Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/23**

Paper 2 AS Level Data Response and Essays **May/June 2024**

2 hours

3778747146

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.

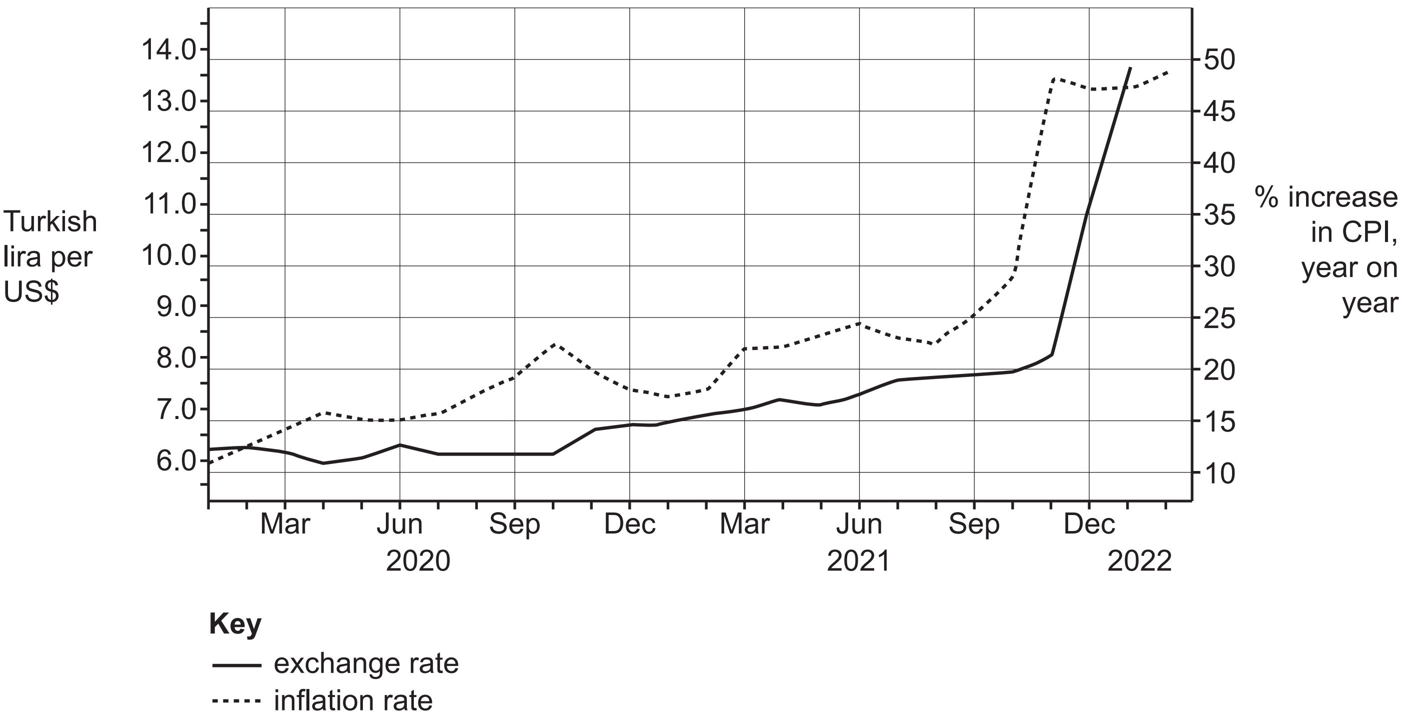
Section A

Answer all parts of Question 1.

1 Turkey's unconventional way of managing its economy

The relationship between interest rates and the general price level is one that is central to macroeconomic theory; namely that an increase in the rate of interest produces a reduction in the rate of inflation in an economy. Most economists agree on this relationship. Not so, according to President Erdoğan of Turkey, who has defied conventional economic theory in tackling his country's fundamental economic challenges.

Two economic challenges stand out. There is spiralling inflation and a collapse in the external value of Turkey's currency (the lira) in the foreign exchange market, as shown in Fig. 1.1.



Source: Turkstat, Bloomberg, February 2022

Fig. 1.1 Inflation and the exchange rate of Turkey, January 2020 to February 2022

In January 2022, the year-on-year rise in consumer prices was 48.7%, against a 36.1% year-on-year increase for December 2021. Much higher food prices and transport and energy costs accounted for most of the increase. Despite this rise, the country's Monetary Policy Committee (MPC) held the short-term interest rate at 14%. This was the rate set in September 2021 when the MPC cut the rate substantially from 19%. In short, the President had used his influence over the MPC to reduce interest rates in an attempt to reduce the increasing rate of inflation.

The President's unconventional approach has had a dramatic effect on the external value of the lira. The rapid depreciation in the value of the lira from September 2021 has had serious repercussions for Turkey's economy as Mr Erdoğan has sought to prioritise exports over currency stability. Consumer and producer confidence are low; many who can, have converted their lira deposits into US dollars or euros, fearing a collapse of the banking system.

Despite these problems, the President remains adamant that his economics is right for Turkey. Moreover, he is convinced that when exports increase and international tourists return after the COVID-19 pandemic, employment will increase and the current account deficit on the balance of payments will be reduced. If true, this unconventional approach to Turkey's economic problems will be proved to be a success.

(a) Use the information provided to calculate the real interest rate for Turkey in January 2022. [2]

(b) **(i)** Explain why the Turkish lira depreciated from September 2021. [2]

(ii) Consider the extent to which producers in Turkey are likely to have been affected by the depreciation of the lira on the foreign exchange market from September 2021. [4]

(c) Assess whether Mr Erdoğan's economic policies have had a beneficial impact on Turkey's economy since 2020. [6]

(d) Excluding interest rate changes, assess what alternative policies might be used to reduce Turkey's rate of inflation. [6]

Section B

Answer **one** question.

EITHER

2 **(a)** From 2030, most new car production in the United Kingdom (UK) will be of electric cars.

Excluding the price of electric cars, explain the determinants of demand for electric cars **and** consider which of these determinants is likely to be of greatest significance at the present time. [8]

(b) Assess whether cross elasticity of demand is likely to be more important in determining the demand for electric cars than income elasticity of demand. [12]

OR

3 **(a)** Use a production possibility curve (PPC) diagram to explain how a government in a mixed economy might allocate more resources to consumption and fewer resources to investment **and** consider a limitation of this approach to resource allocation. [8]

(b) Assess whether producers are the only ones to benefit when an economy decides to allocate additional resources to investment. [12]

Section C

Answer **one** question.

EITHER

4 **(a)** With the help of a diagram, explain how increases in aggregate demand affect the level of real output and the price level in an economy **and** consider when such increases may become a problem. [8]

(b) Assess whether increases in aggregate demand are the best way of reducing unemployment in a high-income country. [12]

OR

5 **(a)** Explain **two** possible causes of a change in the terms of trade in an economy **and** consider which of these causes is likely to be more important for low-income countries. [8]

(b) Assess the extent to which different tools of protection can impact on the terms of trade in an economy. [12]