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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 2006

**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.
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.

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



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International Examinations

## Section A

Answer this question.

**1** **Trade developments between Australia and Thailand**

**Table 1 Trade in goods between Australia and Thailand in 2002, all valued in Australian Dollars (A$)**

| Australian Exports | A$m | Australian Imports | A$m |
|---|---|---|---|
| Total | 2510 | Total | 3140 |
| Of which: | | Of which: | |
| Gold | 412 | Vehicles | 541 |
| Aluminium | 348 | Petroleum | 259 |
| Cotton | 186 | Heating / cooling equipment | 240 |
| Dairy products | 137 | Seafood | 221 |
| Crude petroleum | 115 | Computers | 113 |

In October 2003, Australia signed a trade agreement with Thailand. Under this, more than half of Thailand's 5000 import tariffs on Australian goods were abolished immediately and others were reduced. These tariffs covered Australian exports worth more than A$700 million in total. Thailand would abolish the remaining tariffs by 2020. An independent survey predicted that by 2023 these actions would raise the GDP of Australia by A$12 000 million and that of Thailand by A$46 000 million.

**Table 2 Some of the immediate changes in Thailand's tariffs on Australian goods**

| Product | Old Tariff | New Tariff |
|---|---|---|
| Beef | 51% | 40% |
| Wheat | 12-20% | 0% |
| Wine | 55% | 40% |
| Large cars | 80% | 0% |
| Small cars | 80% | 30% |

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**(a) (i)** Calculate the balance of trade in goods between Australia and Thailand in 2002. [2]

**(ii)** What differences were there in the types of goods traded between the two countries? [2]

**(iii)** Explain what might have caused these differences. [4]

**(b) (i)** Name **two** protective measures, other than tariffs, that restrict free trade. [2]

**(ii)** Explain, with the aid of a demand and supply diagram, how the domestic producers of a good are affected by the removal of a tariff on imports of that good. [4]

**(c)** Discuss whether Australia and Thailand should have abolished all tariffs immediately. [6]

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**[Turn over**

## Section B

Answer **one** question.

**2** **(a)** Explain, with examples, the significance of the value of a good's cross-elasticity of demand in relation to its substitutes and complements. [8]

**(b)** Discuss whether the demand for mobile phones (cell phones) is likely to be price-elastic or price-inelastic. [12]

**3** **(a)** Explain, with examples, the difference between a demerit good and a merit good. [8]

**(b)** Discuss **two** methods that a government might use to influence the consumption of demerit goods. [12]

**4** **(a)** Explain, with the aid of diagrams, how a government would maintain a fixed exchange rate. [8]

**(b)** Discuss whether it is better for a country with a floating exchange rate to face an appreciation or a depreciation of its currency. [12]

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