Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

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ECONOMICS **9708/23**

Paper 2 Data Response and Essay **October/November 2018**

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.

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CAMBRIDGE International Examinations

Section A

Answer **this** question.

1 **The air transport market in India**

Over the past 20 years or so, global air transport markets have become more competitive. This is especially the case in the United States (US), the European Union (EU) and, most recently, in Asia. Governments have sought to provide opportunities for new firms, invariably 'low-cost carriers' (budget airlines), to open new routes and compete with established airline operators, often in domestic markets.

The situation in India is typical but only to a certain extent. The country has two established airline operators with extensive international as well as domestic service networks. They now face increasing competition from a number of low-cost carriers who operate services within India.

Consumers have benefitted from these changes. As well as opening new routes, the increased competition has seen all airline operators offering cheaper prices. At the same time, the established airline operators have had to reduce costs to remain competitive. Also, demand has increased for leisure travel as well as business travel.

The Indian air transport market still has some restrictions imposed by the Indian government. An important restriction is the '5/20 rule'. This stipulates that Indian-owned airline operators must have a minimum number of aircraft (20) and have been in business for a minimum of 5 years, before they can operate international services.

Opponents to the 5/20 rule argue that it seriously discriminates against Indian airline operators by not allowing them to compete in a free market. They further claim that applying the rule is having a negative impact on the Indian economy. Foreign-owned airline operators, which have a 70% share of international passenger traffic to and from India, do not have to meet the 5/20 rule.

Source: Times of India, 27 February 2016 and *The Mint, 25 February 2016*

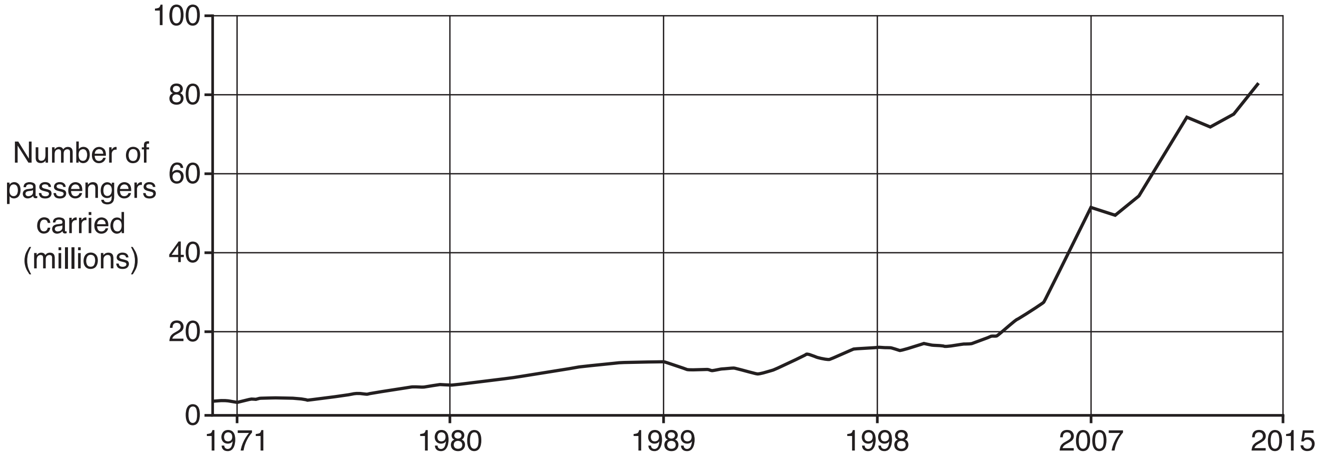

Fig. 1.1: Air transport – total number of domestic and international passengers carried by Indian-owned airline operators, 1971–2014

Source: Trading Economics.com, accessed 5 March 2016

(a) (i) Using Fig. 1.1, describe the trend in the number of air passengers carried since 1971. [2]

(ii) Explain **one** possible change in a demand factor and **one** possible change in a supply factor which could have caused the overall trend in the Indian air travel market. [4]

(b) Name and give an example of each of **two** factors of production that are required by airline operators. [2]

(c) In February 2016, the Indian government increased the tax on aviation fuel from 8% to 14%.

Use a diagram to analyse the effects of this increase on the market for aviation fuel. Explain what would determine the incidence of this tax between the aviation fuel producers and the airline operators who buy the fuel. [6]

(d) Discuss whether ending the 5/20 rule would be likely to be of overall benefit to the Indian economy. [6]

Section B

Answer **one** question.

2 (a) Using examples, explain why some goods cannot be provided as private goods. [8]

(b) Discuss whether all forms of transport should be subsidised by the government. [12]

3 In August 2015, the Chinese Government devalued its currency, the yuan, by around 5%.

(a) Explain how a government intervenes to manage the value of its currency in the foreign exchange market. [8]

(b) Discuss the likely effects of the devaluation of the yuan on both the Chinese economy and countries that trade with China. [12]

4 (a) Using a diagram, explain the significance for an economy of the interaction of aggregate demand and aggregate supply. [8]

(b) Analyse the causes of an increase in aggregate supply. Discuss the extent to which this might be beneficial for an economy. [12]

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