



# Cambridge International AS & A Level

**ECONOMICS**

**9708/22**

Paper 2 AS Level Data Response and Essays

**February/March 2023**

**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.

## Section A

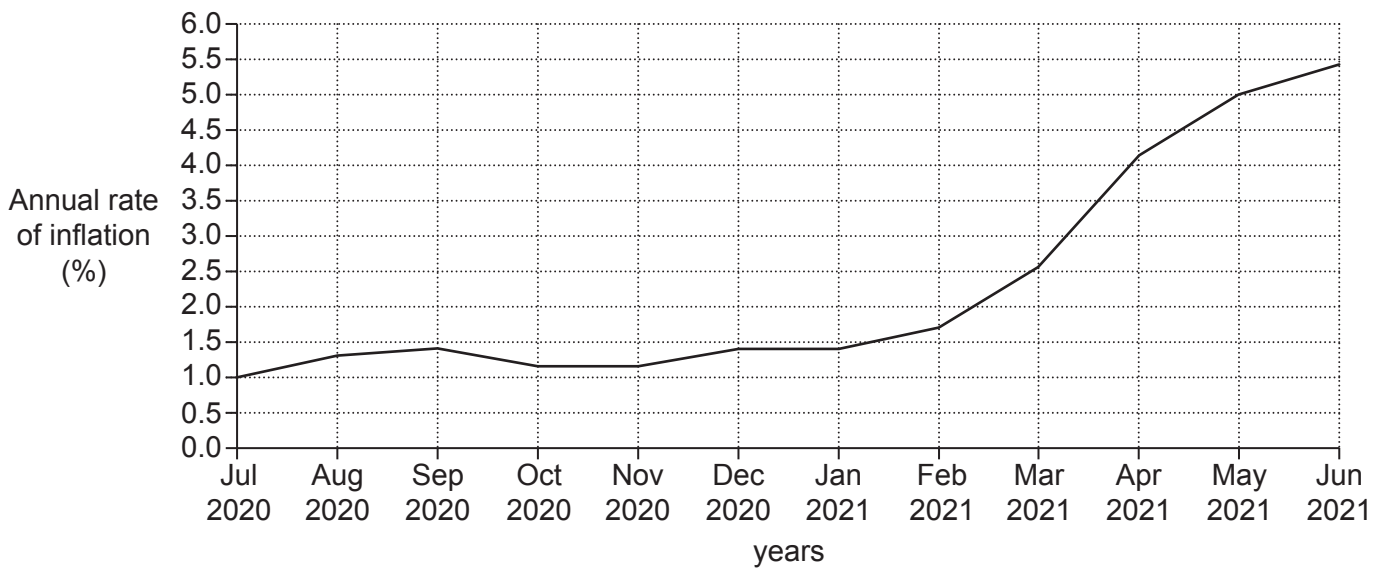
Answer this question.

1

### Inflation in the United States (US)

Prices are rising much faster than expected across the world's economies, including the US. As the US economy has grown, the prices of goods and services have substantially increased. The US economy is forecast to grow by 7.4% in 2021, with consumer spending rising by over 10% per year, but this boom has been accompanied by a rapid increase in the inflation rate.

The US inflation rate was 1.7% in February 2021. By the end of that year it had been expected to be 1.9%, but by June 2021 the rate was already 5.4% compared with 12 months before. This is the highest rate of inflation in the US since August 2008.



Source: *tradingeconomics.com*, August 2021

**Fig. 1.1: Percentage change in the Consumer Price Index (CPI) per year in the US  
July 2020 – June 2021**

Rising inflation in the US has two main causes. The first cause is a substantial increase in the demand for consumer spending on goods and services. The economy has also been boosted by the US government's economic stimulus package in response to the downturn caused by the COVID-19 pandemic. In 2020 and 2021, the US government spent an additional US\$6 trillion, leading to a budget deficit of 12.7% of gross domestic product (GDP) in June 2021, one of the largest budget deficits in the world.

The second cause of increasing inflation in the US is significant disruption to the supply of many goods as a result of the pandemic, a problem worsened by disruption to global shipping created by the temporary blocking of the Suez Canal. There are now long-term supply shortages for a wide range of products from semiconductors to timber. The cost of shipping goods has also become more expensive; for example, the cost of shipping goods from China to the US has tripled over 12 months.

A sustained increase in inflation could have a number of consequences, both negative and positive. Rising inflation could lead to a tightening of monetary policy, such as through an increase in interest rates. This is important in the US given that the government is targeting an annual inflation rate of 2%. Some economists believe that interest rates in the US may need to rise from 0.25% to as high as 4.50% to 'cool' the economy and reduce the rate of inflation and that this is likely to happen sooner rather than later.

*Source: Adapted from 'Boom and doom?', a briefing on inflation, The Economist 10 July 2021.*

- (a) Using Fig. 1.1, compare the US inflation rate between July and December 2020 with that between January and June 2021. [2]
- (b) Using the information provided, explain what is meant by 'the US government's economic stimulus package'. [2]
- (c) Consider the extent to which an increase in interest rates could reduce the rate of inflation in the US. [4]
- (d) With the help of an AD/AS diagram, assess whether the rising inflation rate in the US has been caused by changes to the demand side or changes to the supply side of the economy. [6]
- (e) Assess the possible consequences of a rising rate of inflation for a country such as the US. [6]

### Section B

Answer **one** question.

#### EITHER

- 2 (a) Explain the functions of price in resource allocation **and** consider the importance of these functions in relation to the potential effectiveness of a market economy. [8]
- (b) Assess whether all market economies should become mixed economies. [12]

#### OR

- 3 (a) Explain the possible economic reasons for inequality of income **and** consider whether inequality of income can benefit an economy. [8]
- (b) With the help of a diagram, assess whether the introduction of a minimum price in a market can be justified. [12]

### Section C

Answer **one** question.

#### EITHER

- 4 (a) Explain the circular flow of income in a closed economy **and** consider the extent to which the circular flow of income changes as an economy becomes an open economy. [8]
- (b) Assess whether the consequences of economic growth for an economy are always positive. [12]

#### OR

- 5 (a) With the help of a diagram, explain what is meant by an appreciation of a floating exchange rate **and** consider whether a country can only benefit from the appreciation of its currency. [8]
- (b) Assess whether supply-side policies are the most effective way to correct a deficit on the current account of the balance of payments of an economy. [12]

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