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

**ECONOMICS** **9708/21**

Paper 2 Data Response and Essay (Core) **May/June 2011**

**1 hour 30 minutes**

Additional Materials: Answer Booklet/Paper

*7494715266*

**READ THESE INSTRUCTIONS FIRST**

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Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
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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.
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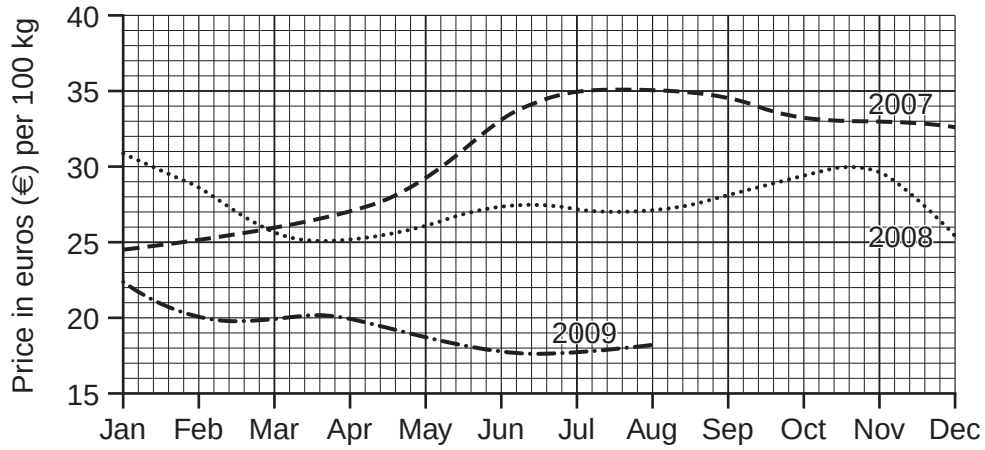
## Section A

Answer this question.

**1** **Problems for Dairy Farmers in the United States**

Milk is used to make a range of products, including butter, cheese and ice cream, as well as serving as a drink. This was of no help to US dairy farmers in 2009 when they faced a falling price for their milk. Fig. 1 shows the extent of the price change in recent years. While consumers purchase milk by volume (litres), farmers are paid by weight (kilograms).

**Fig. 1: Average milk price paid to farmers in the US, Jan 2007 to August 2009**




A price fall was also experienced by New Zealand as shown in Table 1.

**Table 1: Average annual milk price (€ per 100 kg) in the US and New Zealand, 2007–2009**

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| US | 30.69 | 27.49 | 19.30 |
| New Zealand | 22.48 | 25.17 | 16.21 |

US farmers blamed their problems on the global recession, the strength of the US$ and high cattle feed prices. At the same time, New Zealand and Australia increased their exports and the European Union (EU) reintroduced its export subsidies on milk products.

The world milk industry has often had support from governments that have paid subsidies to farmers and supplied free milk to young children. US farmers were hoping for extra government intervention.

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**(a)** **(i)** Compare the average milk price paid to farmers in the US in August 2008 with that in August 2009. [2]

**(ii)** How far does Fig. 1 suggest that the price of milk is subject to regular seasonal influences? [2]

**(b)** **(i)** Compare the changes in milk prices in the US and in New Zealand between 2007 and 2009. [2]

**(ii)** Explain **two** possible reasons for the different level of milk prices in the US and New Zealand. [4]

**(c)** Explain how one group, other than dairy farmers, would lose from lower milk prices and how another group would gain from lower milk prices. [4]

**(d)** Discuss the case for the use of government subsidies for the production of milk. [6]

## Section B

Answer **one** question.

**2** **(a)** Explain the functions of an economic system. [8]

**(b)** Discuss possible reasons why mixed economic systems have replaced most of the former planned economic systems. [12]

**3** **(a)** Explain how the effects of a devaluation on the level of economic activity differ from those of a deflation. [8]

**(b)** Discuss whether inflation can be both the cause and the result of fluctuations in an economy's exchange rate. [12]

**4** **(a)** Explain how the different international transactions of a country are recorded in its balance of payments account. [8]

**(b)** Discuss the use of tariffs and quotas as policies to reduce a current account deficit. [12]

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**ECONOMICS** **9708/22**

Paper 2 Data Response and Essay (Core) **May/June 2011**

**1 hour 30 minutes**

Additional Materials: Answer Booklet/Paper

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## Section A

Answer this question.

**1** **Australia and its Northern Territory**

The Northern Territory of Australia is a large, sparsely populated area. It relies heavily on tourism, mining, agriculture and fishing. The extraction of oil and gas and the mining of iron ore and bauxite have grown significantly in recent years. Its manufacturing is principally based on the processing of its natural resources.

The Northern Territory government publishes forecasts, which compare the economic prospects of the Northern Territory with those of Australia as a whole. The table below gives extracts from the forecasts in January 2009.

**Table 1: Selected economic forecasts for Northern Territory and Australia**

| | Northern Territory | | Australia | |
|---|---|---|---|---|
| | 2008–9 | 2012–13 | 2008–9 | 2012–13 |
| International exports, constant price (A$*m) | 4172 | 6004 | 176 010 | 236 824 |
| International imports, constant price (A$m) | 2718 | 2811 | 217 675 | 224 521 |
| Consumer price index, 1989–90 = 100 | 164.6 | 180.0 | 167.7 | 186.4 |
| Average weekly nominal earnings, A$ | 954 | 1078 | 916 | 1050 |
| Unemployment rate (%) | 3.7 | 5.7 | 4.2 | 6.5 |
| Population aged 15–64 (thousands) | 170 | 186 | 17 456 | 18 627 |

* A$ = Australian dollars

**(a)** **(i)** Calculate and compare the change in the trade balance between 2008–9 and 2012–13 of the Northern Territory with that of Australia. [4]

**(ii)** Explain why exports and imports are often measured at constant prices. [2]

**(b)** Explain **two** additional pieces of information that would be useful in judging Australia's international financial position. [4]

**(c)** Analyse the change in average weekly earnings in Australia in real terms between 2008–9 and 2012–13. [4]

**(d)** With the help of the text and the table, discuss the economic outlook for the Northern Territory. [6]

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## Section B

Answer **one** question.

**2** **(a)** Explain the role that a government should fulfil in a mixed economy. [8]

**(b)** Discuss the accuracy of the definition of public and merit goods as 'goods that must be provided by the government'. [12]

**3** **(a)** Using economic analysis, explain the possible causes of the increase in the sales of electronic goods, such as mp3 players, in recent years. [8]

**(b)** Suggest **two** possible reasons why a government might increase the indirect tax on such goods and discuss, in light of these reasons, the likely effectiveness of such a policy. [12]

**4** **(a)** Explain why the successful operation of the division of labour depends upon the use of money. [8]

**(b)** Discuss whether it is the behaviour of producers, consumers or governments that is most likely to cause inflation. [12]

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## Section A

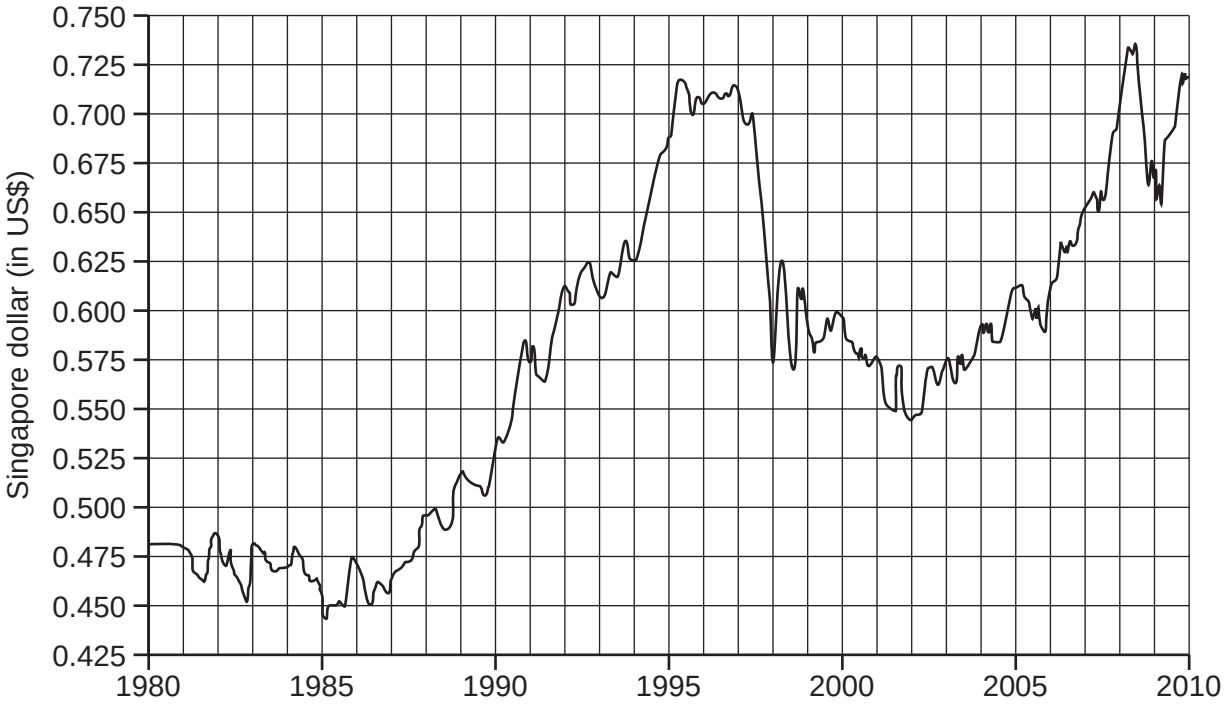
Answer this question.

**1** **The Singapore Exchange Rate**

Singapore is a relatively small, open economy which relies heavily on international trade. The values of both its exports and imports are more than 100% of its GDP. Its largest trading partners are Malaysia, China and the US. In the second half of 2008 its economy faced a sharp downturn, with a large fall in its exports that affected the Singapore exchange rate.

Fig. 1 shows the exchange rate of the Singapore dollar (S$) in terms of the US dollar (US$) between 1980 and 2010.

**Fig. 1: The Singapore Exchange Rate 1980–2010**




(Source: Pacific Exchange Rate Service)

Singapore has a unique exchange rate system. The Monetary Authority of Singapore (MAS) uses the exchange rate to maintain price stability and encourage economic growth.

The main features of the system are that:

1 the S$ is managed against a weighted basket of currencies of its major trading partners and competitors,
2 the exchange rate is allowed to move within an undisclosed trading band but not to move outside of it,
3 the trading band is reviewed typically every three months and changed if necessary.

The poor economic conditions in March 2009 caused the MAS to lower the trading band which was the same as a depreciation of the S$.

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**(a)** Compare the exchange rate of the S$ against the US$ from the beginning of 1980 to the beginning of 2010. [2]

**(b)** Analyse the possible changes in the demand for and the supply of the S$ that could account for the trends in its exchange rate between 1997 and 2007. [4]

**(c)** Explain **two** ways in which an appreciating exchange rate can help to reduce inflation. [4]

**(d)** Using the extract, consider whether Singapore has both a floating and a fixed exchange rate system. [4]

**(e)** Discuss whether an economy will benefit from a fall in its exchange rate. [6]

## Section B

Answer **one** question.

**2** **(a)** Explain how resources are allocated in a free market economy. [8]

**(b)** Discuss how the market system might be influenced by government intervention to provide appropriate quantities of goods and services. [12]

**3** **(a)** Explain how and why the price elasticity of supply of agricultural goods differs from that of manufactured goods. [8]

**(b)** Discuss whether the payment of government subsidies to farmers is a beneficial policy. [12]

**4** **(a)** Explain the limitations of the theory of comparative advantage in accounting for a country's pattern of trade. [8]

**(b)** Discuss whether the introduction of trade barriers against imports can always be justified. [12]

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