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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 2007**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

4635053369

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.
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 the question.
Brief answers only are required.

Section B
Answer any **one** question.
You may answer with reference to your own economy or other economies that you have studied where relevant to the 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.

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

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Section A

Answer this question.

1 US Current Account and US$ Exchange Rate

Fig.1 shows the US current account balance as a % of GDP from 1980 to 2002, a period in which US GDP rose continuously. Fig. 2 shows the US$ exchange rate against the euro for the same period.

Fig. 1 US current account balance as % of GDP 1980 to 2002

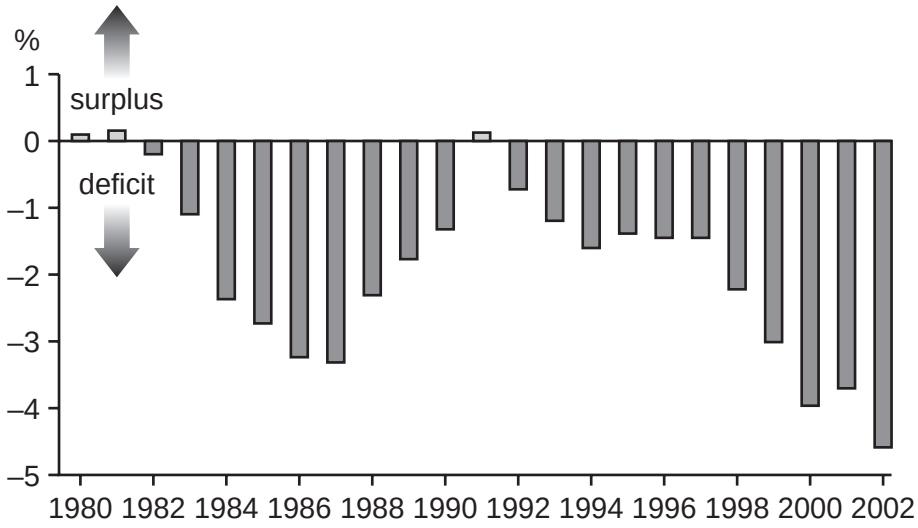
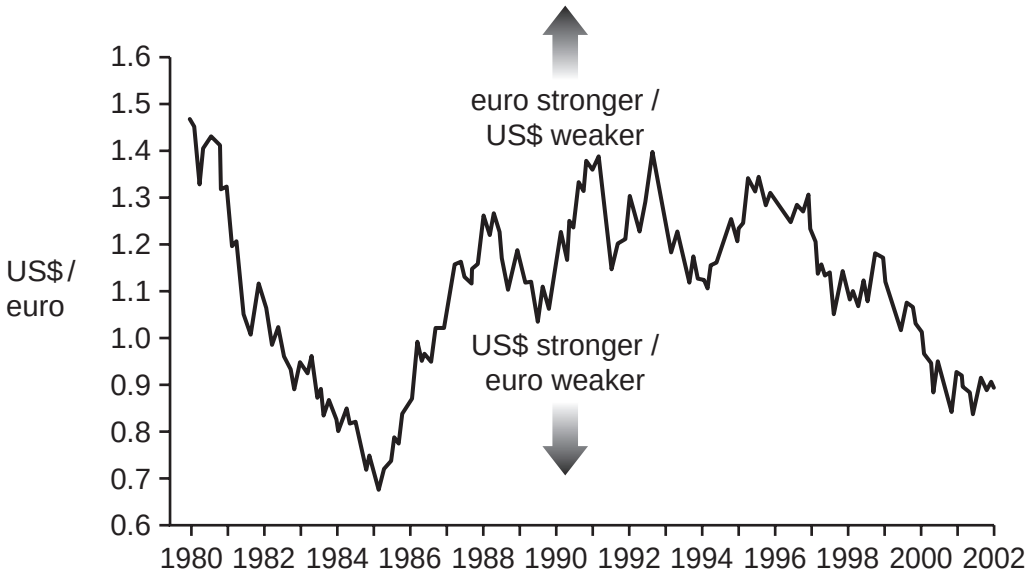


Fig. 2 US$ exchange rate against the euro 1980 to 2002



The figures before 1999 are an imaginary exchange rate based on the values of the main European currencies, as the euro was officially introduced only after 1999.

There is a two-way link between a country's trade performance and its exchange rate. A change in the trade performance can affect the exchange rate while a change in the exchange rate can affect the trade performance.

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(a) (i) Summarise the performance of the US current account balance between 1980 and 2002. [2]

(ii) Explain how the US might have been able to finance the current account position that it faced between 1992 and 2002. [3]

(b) Suppose a country has a surplus on its current account. Explain how this might affect its exchange rate. [3]

(c) (i) Outline how a depreciation of a country's exchange rate is likely to affect its current account balance. [3]

(ii) Use Fig. 1 and Fig. 2 to analyse whether this expected effect of an exchange rate depreciation occurred in the case of the US between 1980 and 2002. [3]

(d) Discuss whether a government should try to fix its country's exchange rate. [6]

Section B

Answer **one** question.

2 (a) Explain how an equilibrium price for a product is established in the market and how it may change. [8]

(b) Discuss whether a firm's revenue would increase, in response to price and income changes, if the price elasticity and income elasticity of demand for its product became highly elastic. [12]

3 (a) Explain how resources are allocated in a market economy. [8]

(b) Discuss, with the aid of a demand and supply diagram, the effects on consumers and producers when the government introduces an indirect tax on a good. [12]

4 (a) Explain, with examples, why labour productivity might vary between countries. [8]

(b) Unemployment can be measured by the claimant count or the labour force survey. Discuss the relative reliability of these two measures. [12]

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Question 1 Fig. 1 & Fig. 2 © *The Sunday Times*, 25 May 2003 www.timesonline.co.uk

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