Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay **February/March 2020**

1 hour 30 minutes

3405578816

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. Blank pages are indicated.

DC (PQ/SW) 187575/3

Section A

Answer this question.

1 Trade war breaks out between the United States (US) and China

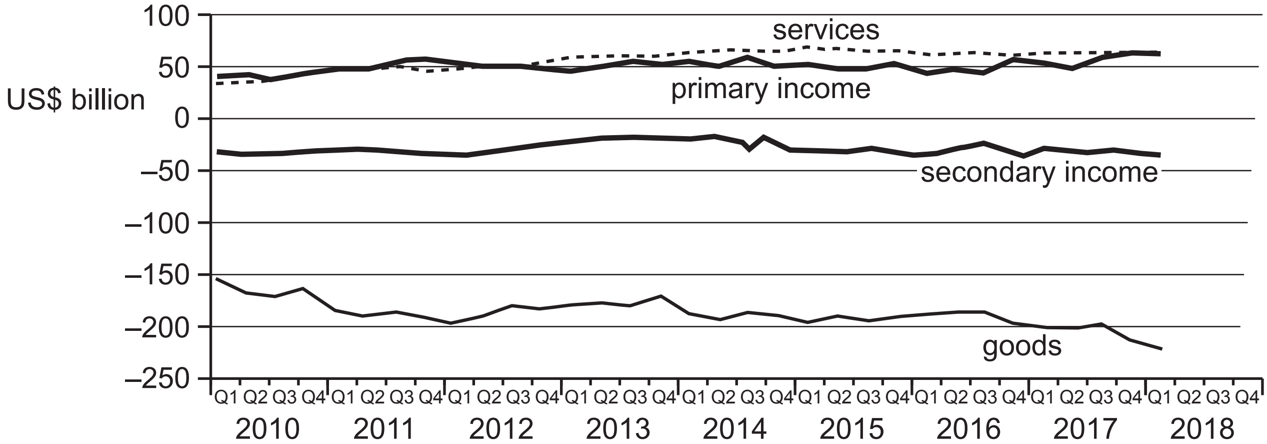

Fig 1.1: Components of the US current account, Q1 2010 to Q1 2018

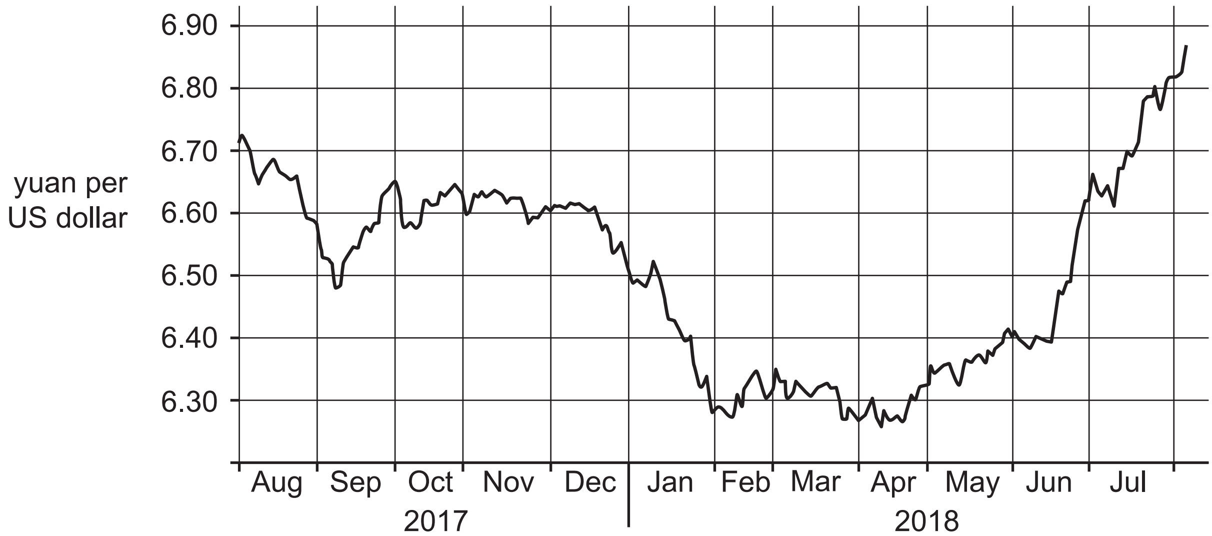

Fig. 1.2: Chinese yuan to US dollar rate of exchange, August 2017 to July 2018

Extract 1: The US government says, 'We are confronting China's unfair trade policies'

For many years, China has pursued industrial policies and unfair trade practices – including dumping, discriminatory non-tariff barriers and industrial subsidies – that favour Chinese firms and make it impossible for many US firms to compete. China imposes much higher tariffs on US exports than the US imposes on China. China's average tariff rate is nearly three times higher than the average US rate. Certain products are even more imbalanced, for instance the US charges a 2.5% tariff on Chinese cars, while China currently maintains a 25% tariff on cars from the US. China has banned imports of some US agricultural products, excluding US farmers from a major market for their goods. China has dumped and unfairly subsidised a range of goods for the US market, undermining US domestic firms. In 2018 alone, the US government has found dumping or unfair subsidies on 13 different products.

Source: The White House, US government, 29 May 2018

Extract 2: Winners and losers in the US–China trade war

The US government imposed a first round of tariffs on Chinese goods on 6 July 2018, by introducing 25% taxes on US$34 billion of Chinese imports. These were a response to China's "unfair trade policies" – the US claimed China was selling Chinese products in the US below their normal price, called 'dumping', as well as subsidising the production of goods exported to the US. It was then announced that tariffs on a further US$50 billion worth of imports from China would come into effect. The US threats have risen since, with the president saying he is ready to impose tariffs on all US$500 billion of Chinese imports.

China has retaliated, saying it will levy new tariffs on more than 5200 US products, if the US government proceeds with its latest tariff threat. The duties would range from 5% to 25% on US$60 billion worth of US products imported into China, including further agricultural products such as soya beans.

The US government imposed tariffs because they said that the "unfair trade practices" have resulted in a US trade deficit with China, but this makes no sense. The trade deficit is an inevitable by-product of a robust US economy, a large US fiscal deficit and a strong US dollar. If correcting the US trade deficit is the government's policy aim then it should raise US taxes to reduce the fiscal deficit and the US central bank should act to lower the value of the US dollar against China's currency, the yuan.

Both countries will lose in a major trade war, but the losses will differ in kind and amount. It could cut China's exports to the US by about a third, some US$200 billion annually. Eventually, Chinese firms will find new markets and create new products to compensate. For a period of two or three years, however, the disruption to workers and firms will be enormous. As many as 4 million Chinese workers could become unemployed, and many Chinese firms will go out of business.

If US exports to China are cut by a third in a major trade war, the US will lose about US$50 billion of exports annually. About 250000 US workers will lose their jobs. If US firms can see no end to the trade war, they will reorganise and locate production in lower-cost countries like Vietnam and Peru. The Chinese government, however, will strongly encourage Chinese firms to produce many of their goods at home, even though the cost will be much higher.

Source: Gary Hufbauer and Mercy A Kuo, The Diplomat, 11 July 2018

(a) **(i)** Using Fig. 1.1, how is the US balance of trade in goods in Q1 2018 different from that in Q1 2010? [2]

(ii) Explain how China's imposition of tariffs of 25% on cars from the US might have contributed to the change you have identified. [2]

(b) **(i)** Using Fig. 1.2, how has the value of the yuan against the US dollar changed between April and July 2018? [1]

(ii) Identify and explain **one** factor that will determine the impact of this exchange rate change on China's balance of trade in goods. [3]

(c) Explain how, 'a robust US economy, a large US fiscal deficit and a strong US dollar' could each contribute to a US trade deficit. [6]

(d) With reference to economic theory, discuss whether the US economy is likely to benefit overall from the trade war with China. [6]

Section B

Answer **one** question.

2 **(a)** Explain what determines the change in equilibrium price and equilibrium quantity of a good when there is a rise in incomes in an economy. [8]

(b) Discuss the effectiveness of any possible measures to ensure that food would be available to consumers in an economy where food supplies are frequently disrupted because of drought. [12]

3 **(a)** The government raises taxes to provide a toll road bridge and streetlights in a country. Explain how an economist would classify each of these provisions. [8]

(b) Discuss the view that direct taxes are the fairest and the most effective way for governments to raise revenue. [12]

4 **(a)** Explain using aggregate demand and aggregate supply diagrams the distinction between cost-push inflation and demand-pull inflation and explain **one** cause of each. [8]

(b) Discuss whether monetary policy measures are always effective in correcting a high rate of inflation. [12]