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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 2008**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

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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.

This document consists of **3** printed pages and **1** blank page.

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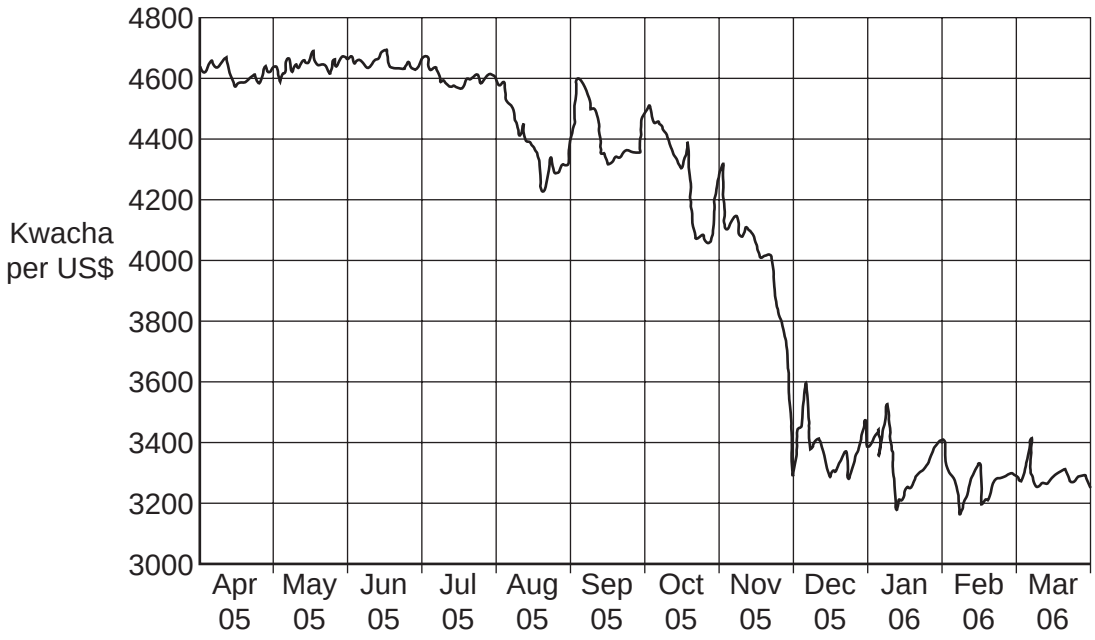
Section A

Answer this question.

1 The appreciation of the Zambian Kwacha

Zambia's currency, the Kwacha, experienced a significant appreciation in the year up to March 2006. This is shown in Fig.1. Factors that influenced the exchange rate at this time were an improvement in Zambia's export performance, a reduction in the foreign debt owed by Zambia, an increase in foreign aid received by Zambia and an inflow of foreign investment. The exchange rate is vitally important for Zambia because its exports of copper, tobacco, maize and cotton are priced in US$ but its costs are paid in Zambian Kwacha.

Fig.1 Zambian exchange rate (Kwacha per US$), April 2005 to March 2006



(a) Identify from Fig.1 the greatest monthly appreciation of the Kwacha.

(i) In which month did this take place? [1]

(ii) By how much did it appreciate? [1]

(b) Explain what Fig.1 suggests about the type of exchange rate system used by Zambia. [3]

(c) Explain how the change in the value of the Kwacha between September 2005 and January 2006 might have been influenced by

(i) the improved export performance and

(ii) the reduction in foreign debt. [6]

(d) How would the appreciation of the Kwacha affect Zambia's terms of trade? [3]

(e) Discuss whether an appreciation of its exchange rate always benefits a country. [6]

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Section B

Answer **one** question.

2 **(a)** Explain the three economic questions that all economies face because of the basic economic problem. [8]

(b) Discuss whether the price mechanism is an effective way to solve the basic economic problem. [12]

3 **(a)** Explain what determines the size of a country's labour force. [8]

(b) Discuss whether a widespread shortage of labour might be a major cause of inflation. [12]

4 **(a)** Explain what is meant by a current account deficit. [8]

(b) Discuss the effectiveness and desirability of imposing tariffs to correct a current account deficit. [12]

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Question 1 Fig. 1 © 2007 by Prof. Werner Antweiler, University of British Columbia, Vancouver BC, Canada.
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