Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/23**

Paper 2 Data Response and Essay **May/June 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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Section A

Answer this question.

1 **Difficult times for OPEC and Nigeria**

The Organisation of Petroleum Exporting Countries (OPEC) has 13 members and produces over 30 million barrels of oil a day, responsible for half of global production. Its members, strongly influenced by Saudi Arabia, seek to limit the supply of oil in order to sustain stable prices to aid their own economic development.

OPEC members have become concerned about the increase in oil production in the United States (US) due to the use of fracking (a new technique for extracting oil) and its impact on world oil prices and OPEC's own market share. In 2014, OPEC decided to increase its own supply of oil in a bid to bankrupt higher-cost US producers. The effects were remarkable. A 12% increase in OPEC's production saw the world price fall by around 60% to less than US$30 per barrel. This was much lower than US producers' costs but it led to a 45% cut in OPEC's oil revenue.

In late 2016, it was clear that governments in OPEC countries were suffering from reduced oil revenues. There was also growing evidence that US oil producers had been able to cut costs to remain competitive with OPEC, even though the world price was still well below US$50 per barrel. This was thought to be the minimum price for producing oil in the US. In a surprising change of policy, OPEC decided to cut its oil production by 3%. The result was a 10% increase in the world price of oil.

Nigeria is the largest economy in Africa. It produces around 8% of OPEC's total oil supply which accounts for over 80% of Nigeria's export revenue. Nigeria's economy has been seriously affected by OPEC's decision to increase supply on the world market. Its Gross Domestic Product (GDP), a measure of total national output, has continued to fall along with oil output. The slowdown in the economy has affected taxation paid to the government. In addition import restrictions have been put in place to try to offset a severe shortage of foreign currency.

Source: Sunday Telegraph 4 December 2016

Fig. 1.1 and Fig. 1.2 show the changes in Nigeria's crude oil production and the relative changes in oil output from 2015 to 2016.

Fig. 1.1: Nigeria's oil output, 2015–2016

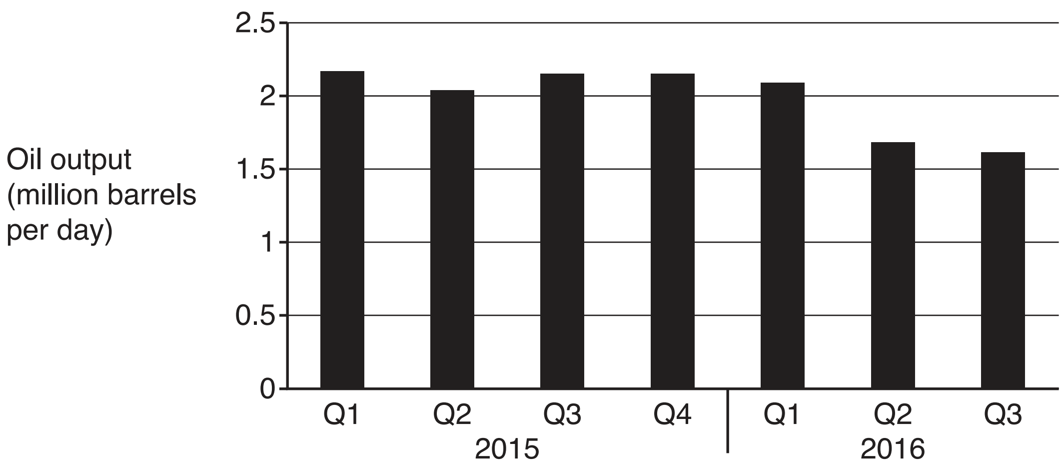
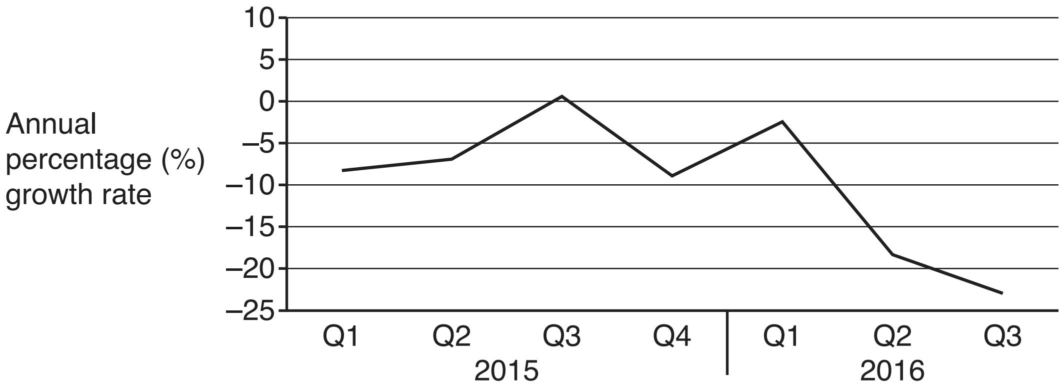


Fig. 1.2: Nigeria's annual growth rates for oil production



Source: Nigerian Bureau of Statistics, 2016

(a) Describe, using Fig. 1.1, the change in oil production in Nigeria between 2015 and 2016. [2]

(b) Compare, using supply and demand diagrams, how OPEC's decisions affected the world price of oil in 2014 and in 2016. [4]

(c) 'The demand for OPEC's oil is price inelastic.'

What evidence is there in the information to support this claim? [2]

(d) Fig. 1.2 shows that production in Nigeria's oil sector declined sharply from Q1 of 2016. During this period, total national output for Nigeria fell by an annual rate of only around 2%.

What can be inferred from this about the relative importance of the non-oil sectors in Nigeria? [2]

(e) Analyse, using aggregate demand and aggregate supply, **two** likely effects of OPEC's policies on the economy of Nigeria. [4]

(f) Discuss, with the help of the information, the extent to which OPEC will be able to control the world price of oil. [6]

Section B

Answer **one** question.

2 **(a)** Using examples, explain why merit goods are said to be under-consumed and demerit goods are over-consumed. [8]

(b) Discuss whether merit goods should always be subsidised and demerit goods always taxed. [12]

3 **(a)** Explain the difference between the causes of cost-push inflation and demand-pull inflation. [8]

(b) Discuss the most serious problems faced by an economy with a high and increasing rate of inflation. [12]

4 **(a)** Explain the benefits of free trade as suggested by the principle of comparative advantage. [8]

(b) Despite the benefits of free trade, there has been a recent increase in protectionism by some developed and developing economies.

Discuss the possible reasons for this increase. [12]