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CAMBRIDGE INTERNATIONAL EXAMINATIONS

General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ECONOMICS 9708/2

PAPER 2 Data Response and Essay (Core)

OCTOBER/NOVEMBER SESSION 2002

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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UNIVERSITY of CAMBRIDGE
Local Examinations Syndicate

[Turn over

Section A

Answer this question.

1 **Cigarette Consumption**

For many years health campaigners have urged governments to act against smoking. In economic terms, one of their concerns is that the smoking of cigarettes generates negative externalities. Governments have responded in a number of ways: there are restrictions on who can buy cigarettes, where they can be consumed and how they can be advertised. Packs of cigarettes have health warnings printed on them and heavy indirect taxes have been imposed. (In the UK, 80 per cent of the price of a pack may go to the government.) It has been estimated that a 10 per cent increase in the price leads to a 4 per cent fall in consumption, and the weighting of tobacco in the UK Retail Price Index has been reduced from 60 in 1971 to 34 in 1998. Although smoking rates have fallen in the UK, health campaigners remain dissatisfied and call for still stronger action.

Price and consumption of cigarettes in Canada 1989-1995

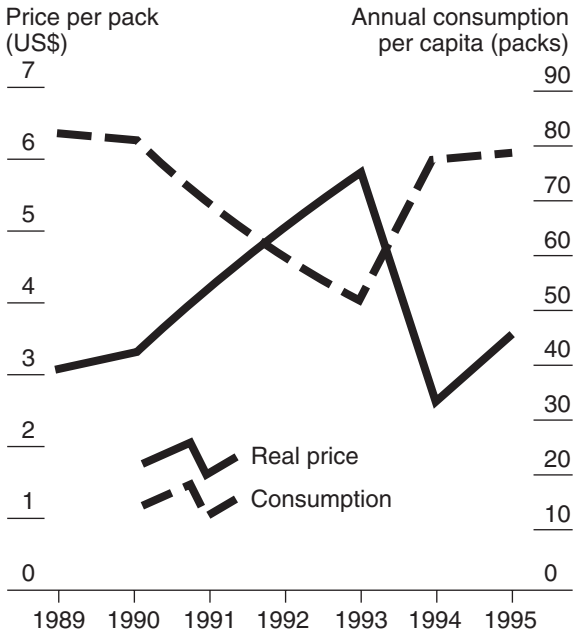


Fig. 1

(a) **(i)** Sketch a normal demand curve for a good or service. [2]

(ii) Explain whether Fig. 1 confirms that cigarettes would have a normal demand curve. [3]

(b) **(i)** Using the data in the text, calculate the price elasticity of demand for cigarettes. [2]

(ii) How might this value be explained? [3]

(c) Explain, with examples, what is meant by the statement that the consumption of cigarettes generates negative externalities. [4]

(d) Discuss whether high indirect taxes are the best way to discourage smoking. [6]

Section B

Answer **one** question.

2 **(a)** Explain the link between the basic economic problem of scarcity and opportunity cost. [8]

(b) Discuss whether planning has any role to play in the allocation of resources in a modern, mixed economic system. [12]

3 **(a)** Explain how the international value of a currency is determined in a floating exchange rate system. [8]

(b) Discuss whether an appreciation in the exchange rate is to the advantage of an economy. [12]

4 **(a)** Explain, with examples, the meaning of the terms public good and merit good. [8]

(b) Discuss how a government might increase the provision of public and merit goods. [12]

Copyright Acknowledgements:

Question 1 Graph: *Price and Consumption of cigarettes in Canada.* The Guardian, 7 November, 2000.