www.XtremePapers.com

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)

October/November 2004

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

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 on both sides of the paper.
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.

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.

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

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

© UCLES 2004

Section A

Answer this question.

1 **Two Asian Giants**

China has the world's largest population and is experiencing rapid economic growth from a low base. It has recently joined the World Trade Organisation (WTO) with an obligation to open its economy to freer international trade.

In 2002 an economic spokesman for neighbouring Japan stated that this did not mean that China was a threat to Japan's position as 'the factory of the world'. He claimed that China was a labour-intensive, low-cost producer, while Japan was ahead in technology-intensive products. He quoted television production, where Japan specialised in high quality models, while China produced standard models. Engineering and electronics showed similar positions. He argued that Chinese export competitiveness was based on cheap labour which reflected poor labour productivity. He added that half of Chinese exports were produced by subsidiaries of foreign firms, many of them Japanese. However, he warned that the presence of these subsidiaries might lead to an increased transfer of technology to China.

Table 1 shows some economic aspects of the two countries in 2000.

Table 1

	Japan	China
Population (millions)	126	1,260
Gross Domestic Product (GDP) (US$bn)	4,753	1,099
Consumer price inflation %	–0.7	0.4
Average annual % inflation rate in previous 10 years	0.8	7.1
Current account balance (US$bn)	116.9	10.2
Current account balance as % of GDP	2.5	0.9
Exports of goods (US$bn)	459	249
Imports of goods (US$bn)	343	216

(a) Suggest **two** steps that a country might take to open its economy to freer international trade. [2]

(b) **(i)** Explain why the comparative advantage of Japan and China differs. [4]

(ii) Compare the importance of international trade to the two countries. [4]

(c) Comment on the inflation figures for the two countries. [4]

(d) Discuss whether China offers an economic threat or opportunity to Japan. [6]

© UCLES 2004

Section B

Answer **one** question.

2 **(a)** Explain how inflation affects the functions of money. [8]

(b) Discuss the view that inflation is always a major problem. [12]

3 **(a)** Explain the difference between elastic, inelastic and fixed supply. [8]

(b) Discuss whether the elasticity of supply of manufactured goods is likely to be greater than the elasticity of supply of agricultural goods. [12]

4 **(a)** Explain the meaning of 'public good' and 'private good'. [8]

(b) Discuss whether economic actions by individuals always result in a net benefit to society. [12]

© UCLES 2004

BLANK PAGE

Copyright Acknowledgements:

Question 1. Article *'Stalled Japan Hitches Itself to Surging China'* by Michael Sheridan. © The Sunday Times 16th June 2002. http://www.sunday-times.co.uk

The University of Cambridge Local Examinations Syndicate has made every effort to trace copyright holders, but if we have inadvertently overlooked any we will be pleased to make the necessary arrangements at the first opportunity.

University of Cambridge International Examinations is part of the University of Cambridge Local Examinations Syndicate (UCLES) which is itself a department of the University of Cambridge.