

**9708/21 Paper 2**  
**Data Response and Essay**  
**May/June 2020**  
**1 hour 30 minute**

**Section A**

**Answer this question.**

**1**

**The Lagos economy is working**

Nigeria discovered oil 50 years ago and is now the world's sixth biggest oil exporter. The recent increase in global oil prices has had a very large positive effect on the country's balance of trade and has also improved the country's terms of trade.

Lagos is the largest city in Nigeria, with a population of over 20 million, and has undergone a successful economic transformation in recent years. It has used the private sector to become the most productive and dynamic part of Nigeria's economy. The owner of one of Nigeria's largest companies has stressed the enormous economic progress that the country has made in recent years. 'I'm a great believer in Nigeria because the opportunities here are enormous.' His company's success shows what private enterprise can achieve in a mixed economy especially if it is provided with the right incentives by the government.

Most Nigerian entrepreneurs are operating in Lagos and entrepreneurship has certainly played a key role in the modern Lagos economy. Start-up initiatives have been encouraged and the need to be innovative has been increasingly recognised, leading to the development of new goods, services and markets. The city is the centre of thriving music, fashion, film and technology industries that have significant influence throughout Africa.

A 'free trade zone' on the edge of Lagos has been established where private sector firms pay no business taxes to the government and there are now numerous start-up enterprises that are thriving. The government aims to lower costs, reduce bureaucracy and make the economy more flexible and efficient with the hope of boosting trade. The zone is located next to a deep sea port and has good road connections with both the rest of Nigeria and other countries in the region.

Lagos is an important transport hub, with three major ports and West Africa's most important international airport. In 2016 the output of Lagos was valued at US\$136 billion while Nigeria's total national output was valued at US\$405 billion.

crucial role in **subsidising** or **directly providing education** to address **market failures**.

In evaluating whether the only goods a government should produce are **public goods**, it is essential to recognise that a diverse set of goods and services, including **public goods** and **merit goods**, contribute to societal welfare. Overreliance on the government for all goods may lead to **inefficiencies** and stifled innovation. A balanced approach involves careful consideration of the characteristics of each good and determining the appropriate role for government intervention based on market failures.

In conclusion, while the production of **public goods** is a vital role for governments, an exclusive focus on them may **overlook** the **potential benefits** of government provision of **merit goods**. A sensible approach involves analyzing the characteristics of each type of good and determining the most efficient and equitable allocation of resources.

**3(a) Explain, with the aid of a demand and supply diagram, two factors that might cause an increase in the demand for foreign holidays. [8]**

**Two** factors that might cause an increase in the demand for foreign holidays could be **income growth** and **exchange rate fluctuation**.

When people experience an **increase** in their **income levels**, they tend to have **more disposable income** available for discretionary spending, including leisure activities such as travel. Higher income can lead to an **increased demand** for **foreign holidays** because individuals and families may feel more financially secure and are more likely to allocate a portion of their income to travel and explore international destinations.

Likewise, **changes** in **exchange rates** can significantly impact the cost of foreign holidays. If the currency of the home country strengthens against the currencies of potential travel destinations, it becomes more cost-effective for residents to travel abroad. A **favourable exchange rate** can make foreign holidays more affordable, encouraging individuals to take advantage of the better value for their money in foreign countries.

These favourable changes in income and exchange rate increase the demand for foreign holidays and shift the demand curve to the right as shown in the graph below: