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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 2008**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

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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 this 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 Tyre problems for the mining industry

In 2005, large-scale economic growth in China had increased the demand for minerals to record levels. As a result, 2005 was a boom year for mining worldwide, and output expanded rapidly.

The huge earth-moving trucks used in mining need massive off-the-road (OTR) tyres. These tyres cost $20 000 each and take a day to manufacture. By 2006, a major tyre producer, Bridgestone, estimated that mining companies required 50% more OTR tyres than in the previous year, but the tyre producers struggled to meet this demand from the mining companies. Tyre producers' stocks of tyres were very low, while fixed production capacity meant that output had remained steady since 1999. It was not technically possible to switch from car tyre production to making OTR tyres.

Total planned production for all of 2006 had already been sold and no new factories were due to start producing before the end of 2007. Another tyre producer, Michelin, intended to spend $85m on its factory in the US, and Bridgestone intended to raise its factory capacity in Japan in 2008.

Rio Tinto, one of the world's largest mining companies, usually spent $100m on 5000 tyres each year, but instead faced the prospect of having to stop trucks working while they had expensive tyre checks and tyre repairs. The company predicted that this would limit future exploration for new sources of minerals and cause a rise in mineral prices.

(a) Why can the demand for OTR tyres be described as a derived demand? [2]

(b) Explain why the supply of OTR tyres was highly inelastic in 2006. [4]

(c) Analyse, with a demand and supply diagram, the change in the market for OTR tyres during 2006. [5]

(d) How might a shortage of OTR tyres affect the productivity of mining companies? [3]

(e) Discuss whether the shortage of OTR tyres required government intervention. [6]

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Section B

Answer **one** question.

2 **(a)** Explain the characteristics required by money if it is to carry out its functions effectively. [8]

(b) Discuss whether a country should welcome a period of deflation (negative inflation). [12]

3 **(a)** Explain the market failure which arises from the characteristics of public goods. [8]

(b) Discuss whether the use of cost-benefit analysis helps to improve economic decision making. [12]

4 **(a)** How might opportunity cost help to explain the pattern of international trade? [8]

(b) Discuss whether the formation of regional trading groups, such as ASEAN and NAFTA, is desirable. [12]

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