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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 2005

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 **The Market for Precious Metals**

The prices of precious metals such as gold, platinum and palladium are determined by supply and demand. This can result in dramatic price changes. Fig. 1 shows their price movements, as index numbers, during 2002.

Precious metal prices

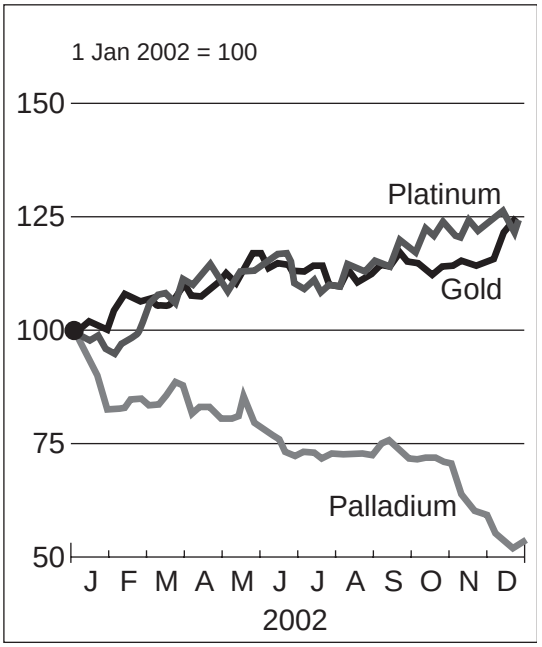


Fig. 1

Many influences were at work in the markets during this period. Demand for gold as an investment increased as economic conditions became uncertain, interest rates fell and stock markets collapsed. Platinum prices were affected by increasing sales of diesel cars, which must use platinum in their catalytic converters, and the reduction of exports of platinum by Russia. Supplies of precious metals can easily be increased from stocks, but when these are low it is more difficult to expand supply.

Palladium is a substitute for platinum in catalytic converters for cars using petrol (gasoline). Palladium and platinum prices have behaved very differently, as shown in Table 1.

Table 1 Prices of palladium and platinum (US$ per ounce)

	December 2000	January 2003
Palladium	US$ 1100	US$ 250
Platinum	US$ 600	US$ 700

South Africa is a leading supplier of precious metals. In 2002 gold and platinum made up 25% of its export earnings. The price changes of the metals helped push up the exchange rate of the South African currency by 40% against the US$.

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(a) Show how Fig. 1 supports the view that the prices of precious metals change dramatically. [2]

(b) Explain **one** reason for the increased demand for gold in 2002. [2]

(c) Draw a diagram to show why the price of platinum rose in 2002. [3]

(d) **(i)** Define price elasticity of supply. [2]

(ii) What does the data suggest about the nature of the price elasticity of supply of precious metals? [2]

(e) How may the price behaviour of palladium and platinum, shown in Table 1, have been linked? [3]

(f) Discuss the possible effects on the South African economy of the rise in the prices of gold and platinum. [6]

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Section B

Answer **one** question.

2 **(a)** Explain the differences in the features of a market economy and a planned economy. [8]

(b) Discuss the desirability of the direct provision of goods and services by the government. [12]

3 **(a)** Explain why economies make use of money. [8]

(b) Discuss whether stability in the domestic value of money is essential for a country's economic well-being. [12]

4 **(a)** Explain how a country's balance of payments is organised to account for all its international transactions. [8]

(b) A country has a deficit on the current account of its balance of payments. Discuss whether this is necessarily harmful to the country. [12]

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