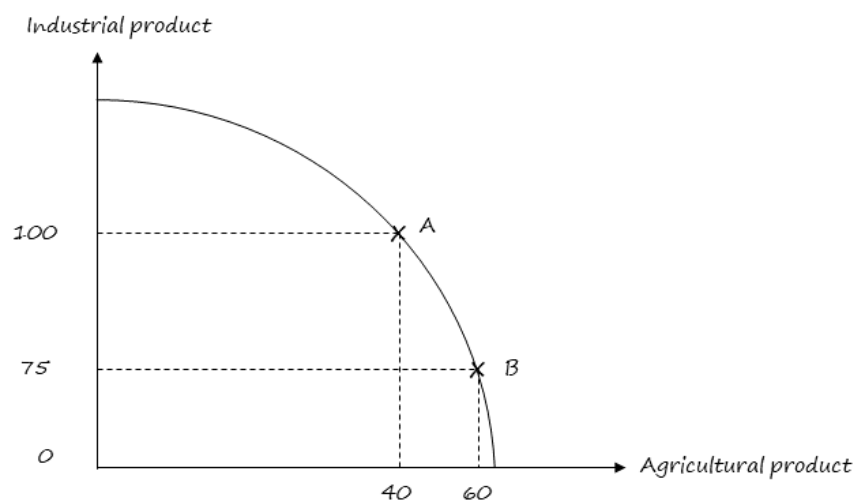


## Script B – Paper 2

- 1a** From 2009 -2011 the balance of trade was in a deficit and from 2012 onwards there was an increase at a fluctuating rate.
- 1bi** There would be a positive relationship between the annual change in the balance of trade in goods and services and the annual change in real GDP growth. Economic growth would also rise due to the exports rising.
- 1bii** The relationship is true for the years 2012, 2013, 2014, 2015, 2016 and 2017 except for 2009, 2010 and 2011.
- 1c** As the governments implemented supply-side policies such as the retraining of workers, the workers will develop new useful skills that can be used in the production process and increase the output.
- 1d** An increase in exports will increase aggregate demand as it is one of its components. With this economic growth will increase causing an increase in the exchange rate which will also increase the value of the dong. With this, if there is a constant demand for exports, a shortage may occur and lead to inflation.
- 1e** Vietnam is heavily reliant on its exports to sustain the economy of the country; this is not likely to persist 'economic miracle' if the US imposes more tariffs on Vietnam. When more tariffs are imposed, the exports are more expensive to buy. This will decrease the number of exports, decrease aggregate demand and will lead to lower economic growth. However, Vietnam's economic miracle is likely to persist due to the increased protectionism between China and the US, this will cause trade more with Vietnam, benefitting their revenue for exports. An increase in aggregate will occur leading more to economic growth.
- 2a** The production possibility curve shows the maximum combination of any two goods in the economy, the PPC also indicates the concept of scarcity and opportunity cost, hence the concave shape. Opportunity cost is the next best alternative forgone when making a decision. In this scenario, the axes will show the possibilities of what can be produced such as industrial products and agricultural products. This can be seen in the diagram below.



The diagram above shows increasing opportunity cost as to produce more agricultural products producers would have to forgo some units of industrial products. A movement along the PPC curve indicates that the economy has reallocated some of its resources from point A to point B, the opportunity cost is 1.25 units of industrial products.

**2b**

A free market is a market where the buying and selling of goods and services is not under the control of the government. If all types of goods and services are provided by the free market it would lead to market failure.

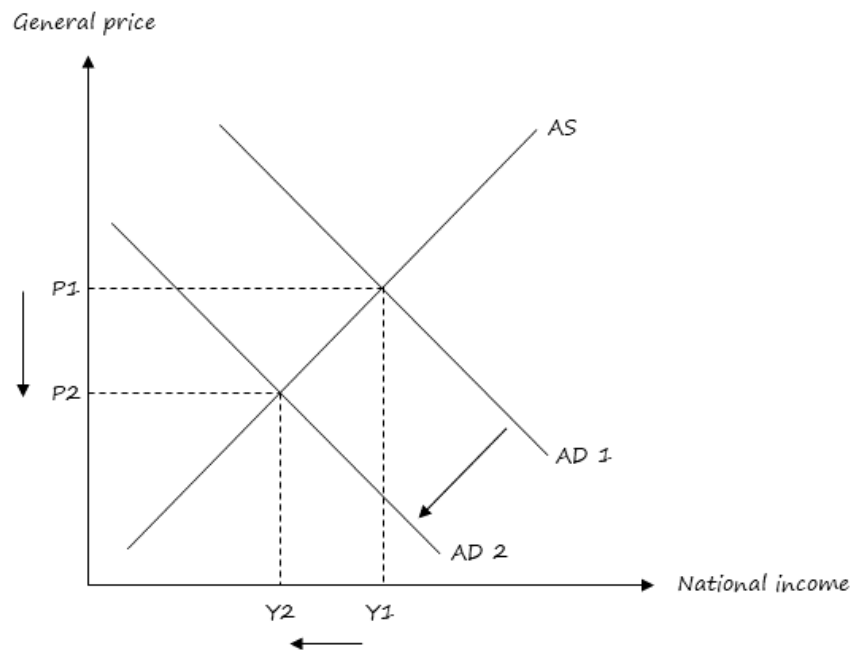
When the free market is completely left to make its own decisions without government intervention, it often fails to allocate resources and make the best use of scarce resources. An example of this would be the production of public goods, the private sector would fail to provide these goods and services due to the lack of profit motive. Public goods are also non-excludable (It is impossible to prevent any other consumer from benefiting from the good or service) and non-rival in consumption (Consumption by one individual does not reduce the amount and quality of consumption by others). This indicates that those who do not pay can still enjoy and access the product as there is no competition to purchase or use the product, this is known as the free rider problem. Examples of these goods are street lighting and national defence. Private goods, however, are less likely to experience the free rider problem as private goods are excludable and rival. Private goods can consist of both demerit and merit goods. Demerit goods, however, if produced in a free market will cause detrimental effects on the economy, due to no government intervention demerit goods would be over-produced and over-consumed. The free market's goal is to maximize profit. Therefore, they do not take into consideration of the social benefits. If the good is a demerit good, for example, cigarettes and alcohol, they will produce more than socially

desirable levels to maximize profit. Demerit goods are inelastic because of habits and addiction, producers will produce and increase the price of these goods and consumers will continue to consume these goods due to imperfect knowledge. On the other hand, merit goods are produced in a free market in which they have social benefits. Examples of these goods can be education and healthcare services.

To evaluate this, certain goods must be provided by the government such as public goods. This is because of the difference in aims between the public sector and the private sector. The government aims to maximize social welfare whereas firms want to maximize profit. Public goods must be provided by the government as they are necessary for daily life and national development. The private sector does not have any interest in producing these goods as they are non-profitable. If there is no production of public goods, the standard of living would decrease and affect the whole economy. Due to imperfect knowledge, government must intervene and decrease the production of demerit goods, this can be done by educating the public and controlling the supply of these goods through the imposition of taxes. The government would also have to increase the production of merit goods through subsidization as they are often underproduced and under-consumed in the free market.

In conclusion, the government should provide public goods while the private sector provides private goods.

- 4a** Structural unemployment occurs when the demand for products produced in a particular industry continuously falls. Whereas cyclical unemployment is caused by a lack of demand within the economy. Structural can be caused by a declining industry due to technological evolution for example newspapers, many consumers are now using the internet to access the news instead of newspaper. Another factor is when people may be switching between jobs therefore, they may be unemployed. Cyclical unemployment can be caused due to a high level of inflation when goods and services are too expensive to buy due to the high cost of raw materials, therefore, a lack of demand in the economy would occur which causes a fall in the national income, this is the most serious type of unemployment. It is also known as demand-deficient unemployment. This can be seen in the diagram below.



To conclude, cyclical unemployment is likely to be more serious for an economy as it occurs during a recession and recovering from this may be hard as it involves a whole economy. However, structural unemployment is slightly easier to fix as governments can use supply-side policies to overcome this type of unemployment such as retraining the workers in a particular industry.

- 4b** Expansionary monetary policy is used by decreasing interest rates to increase the money supply to increase aggregate demand and boost economic activity. When the aggregate demand is increased, due to the increase in demand for goods and services, more factors of production would be needed to keep up demand. In this case, it would be labour. When interest rates are lowered, the cost of borrowing would decrease, and this would encourage households and firms to spend and invest. Higher spending in the economy would increase the demand for labour, thus reducing unemployment.

By manipulating the exchange rates to decrease it may also increase employment, this is because when exchange rates are decreased exports would be relatively cheaper for foreign countries to purchase. As the demand for exports increases it would tend to create more jobs and more people would be employed. This would further increase the standard of living. However, there would be limitations to this policy as economic growth, which includes lower unemployment, is not only dependent on interest rates and exchange rates. Other factors such as confidence levels also have an impact.

However, expansionary monetary policy is only able to reduce frictional and cyclical unemployment. This is due to monetary policy only being able to reduce the demand-side causes of unemployment. Demand-side causes of unemployment can be dealt with by using monetary policies as interest rates, money supply and exchange rates all affect aggregate demand. However, unemployment involving the supply side such as structural unemployment cannot be fixed using expansionary monetary policy. Structural unemployment occurs when the demand for products produced in a particular industry continually falls, for example, newspaper nowadays is decreasing in demand because people are using technological devices to access news, therefore people producing newspapers may be left unemployed. This cannot be fixed using the manipulation of interest rates, money supply and exchange rates. Structural unemployment, however, can be fixed using supply-side policies such as training workers to develop new skills to work in a new industry.

To conclude, expansionary monetary policy can only fix two types of unemployment which are frictional and cyclical. Not structural as the tools used in expansionary monetary policy is not suitable to fix unemployment caused by a lack of demand for that good or service.

We are committed to making our documents accessible in accordance with the WCAG 2.1 Standard. We are always looking to improve the accessibility of our documents. If you find any problems or you think we are not meeting accessibility requirements, contact us at [info@cambridgeinternational.org](mailto:info@cambridgeinternational.org) with the subject heading: Digital accessibility. If you need this document in a different format, contact us and supply your name, email address and requirements and we will respond within 15 working days.