Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **October/November 2016**

1 hour 30 minutes

No Additional Materials are required.

6668275529

READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer this question.
Brief answers only are required.

Section B
Answer any **one** question.

You may answer with reference to your own economy or other economies that you have studied where relevant to the question.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **4** printed pages and **1** Insert.

DC (NF) 118046/3

[Turn over

Section A

Answer this question.

1 **Raw sugar trade deal**

Mexico and the United States reach deal and avoid trade war

Mexico, the US and Canada are the three members of the North American Free Trade Agreement, which has given Mexico's sugar producers free access to the US market since 2008. In March 2014, however, the association that represents the US sugar industry accused Mexican sugar producers of dumping cheap, subsidised sugar into the heavily protected US market and costing US sugar producers nearly US$1 billion in income in 2013–14.

The US government threatened to impose duties on imports of sugar from Mexico, and Mexico was proposing to impose retaliatory duties on some US products imported into Mexico. A deal has now been reached to avoid these protectionist measures and thus prevent a possible trade war.

The deal would set a minimum price for sugar to guard against undercutting or keeping US prices artificially low, and limit the amount of sugar that may enter the US market. Mexico could export 1.4 million tonnes of sugar to the US in 2014. That compares with an estimated 1.9 million tonnes for the 2013 crop year. Companies such as chocolate producers and soft drink manufacturers may also be relieved they will not have to pay higher prices for Mexican sugar now that the large duties have been avoided. The US is a net importer of sugar and Mexico is one of its largest suppliers.

Under the agreement Mexican producers agreed to sell at a minimum price of US$0.21 per pound weight (about US$0.46 per kilo) for raw sugar, much lower than would have applied if the import duties had been imposed on the sugar.

Source: Reuters, 27 October 2014

Table 1: Price of raw sugar 2011–2013

	World sugar price (US$ per pound weight)	Sugar price in US (US$ per pound weight)
2011	0.27	0.38
2012	0.22	0.29
2013	0.18	0.21

Source: United States Department of Agriculture

(a) **(i)** Explain **one** possible reason for the change in the world sugar price between 2011 and 2013. [3]

(ii) Explain **one** possible reason for the difference in the price of sugar in the US and the world price of sugar shown in Table 1. [2]

(b) **(i)** What is meant by 'dumping'? [2]

(ii) Explain why Mexican producers might choose to dump their sugar in the US market. [2]

(iii) Consider how an economist would decide whether the accusation that Mexican producers were dumping sugar in the US was justified. [2]

(c) With the help of a diagram, explain the likely impact on the US market for raw sugar if a minimum price higher than US$0.21 had been imposed in 2013. [3]

(d) Consider who, if anybody, in the US and Mexico might benefit from a trade war despite the advantages of free trade. [6]

Section B

Answer any **one** question.

2 **(a)** With the help of a supply and demand diagram, explain how the introduction of an indirect tax on a good would affect the surplus enjoyed by the consumers of that good. [8]

(b) Discuss whether it is better to introduce an indirect tax or to adopt policies to improve consumers' knowledge and understanding to deal with the problem of demerit goods. [12]

3 **(a)** Explain, with the help of a diagram, what is meant by equilibrium national income, and show how this equilibrium changes when there is an increase in aggregate demand. [8]

(b) Discuss the factors that determine how much an increase in aggregate demand will affect prices, employment and the balance of payments of an economy. [12]

4 At the end of October 2014, the value of the US dollar on foreign exchange markets rose to a four-year high because it was believed that the US central bank was about to raise interest rates.

(a) With the help of a diagram, explain how exchange rates are determined in a free market and why an expected rise in interest rates in the US would cause the value of the US dollar to rise. [8]

(b) Discuss the probable impact of this exchange rate rise on the US economy and assess whether it is likely to benefit this economy overall. [12]