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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 2005

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 **4** printed pages.

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[Turn over

Section A

Answer this question.

1 Economic developments in Mexico and Argentina

There are both similarities and differences in the ways that Mexico and Argentina have tried to develop. In 1994 Mexico joined the North American Free Trade Area (NAFTA) with the USA and Canada. A year later Argentina joined Mercosur, a South American customs union, with Brazil, Paraguay and Uruguay. Mercosur is the world's third-largest trading bloc after the European Union and NAFTA. Both countries have experienced severe economic crises, Mexico in 1995 and Argentina in 2002. Their experiences of foreign exchange rate movements and inflation have been very different. Figs.1 and 2 show details of these from 1997 to 1999.

Exchange rates against US$



Fig.1

Consumer price indices

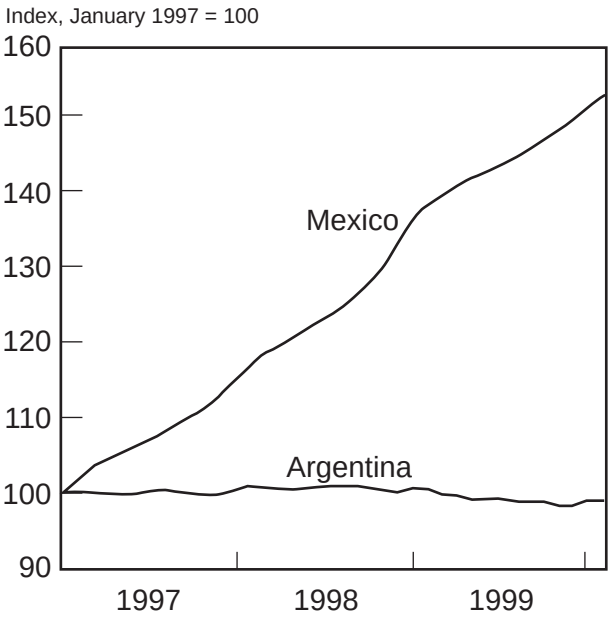


Fig.2

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(a) State **one** way in which a customs union and a free trade area are the same and **one** way in which they differ. [2]

(b) **(i)** Compare the behaviour of the Mexican and Argentine exchange rates against the US$ in the period shown in Fig. 1. [2]

(ii) Explain **one** possible reason for the trend in the Mexican exchange rate during 1999. [2]

(iii) Explain how the fixed level of the Argentine exchange rate would have been achieved. [3]

(c) **(i)** Compare Mexico's and Argentina's experience of inflation in the period shown in Fig. 2. [2]

(ii) Explain how Mexico's inflation rate may have influenced the behaviour of its exchange rate. [3]

(d) Discuss whether the devaluation of a country's exchange rate will always improve its balance of trade position. [6]

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Section B

Answer **one** question.

2 **(a)** Explain the effects of externalities on the allocation of resources. [8]

(b) Discuss the use of indirect taxes and subsidies by governments to deal with externalities. [12]

3 **(a)** Explain the meaning of the 'equilibrium price' of a good and how it is set in a free market. [8]

(b) Discuss whether free international trade in goods should be encouraged. [12]

4 **(a)** Explain why it is difficult to measure unemployment accurately. [8]

(b) Discuss the view that 'labour is the most important factor of production and therefore the division of labour should be applied to its maximum extent'. [12]

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