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

ECONOMICS **9708/02**

Paper 2 Data Response and Essay (Core)

May/June 2004

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

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 on both sides of the paper.
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.

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.
You may answer with reference to your own economy or other economies that you have studied where relevant to the question.

This document consists of **4** printed pages.

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Section A

Answer this question.

1 **Inflation in Jamaica and the UK**

In August 2001 the Bank of Jamaica reported that the monthly rate of inflation in Jamaica for June 2001 had been 1.7% and that the Consumer Price Index (CPI) stood at 1404 compared to its base figure in 1988.

Table 1 gives the monthly inflation rate for each of the different groups of products included in the Jamaican CPI and the percentage weights of each group. It also gives the weights for the same groups in the UK Retail Price Index (RPI) for the same year.

Table 1

Product group	Jamaican CPI		UK RPI Weight*
	Monthly inflation %	Weight*	
Food and drink	0.7	56	29
Fuels and other household supplies	0.4	7	11
Housing and other housing expenses	–1.3	8	16
Household furnishings and furniture	0.8	3	7
Healthcare and personal expenses	0.5	7	4
Personal clothing, footwear, etc	0.3	5	7
Transport	22.6	6	15
Miscellaneous expenses	0.2	8	11
All groups	1.7	100	100

*rounded to percentages

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Figs 1 and 2 show the rates of inflation in Jamaica and the UK between 1989 and 2000.

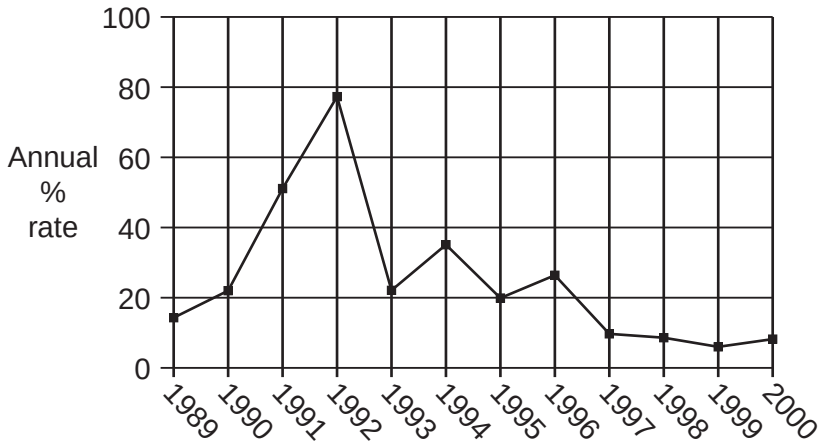


Fig. 1 Inflation in Jamaica

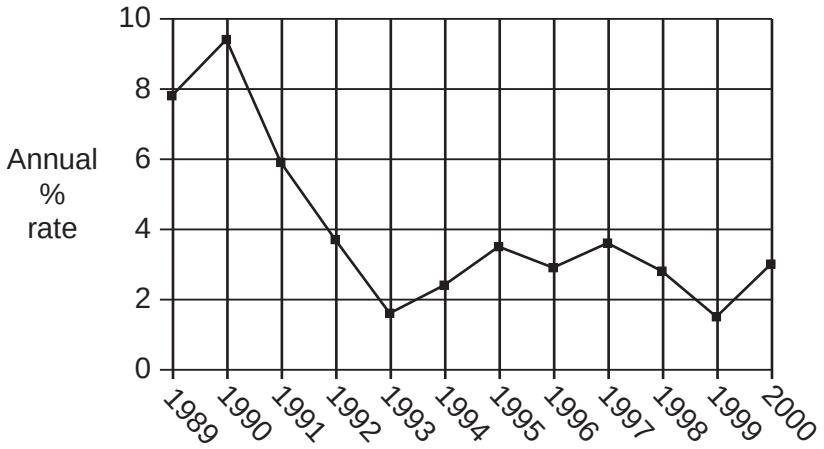


Fig. 2 Inflation in the UK

(a) What happened to the Consumer Price Index in Jamaica between 1988 and 2001? [2]

(b) Choose **two** product groups from Table 1.

Explain for **each** of these two product groups **one** possible reason for the difference in the weights between Jamaica and the UK. [4]

(c) **(i)** Explain whether food and drink or transport contributed more to the monthly inflation rate in Jamaica in June 2001. [4]

(ii) Comment on the effect of the change in the price of housing and other housing expenses on the monthly Jamaican inflation rate in June 2001. [2]

(d) Compare inflation in Jamaica and the UK between 1989 and 2000. [2]

(e) Discuss whether inflation is always caused by government action. [6]

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Section B

Answer **one** question.

2 **(a)** An economy is faced by the exhaustion of an important natural resource at a time when it is introducing improved technology.

Explain how these events will affect the economy's production possibility curve. [8]

(b) Discuss whether the operation of a market economy always produces a desirable outcome. [12]

3 **(a)** Increasing raw material costs cause the price of a good to rise. Explain the effect of this price rise for the good on the markets for its substitute and complementary goods. [8]

(b) Discuss the usefulness to businesses of a knowledge of price elasticity of demand and income elasticity of demand. [12]

4 **(a)** Explain how the determination of a floating exchange rate differs from that of a fixed exchange rate. [8]

(b) Discuss the circumstances in which reducing the exchange rate and introducing quotas are effective policies to tackle a trade deficit. [12]

Copyright Acknowledgements:

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