Cambridge International AS & A Level

**Cambridge Assessment International Education**
Cambridge International Advanced Subsidiary and Advanced Level

**ECONOMICS** **9708/22**

Paper 2 Data Response and Essay **February/March 2019**

**1 hour 30 minutes**

No Additional Materials are required.

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**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 **Question 1**.
Brief answers only are required.

**Section B**
Answer **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.

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Cambridge Assessment International Education

## Section A

Answer this question.

1 **Poland: a growing economy**

### Extract 1: Poland's successful transition from a planned economy

Since 1995, Poland has grown faster than all other large economies at a similar level of development. By 2015, Poland's national income had reached a record level. Consumption expenditure rose and exports dramatically increased, coming close to US$250 billion in 2013.

Poland's growth has been based on skilled labour and entrepreneurship, not on natural resources. Two crucial factors were important in Poland's development. Firstly, Poland adopted a policy of expanding the quantity and quality of education. In 2015, 50% of young people studied at university level, up from 10% in 1989. Secondly, the Polish government used funds from the European Union (EU) to develop transport links that helped to connect Poland with Western Europe.

Poland seems to have been thorough in introducing market-oriented reforms at the beginning of its transition from a planned economy in the 1990s. This helped to create a private sector boom and ensured Poland avoided a post-transition recession. It managed the privatisation process in an efficient way. Lastly, Poland benefited from a large and rapidly growing domestic market, which helped to insulate it from external shocks, such as the global financial crisis in 2007–08.

Poland's performance in the last 25 years could be called a miracle.

*Source: Marcin Piatkowski: Brookings Institution, February 2015*

### Extract 2: Will Poland's economy slow down?

The Polish economy's growth slowed significantly in 2016, mainly due to a slowdown in private investment. The outlook for 2017 was also gloomy, with concerns regarding the global economy and domestic economic policy. Private consumption and public investment were expected to continue to be strong, but a significant slowdown in economic activity was expected throughout the year.

This was because of a significant decline in investment by private companies. In the first half of 2016 companies were cutting spending on fixed capital. A survey by the Polish central bank indicated that companies were very reluctant to start new investments. Entrepreneurs were afraid of the possible consequences of changes in the government's economic policy, for example increased indirect taxes such as general sales taxes. In addition, foreign companies were delaying major investments in Poland because of the uncertainties in the economic climate.

After a period of rising net exports of goods, by 2016 the trend was reversing mainly due to a decline in demand from the larger EU economies. The outlook for 2017 was not any better and the fall in net exports of goods was expected to be the main factor slowing down the Polish economy.

Public spending was one possible way in which Poland's economic growth could have been boosted in 2017. The government could increase the budget deficit and take other demand-stimulating actions. An interesting suggestion from the government was to decrease the retirement age back to its 2012 level (65 years for men and 60 years for women). All of these proposals might keep GDP growth above 3% until the end of the year.

*Source: Adam Czerniak, Poland Today, Issue 13, March 2017*

**Table 1.1: Poland's current account of the balance of payments, 2014–2016 (million Euros)**

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| Balance of trade in goods | –3255 | 2213 | 1949 |
| Balance of trade in services | 9059 | 10915 | 13700 |
| Balance on primary income | –13961 | –14935 | –15859 |
| Balance on secondary income | –377 | –846 | –1063 |

*Source: National Bank of Poland*

**(a)** **(i)** Give an example of an item included in the balance on primary income. [1]

**(ii)** Give an example of an item included in the balance on secondary income. [1]

**(iii)** What is the trend in Poland's current account balance from 2014 to 2016? [2]

**(b)** Identify **two** policies adopted by the Polish government that could be considered as supply-side policies. [2]

**(c)** Explain, with the help of a diagram, why the imposition of an indirect tax, such as a general sales tax, could discourage entrepreneurs from investing. [4]

**(d)** Consider, using Extract 2, the likely changes in Poland's aggregate demand in 2017. [4]

**(e)** Discuss whether increasing the Polish government's budget deficit will always have a positive impact on Poland's economy. [6]

## Section B

Answer **one** question.

**2** **(a)** Show how a production possibility curve can be used to explain scarcity, choice and opportunity cost. [8]

**(b)** Discuss whether the imposition of maximum prices can improve the allocation of scarce resources. [12]

**3** **(a)** Explain how knowledge of a good's price elasticity of demand can help a business to assess the effect of price changes for that good on its total revenue. [8]

**(b)** Discuss whether indirect taxes and subsidies could be used to improve the consumption of merit and demerit goods if the demand for both of these goods is price inelastic. [12]

**4** **(a)** Explain how a government can reduce the value of the exchange rate in an economy with a managed exchange rate system. [8]

**(b)** Discuss the advantages and disadvantages of using expenditure-reducing policies to remove a deficit on the current account of the balance of payments and consider the likelihood that such policies will be successful. [12]