a mixed economy. [12]

Section C

Answer **one** question.

EITHER

4 **(a)** Explain the difference between the terms of trade and the balance of trade in goods **and** consider whether an economy should be more concerned about its terms of trade than its balance of trade in goods. [8]

(b) Assess whether a rise or a fall in the terms of trade will benefit the macroeconomic performance of an open economy that is heavily dependent on international trade. [12]

OR

5 **(a)** With the help of a diagram(s), explain one reason for an increase in aggregate demand and one reason for an increase in aggregate supply **and** consider whether an increase in aggregate demand will always lead to inflation. [8]

(b) Assess whether the internal effects of inflation are more serious than the external effects of inflation for an economy. [12]