



Mock Exam 2

ECONOMICS

9708

Paper 2 Data Response and Essay

1 hour 30 minutes

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.

Section A

Answer all parts of Question 1.

Turkey's economic policies

Extract 1: Turkey's medium-term programme

In a press statement in 2014, Turkey's minister in charge of the economy, Ali Babacan, introduced Turkey's medium-term programme (MTP) for the period 2015–2017. He stated that the first priority of the MTP is solving the problem of inflation, second is the current account deficit and third is structural reforms.

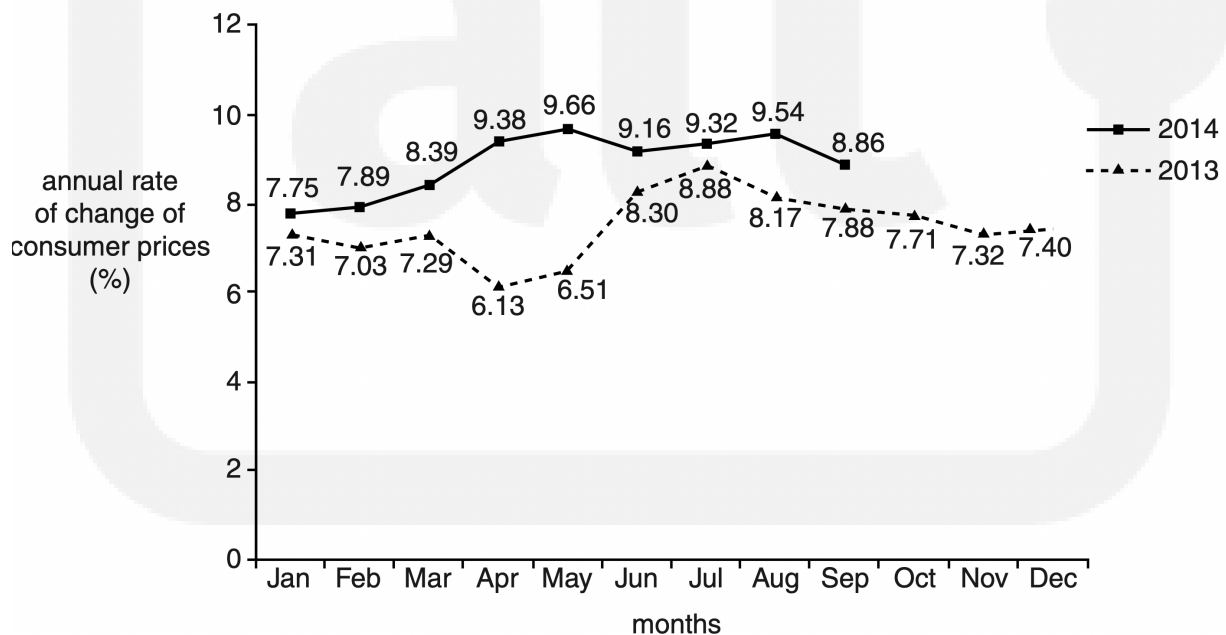
Tight fiscal policy will be pursued in order to reach Turkey's goals of lower inflation and a reduced current account deficit. Structural reforms are important to increase Turkey's potential growth, the minister said.

He announced that the inflation rate is expected to fall from 9.4% in 2014 to 6.3% in 2015 and 5.0% by 2017. The minister also stated that the unemployment rate is expected to drop from 9.6% in 2014 to 9.1% by 2017.

As the United States (US) economy recovers, the US central bank is expected to increase interest rates, causing the US dollar to continue to rise. The outcome of these policies might be harmful for Turkey's economy.

The minister claimed that Turkey's macroeconomic policies were already increasing saving in the economy and reducing consumer credit. By 2017 domestic savings are expected to rise to 15% of national income.

Fig. 1: Turkey's consumer price inflation rate, January 2013–September 2014



Source: *Daily Sabah*, 8 October 2014

Table 1: Turkey's balance of payments current account, 2012–2013 (US\$ million)

	2012	2013
Exports of goods	163 221	163 371
Imports of goods	–228 552	–243 394
Services	22 562	23 131
Income	–7 161	–9 355
Current transfers	1 433	1 181

Source: www.turkstat.gov.tr

- (a)** What happened to the balance on Turkey's current account between 2012 and 2013? [2]
- (b)** Use a production possibility curve diagram to show the intended outcome of the structural reforms in Turkey. [2]
- (c)** With the help of a demand and supply diagram, show how the expected change in US interest rates was likely to cause the US dollar 'to continue to rise'. [2]
- (d)** Consider whether the outcome of the interest rate changes in the US was likely to be 'harmful for Turkey's economy'. [4]
- (e)** Explain **two** factors that determine how the increase in consumer prices between 2013 and 2014 shown in Fig. 1 might affect the total value of Turkey's exports. [4]
- (f)** Discuss how 'tight fiscal policy' could be expected to help Turkey achieve the first priority of the MTP, and consider how effective this is likely to be. [6]

Section B

Answer **one** question

EITHER

- 2** **(a)** With the use of diagrams, explain how the price elasticity of demand for a product influences the incidence of an indirect tax on that product [8]

(b) Discuss the difficulties of introducing a widespread system of maximum prices for essential food to protect low-income families in a period of high inflation. Consider whether this system is likely to be successful. [12]

OR

3 **(a)** Use production possibility curves to explain the different impact on an economy of a rise in the unemployment rate and an increase in the working population. [8]

(b) Discuss what the most significant issues of transition are that a country will face as it moves from a planned economy to a mixed economy. [12]

Section C

Answer **one** question

EITHER

4 **(a)** Describe the four components of the current account of the balance of payments. Explain what might cause a deficit in this account. [8]

(b) Discuss the advantages and disadvantages of supply-side policy and consider its effectiveness in an economy that is facing a labour shortage. [12]

OR

5 **(a)** Consider whether the main cause of economic growth is an increase in population, and hence in labour supply. [8]

(b) Analyse the causes of unemployment and explain which cause could be most significant for your country. [12]