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 2013**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

0276786142

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Section A
Answer this question.
Brief answers only are required.

Section B
Answer any **one** question.

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Section A

Answer this question.

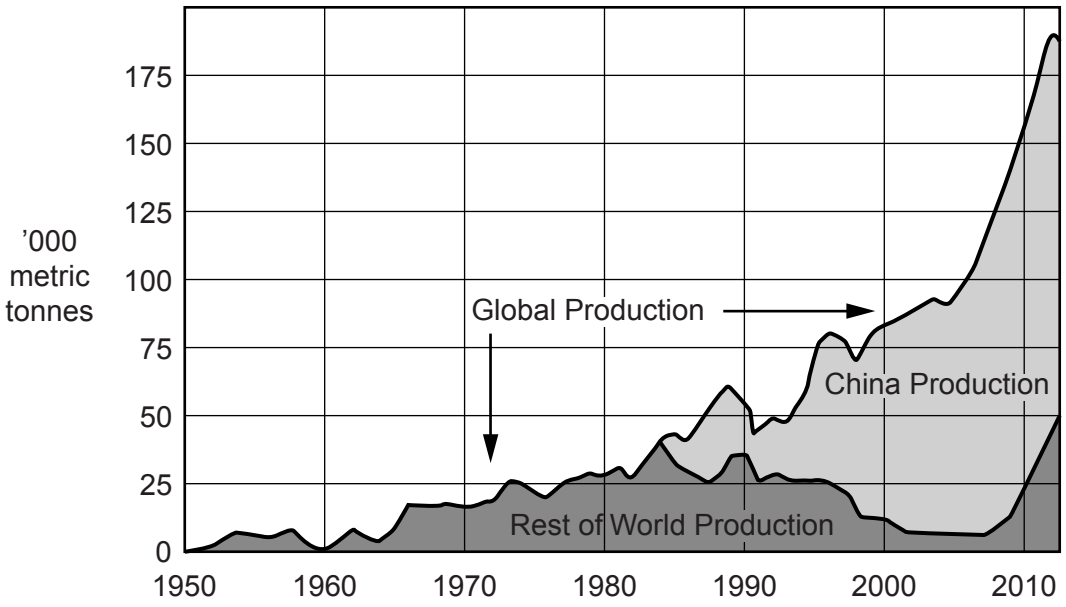
China and Rare Earth Elements (REEs)

1 Rare earth elements (REEs) are a group of 17 minerals, some with unusual names such as gadolinium and praseodymium that have become increasingly important in recent years. They are vital in the production of glass, petrol, flat-screen televisions, laptops, lasers, satellites, energy-saving light bulbs, jet engines and wind turbines. As many as eight REEs are used in an electric car and military hardware depends on them. World demand for REEs is expected to continue to increase.

There are problems with mining these minerals. They are found in many countries but are not concentrated enough to make it easy to exploit them economically. In the 1980s and 1990s China invested heavily in machinery and training labour for mining REEs. The entry of China into REEs mining pushed prices down to a level that forced many rivals in the United States out of production. Most countries rely totally on imports for their supplies of REEs.

Mining them produces undesirable side-effects, such as radioactivity, air pollution and spoilt landscapes. Mining also uses highly toxic chemicals that can pollute the water supply. China, as shown in Fig. 1, is now the dominant global supplier. It also has the largest reserves.

Fig. 1 Global production of REEs, 1950 to 2012



Source: Kaiser Research Online

China imposes export taxes on REEs of up to 25% and sets export quotas that were reduced in August 2010 from 28 417 metric tonnes to 7 976 metric tonnes per annum.

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(a) Describe China's changing contribution to the global production of REEs between 1950 and 2012. [3]

(b) **(i)** Explain **two** possible reasons why demand for REEs is likely to continue to grow. [4]

(ii) Analyse the social costs associated with the increased mining of REEs. [4]

(c) What might be the economic justifications for China's reduction in export quotas for REEs? [3]

(d) Discuss whether it is likely that China will be able to maintain its domination of the international REEs market in a time of rising global prices for REEs. [6]

Section B

Answer **one** question.

2 **(a)** Explain why the free market is ineffective in arriving at the correct price for merit goods and demerit goods. [8]

(b) Discuss the policies a government might adopt to ensure the correct price for merit and demerit goods is charged in the market. [12]

3 **(a)** Explain how unemployment and inflation are measured. [8]

(b) With the help of diagrams, analyse the factors that will lead to an increase in aggregate demand in an economy, and discuss whether this increase is more likely to have an impact on inflation or unemployment in that economy. [12]

4 **(a)** In a two country world one country is more efficient at producing one product and the other country is more efficient at producing another product. Explain why specialisation and trade usually benefit both countries. [8]

(b) Suppose one country were more efficient at producing both products. Discuss whether it is the case that specialisation and trade will always benefit both countries. [12]

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ECONOMICS **9708/22**

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Section A

Answer this question.

Palm Oil Production

1 Palm oil is used in the production of many goods, including cooking oil, margarine, ice cream, soap, shampoo and more recently fuel for vehicles. It competes with other vegetable oils, made from soyabeans, rapeseed, sunflowers and groundnuts. While palm oil production takes up 6% of the land used for vegetable oil plants across the world, it produces 38% of the total output of vegetable oil globally and accounts for 60% of world exports of vegetable oil.

Palm oil is produced from the flesh of the palm fruit and, at the same time, palm kernel oil is produced from the kernel or seed. After the extraction of the oils the waste is turned into palm kernel cake that is then sold for animal feed.

In Malaysia the palm oil industry employs 570 000 people of which 405 000 are engaged in cultivation. Malaysia and Indonesia are the world's two most important palm oil producers and details of their production are given in Table 1.

Table 1: Palm oil production in Malaysia and Indonesia, 1995 and 2008

	Malaysia	Indonesia
1995 Production ('000 tonnes)	7 811	4 480
1995 Area cultivated ('000 hectares)	2 540	2 025
2008 Production ('000 tonnes)	17 734	18 090
2008 Area cultivated ('000 hectares)	4 488	7 008

The increase in the cultivation of palm oil has been criticised on environmental grounds. There have been accusations of deforestation, reduction of biodiversity, harm to wildlife and increasing emissions of greenhouse gases. One response has been an organisation of growers, processors, and food companies to encourage the production of sustainable palm oil that limits the harm to the environment.

(a) Give **two** reasons why palm oil is an important product for the economy of Malaysia. [2]

(b) Analyse, with the aid of diagrams, the impact of an increase in demand for palm oil on the markets for palm oil and palm kernel cake. [5]

(c) **(i)** How can Table 1 be used to provide one measure of productivity in palm oil production? [2]

(ii) Use Table 1 to compare the productivity of palm oil production in Indonesia in 1995 and 2008. [2]

(d) What additional information would give a better understanding of changes in productivity in palm oil production in Indonesia? [3]

(e) Discuss any **two** policies that governments might use to prevent harm to the environment from palm oil production. [6]

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Section B

Answer **one** question.

2 In a free market price rations scarce goods.

(a) Explain this statement and, with the help of a diagram, show how price rations scarce goods when there is an increase in the costs of production. [8]

(b) Discuss whether preventing the price mechanism from working freely by using government price controls can ever be effective. [12]

3 **(a)** Define the components of aggregate demand and, with the help of a diagram, explain how an increase in spending in an economy might result in inflation. [8]

(b) If an economy is experiencing inflation, discuss the view that its government should be more concerned about the external effects than its effects within the domestic economy. [12]

4 **(a)** Explain the meaning of the term 'protection' in the context of international trade and describe **two** methods of protection used by governments. [8]

(b) Discuss, with examples, how international trade protection may affect consumers and producers in an economy and whether on balance protection can be justified. [12]

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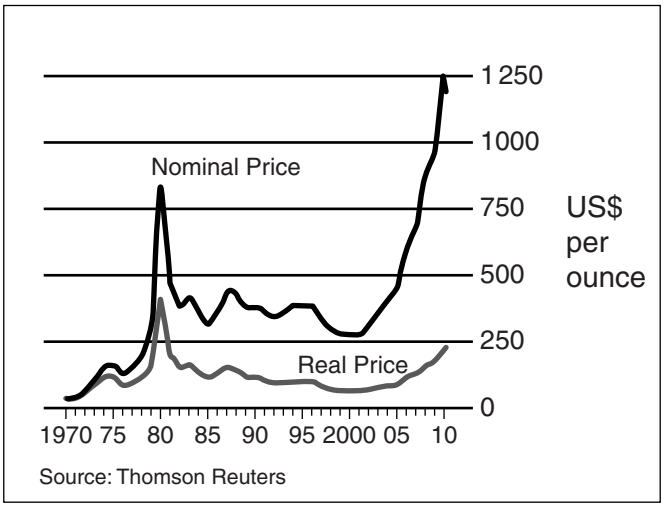
Section A

Answer this question.

The market for gold

1 The price of gold reacts to changing economic conditions and the level of economic confidence. Periods of economic downturn and uncertainty, such as 2008–9 and 2010, produce major changes in the gold price. This can be seen in Fig. 1 which shows the nominal and real price of gold between 1970 and 2010. The real prices are in terms of 1970 prices, which is the base year.

Fig. 1 Nominal and real prices of gold, US$ 1970 to 2010

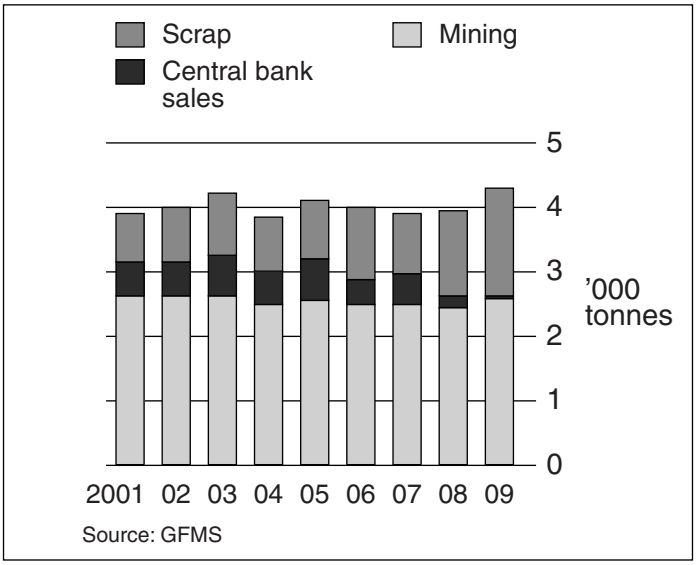


The supply of gold is made up of newly mined gold, gold sold from the stocks held by central banks and scrap gold, mainly from the sale of old jewellery. In 2003, 986 tonnes of scrap gold were traded at an average price of $280 per ounce but by 2009, 1674 tonnes were traded at an average price of $972 per ounce.

Gold is demanded for its use in industrial production, in dentistry, as jewellery and as a store of value. Gold is used as an insurance against uncertainty and traders may speculate on the price movements of gold.

Fig. 2 shows the changes in the pattern of supply of gold between 2001 and 2009.

Fig. 2 Gold supply ('000 tonnes), 2001 to 2009



(a) **(i)** Compare the difference between nominal and real prices of gold over the period 1970 to 2010. [2]

(ii) A gold trader in 2010 said that 'the price of gold has never been higher'. Explain whether Fig. 1 confirms this statement. [2]

(b) Use the data to estimate the price elasticity of supply of **scrap gold** between 2003 and 2009 and state whether it is elastic or inelastic. [4]

(c) **(i)** What were the changes in the sources of supply of gold between 2001 and 2009? [2]

(ii) Explain **two** possible reasons for these changes. [4]

(d) Discuss the extent to which gold is like other consumer goods, and whether the gold market operates like a consumer good market. [6]

Section B

Answer **one** question.

2 **(a)** With the help of a diagram, explain how a production possibility curve can illustrate the concepts of opportunity cost and economic growth. [8]

(b) Discuss whether free market economies or centrally planned economies are more likely to make choices that will maximise the benefit for consumers. [12]

3 **(a)** Explain, using economic analysis, how economists decide whether goods are substitutes or complementary goods. [8]

(b) Explain on which goods and services the government should impose indirect taxes to ensure that the incidence of the tax falls mainly on consumers, and discuss the extent to which consumer surplus would be affected. [12]

4 The best way to reduce a deficit on the current account of the balance of payments is to change the value of the deficit country's exchange rate.

(a) Explain how a change in a country's exchange rate might reduce a deficit on the current account of its balance of payments. [8]

(b) Discuss whether changing the exchange rate or imposing tariffs is the better way of reducing a deficit on the current account of the balance of payments. [12]

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