UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay (Core) **October/November 2013**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

1815923800

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

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.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **3** printed pages and **1** blank page.

DC (SJF) 66530/1

UNIVERSITY *of* CAMBRIDGE
International Examinations

[Turn over

Section A

Answer this question.

Zimbabwe and Inflation

1 When hyperinflation takes control numbers become enormous. This was Zimbabwe's experience in 2007 and 2008. Professor Steve H. Hanke of The Cato Institute calculated that in November 2008 Zimbabwe's annual inflation rate reached over 89 sextillion percent. This means 89 followed by 21 zeros.

There are many stories about the Zimbabwe dollar (Z$) in this period. In July 2008 an egg cost Z$50 billion, a bottle of beer rose in price from Z$100 billion to Z$150 billion in an hour and shopkeepers would only accept cheques (checks) if they were written to a value twice the amount owed by the customer. Prices of goods rose to trillions and quadrillions of Zimbabwe dollars. In six months the price of a loaf of bread rose from Z$200 000 to Z$1.6 trillion and the government introduced the Z$100 trillion banknote.

One way to make the figures more meaningful is to quote a daily rate of inflation or the time it takes prices to double. Table 1 gives this for three famous hyperinflations.

Table 1: Three famous hyperinflations

Hyperinflation	Daily inflation rate (%)	Time for prices to double
Hungary (July 1946)	195	15.6 hours
Zimbabwe (November 2008)	98	24.7 hours
Yugoslavia (January 1994)	64.6	33.6 hours

Source: Cato Institute

The international value of the Zimbabwe dollar also changed dramatically.
The exchange rate against the US dollar went from:
US$1 = Z$10 in 1997 to US$1 = Z$13 000 000 000 000 000 in November 2008.

Zimbabwe's trade performance changed between 2007 and 2008 as shown in Table 2.

Table 2: Zimbabwe's trade statistics (US$ millions)

	2007	2008
Exports of goods	1804	1651
Imports of goods	2113	2360
Current account balance	–383	–906

Source: EU statistics

(a) **(i)** What is meant by hyperinflation? [2]

(ii) Describe what happened each day to the real value of money in Zimbabwe in November 2008. [2]

(b) Explain how a government may cause hyperinflation. [4]

(c) **(i)** Account for the shopkeepers' treatment of cheque (check) payments. [2]

(ii) Explain how workers and foreign investors might react to hyperinflation. [4]

(d) Discuss whether the change in Zimbabwe's current account is what would be expected when a country has the highest inflation rate in the world. [6]

Section B

Answer **one** question.

2 In September 2011 the Kenyan government reintroduced price controls to ensure that basic commodities were sold to the citizens at reasonable prices.

(a) With the help of a diagram(s), contrast the impact of a maximum price fixed below equilibrium market price with one that is fixed above it. [8]

(b) In view of the problems of allocation that might arise with effective maximum price legislation discuss how these problems might be overcome. [12]

3 **(a)** Use diagrams to explain the difference between merit goods and demerit goods. [8]

(b) Discuss whether it would be better if smoking were banned completely or whether it should be subject to an indirect tax. [12]

4 **(a)** Explain, with the help of a diagram, how a policy of expenditure dampening in an economy would affect aggregate demand, prices and output in that economy. [8]

(b) Discuss whether a policy of expenditure switching is more appropriate than a policy of expenditure dampening in an economy with a large balance of payments current account deficit and a high rate of inflation. [12]

BLANK PAGE

Copyright Acknowledgements:

Question 1 © S H Hanke; *R.I.P. Zimbabwe Dollar*; http://www.cato.org/zimbabwe; 5 February 2009.