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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay (Core) **October/November 2010**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

0135916135

READ THESE INSTRUCTIONS FIRST

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Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
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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.

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Section A

Answer this question.

1 The Current Account of Swaziland's Balance of Payments

Swaziland is a small, landlocked economy in southern Africa. The Swazi currency is the lilangeni (plural emalangeni) and the currency is pegged to the South African rand at a fixed rate of one to one. The country has faced changing international conditions in recent years, as is shown in its current account statistics.

Table 1 Swaziland's current account components, selected years, millions emalangeni

	2003	2005	2007
Balance on goods	957.9	–1641.3	–1910.1
Balance on services	–1090.2	–765.0	–367.6
Net income	–317.4	1133.8	449.3
Net current transfers	1136.4	619.8	1366.6

The Central Bank of Swaziland's report on the 2007 export performance identified the following.

- Exports grew by 8.4% with a positive performance by some manufacturing companies.
- Successful exports included sugar, sugar-based products, soft drink concentrates, wood pulp and timber products, textiles and garments, citrus and canned fruits and meat products.
- Global demand and rising export prices led to increased export revenue.

Export performance was helped by the depreciation of the domestic currency against the US$ and the currencies of other trading partners outside of the Southern African Customs Union (SACU) and Common Monetary Area (CMA), of which Swaziland is a member. In addition, exports of meat and meat products to the European Union (EU) resumed in 2007 after the EU lifted its ban on Swaziland's beef exports. This ban was originally imposed because of Swaziland's failure to comply with the required quality standards.

(a) In Swaziland's current account between 2003 and 2007,

(i) which component showed a continuous improvement, and

(ii) which component showed a continuous worsening? [2]

(b) How did the current account balance change between 2003 and 2007? [3]

(c) **(i)** What is comparative advantage? [2]

(ii) In the light of the Central Bank of Swaziland's report what might be concluded about the nature of Swaziland's comparative advantage and the factors on which it is based? [4]

(d) Explain the conditions necessary for the depreciation of a country's currency to increase its export revenue. [3]

(e) Discuss the case for and against the use of tariffs by Swaziland to retaliate when the EU banned imports of Swaziland's beef. [6]

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Section B

Answer **one** question.

2 **(a)** Explain how microeconomic and macroeconomic issues may be represented using production possibility curves. [8]

(b) Discuss whether money or the division of labour is likely to have contributed more to economic progress. [12]

3 **(a)** With reference to the relevant type of elasticity of demand, explain the terms

(i) inferior good, and

(ii) complementary good. [8]

(b) Discuss the importance of price in the effective operation of a mixed economy. [12]

4 **(a)** Explain why it is important to have an accurate measure of inflation. [8]

(b) Discuss the methods and problems involved in constructing an accurate measure of the rate of inflation. [12]

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Section A

Answer this question.

1

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(a) Suggest the likely opportunity cost to Ghanaian children of time spent fetching water. Explain your answer. [2]

(b) Use Table 1 to compare the change in Ghana's cocoa output with that of the other main producers. [3]

(c) With the use of a diagram, analyse the effect on the market for Cadbury's chocolate of the problems reported in the first paragraph. [6]

(d) Explain how the Cadbury Cocoa Partnership hoped to affect the productivity of cocoa farmers. [3]

(e) Discuss the consequences for countries such as Cote d'Ivoire and Ghana of relying heavily on the production of one crop. [6]

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Section B

Answer **one** question.

2 **(a)** Explain the difficulties of carrying out a cost-benefit analysis. [8]

(b) Discuss the economic consequences of externalities associated with production and consumption. [12]

3 **(a)** Explain why a low and stable rate of inflation may be beneficial to an economy. [8]

(b) Discuss whether rapid inflation can be caused only by government actions. [12]

4 **(a)** Explain

(i) the difference between trade creation and trade diversion, and

(ii) the difference between expenditure-dampening and expenditure-switching trade policies. [8]

(b) Discuss whether a balance of payments current account deficit necessarily indicates a weak economy. [12]

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