CAMBRIDGE INTERNATIONAL EXAMINATIONS

General Certificate of Education Advanced Subsidiary Level

ECONOMICS 8708/2

PAPER 2 Data Response and Essay

OCTOBER/NOVEMBER SESSION 2001 1 hour 30 minutes

Additional materials:
Answer paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer paper/answer booklet.

Answer **two** questions.

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

Section A

Answer this question.

Section B

Answer any **one** question.

INFORMATION FOR CANDIDATES

The questions in this paper carry equal marks. The number of marks is given in brackets [ ] at the end of each part question.

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

This question paper consists of 4 printed pages.

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Section A

The UK's Balance of Payments

1 Table 1 gives selected details from the UK's balance of payments for 1998.

Table 1

	£m	£m
Trade in goods		
Export of goods	163 704	
Import of goods	184 302	
Balance of trade in goods		–20 598
Trade in services		
Export of services	61 777	
Import of services	49 099	
Balance of trade in services		12 678
Balance of trade in goods and services		–7 920
Balance on Current Account		1 470

Fig. 1 shows selected balances for recent years.

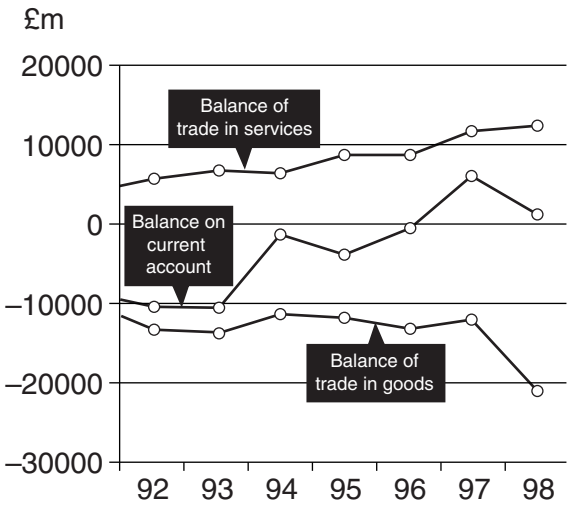


Fig. 1

Fig. 2 shows the effective exchange rate for Sterling (£) for the same period.

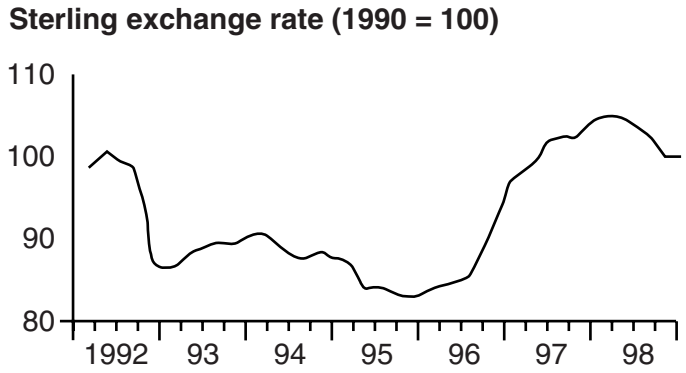


Fig. 2

(a) **(i)** Identify **two** differences between the UK's 1998 trade in goods and that in services. [2]

(ii) How might these differences be explained? [3]

(b) **(i)** Name one item in the current account which does not arise from trade. [1]

(ii) Calculate the contribution of all non-trade items to the balance on current account. [1]

(c) **(i)** Explain how, according to economic theory, a country's trade position will be affected by an appreciation of its currency. [3]

(ii) Comment upon the extent to which this effect is shown in the data. [4]

(d) Discuss whether the UK government should introduce a general tariff on imported goods to help its trade position. [6]

Section B

Answer **one** of the following questions.

2 **(a)** Explain how the market system allocates scarce resources. [8]

(b) Discuss when and how a government should intervene in the operation of the price system. [12]

3 **(a)** Explain the importance of the functions of money to the efficient operation of a modern economy. [8]

(b) Discuss the problems of accurately measuring changes in the value of money. [12]

4 **(a)** Explain the difference between price elasticity of demand and income elasticity of demand. [8]

(b) Discuss the value of these concepts to a company in planning its business strategy. [12]

Copyright Acknowledgements:

Question 1. Table 1, Figs. 1 & 2. *The Student's Economy in Focus 1999/2000*. A Anderton, Causeway Press Ltd 1999 (adapted from *Economics Trends*. Annual Supplement, *Monthly Digest of Statistics*, Office for National Statistics). Reproduced by permission of Causeway Press Ltd.