CAMBRIDGE
International Education

Cambridge International AS & A Level

ECONOMICS **9708/43**

Paper 4 A 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 [ ].

This document has **4** pages. Any blank pages are indicated.

DC (LO) 370979

Section A

Answer all parts of Question 1.

1 Interest Rates and Exchange Rates

Many commercial banks in Japan raised their interest rates on customer accounts in early 2024 for the first time in 17 years. Some banks also increased the interest rates on their housing loans (mortgages), which placed a heavier burden on borrowers.

The rise in interest rates followed the ending of a policy of negative interest rates used by the Bank of Japan (BOJ), the country's central bank. Previously, the BOJ had set interest rates at –0.1% on some of the deposits made by commercial banks at the central bank.

The increase in interest rates coincided with a falling unemployment rate and expectations that Japan's economy would grow further in the second half of 2024. This economic growth would be caused by higher wages, increased consumer spending and a depreciation of Japan's currency, the yen.

The BOJ has a target inflation rate of 2%, but core inflation, which excludes fresh food prices, was last reported at 2.6% in March 2024. Core inflation was forecast to be above target for at least a year. This gave the central bank an opportunity to increase interest rates further. Higher interest rates, however, can reduce demand for loans and restrain economic growth.

Higher interest rates in Japan would usually lead to higher capital inflows from foreign savers causing an appreciation of the yen. Compared to other major economies, however, the interest rates in Japan were still very low. When the interest rate set by the BOJ was 0.1%, the equivalent rate was 5.25% in both the United States (US) and the United Kingdom (UK) and 4.5% in the Eurozone.

The value of the yen fell to a 34-year low in April 2024 as the chances of an expected cut in US interest rates diminished. Intervention by the BOJ to support the yen was seen as a possibility by the foreign exchange markets to restore confidence in the currency and reduce imported inflation.

On the other hand, the weak yen helped Japan's balance of trade in goods and services. It encouraged export sales despite relatively low global economic growth. Export growth occurred across several products, particularly in transportation equipment. The number of foreign visitors to Japan also increased due to the weak yen.

Sources: Adapted from: japantimes.co.jp, 6 May 2024
morningstar.co.uk, 21 March 2024
kyodonews.net, 1 March 2024
deloitte.com, 18 October 2024

(a) Explain **two** pieces of evidence from the extract that show Japan was in an expansion phase of the business (trade) cycle in 2024. [4]

(b) Explain how Japan's commercial banks could have helped the BOJ achieve its target inflation rate of 2%. [4]

(c) Consider the extent to which a depreciation of the yen has been beneficial for Japan's balance of trade in goods and services. [6]

(d) Assess how diminished chances of a US interest rate cut pushed the yen to a 34-year low in April 2024. [6]

Section B

Answer **one** question.

Either

2 With the help of a diagram(s), assess the view that larger firms always have lower average costs than smaller firms. [20]

Or

3 Third-degree price discrimination benefits the firm but not its customers.

With the help of a diagram, assess the consequences of third-degree price discrimination to both the firm **and** its customers. [20]

Section C

Answer **one** question.

Either

4 Due to the multiplier process, governments conducting an expansionary fiscal policy do not need to increase spending by the full amount of the negative output gap to bring the output of the economy to its full employment level.

Evaluate this statement. [20]

Or

5 Assess the view that high levels of external debt are an unsustainable burden to low-income countries. [20]

BLANK PAGE

