Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 AS Level Data Response and Essays **May/June 2026**

2 hours

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 [ ].

DC (WW) 358643/1

[Turn over

Section A

Answer all parts of Question 1.

1 Inflation and economic growth in Japan

The annual rate of inflation in Japan peaked at more than 4% in some months in 2023, the highest rate for 40 years. Despite this, Japan's central bank, the Bank of Japan, kept interest rates low. One economist stated that 'these low rates of interest should continue to boost domestic demand.' For example, they would be likely to encourage private consumption, which is 55% of Japan's aggregate demand, and investment, which is 24% of Japan's aggregate demand.

This was a very different approach from most central banks in other parts of the world which increased interest rates as part of a contractionary monetary policy. A senior banking analyst in Japan stated that 'the central bank will maintain the current monetary policy and adopt a wait-and-see stance for the time being.' However, one important development in 2023 was that for the first time in two years real wages increased in Japan.

These relatively low interest rates in Japan weakened the value of its currency, the yen. It depreciated against other major currencies in 2023, falling in value against the US dollar by more than 10%. Demand for Japanese exports, such as cars, increased as the yen depreciated. This helped Japan's economy, the third largest in the world, to grow at almost twice the rate forecasted by economists. Table 1.1 shows yearly changes in selected economic data for Japan.

Table 1.1 Selected economic data for Japan, 2023

Increase in GDP	1.8%
Increase in consumer prices	3.3%
Decrease in the value of the Japanese yen against other major currencies	–11.5%

The aim of Japan's economic policy was to try to balance economic growth with inflation. Economists recognised that this balance might be very difficult to achieve as there was always the possibility of a trade-off between these two aims.

The low rates of interest also encouraged the Japanese stock exchange. There was a large increase in Japanese share prices in 2023, which rose by more than 9%, with the Nikkei index of Japan's top companies reaching a 34-year high.

Sources: Adapted from 'Good times return in the land of rising sun', The Times*, 23 January 2024 and 'Japan's economic growth beats forecasts as exports zoom', Reuters, 14 August 2023*

(a) 'One important development in 2023 was that for the first time in two years real wages increased in Japan.'

Using Table 1.1, explain by how much money wages would have to change in Japan in 2023 for real wages to increase. [2]

(b) Apart from interest rates, state **two** other tools of monetary policy that could be used in Japan to control inflation. [2]

(c) With the help of a diagram, explain how a decrease in the interest rate in Japan could lead to the depreciation in the value of the yen **and** consider whether only Japan's interest rate determines the value of the yen. [4]

(d) Assess whether low interest rates alone are likely to lead to an increase in aggregate demand in Japan. [6]

(e) Assess whether the potential advantages of the Japanese economy growing faster than expected would outweigh the potential disadvantages. [6]

Section B

Answer **one** question.

Either

2 **(a)** Explain the difference between a public good and a merit good **and** consider whether health care should be classified as a public good or a merit good. [8]

(b) Assess whether the over-consumption of a demerit good should be reduced through the use of a tax or reduced through the use of a public information campaign. [12]

Or

3 **(a)** Explain **three** economic reasons for the inequality of income in an economy **and** consider which one of these economic reasons is likely to be the most important. [8]

(b) Assess whether either a minimum wage or a progressive income tax is likely to be the more effective policy to redistribute income in an economy. [12]

Section C

Answer **one** question.

Either

4 **(a)** Explain the difference between frictional unemployment and structural unemployment **and** consider which is likely to be more damaging in an economy. [8]

(b) Assess whether fiscal policy or supply-side policy is likely to be more effective in reducing unemployment in an economy. [12]

Or

5 **(a)** Explain the difference between trade embargoes and export subsidies **and** consider which is likely to be the more effective tool of protection. [8]

(b) Assess whether the arguments against protectionism are stronger than the arguments for protectionism. [12]