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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 2012**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

8863760899

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.
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Section A

Answer this question.

People in Education

1 Most governments see increasing the number of their population in education as a way to raise national productivity and prosperity in the long term.

The Organisation for Economic Co-operation and Development (OECD) has produced statistics of those in different age groups who participate in education. Table 1 shows the percentages of two age groups who are in education in a selection of countries. This covers both full-time and part-time students and both public and private providers.

Table 1: Educational participation rates in 1995 and 2007, selected countries

Country	Percentage of those aged 15–19 participating in education		Percentage of those aged 20–29 participating in education	
	1995	2007	1995	2007
Belgium	94	94	24	28
France	89	86	19	20
South Korea	75	87	15	28
United Kingdom	72	71	18	17
United States	72	80	19	23
New Zealand	68	75	17	30

Economists classify products into different groups such as private goods or public goods and merit goods or demerit goods. Education is usually considered to be an example of a merit good.

(a) Between 1995 and 2007, which country was

(i) the least successful in increasing its overall educational participation rate and

(ii) the most successful in increasing its overall educational participation rate? [2]

(b) Explain **two** possible economic reasons why the educational participation rate of 15–19 year-olds is higher than that of 20–29 year-olds for all countries as shown in Table 1. [4]

(c) **(i)** What is the difference between production and productivity? [2]

(ii) Explain how education may affect labour productivity and the production possibility curve. [4]

(d) Why is education considered to be an example of a merit good? [2]

(e) Discuss the extent to which the provision of education is different from the provision of national defence. [6]

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Section B

Answer **one** question.

2 **(a)** Explain, with the use of diagrams, the different effects on the price and quantity of a product of the removal of a subsidy and the removal of an indirect tax on that product. [8]

(b) Discuss the possible benefits and drawbacks of government subsidies to agriculture. [12]

3 **(a)** Explain, with the use of an aggregate demand (AD) and aggregate supply (AS) diagram, the different effect of cost-push and demand-pull inflation on real output. [8]

(b) Discuss whether the effect of the rate of inflation on the exchange rate is more or less important than the effect of the exchange rate on the rate of inflation. [12]

4 **(a)** Explain the different types of international economic integration. [8]

(b) Discuss the possible economic effects of a global ban on all forms of trade protection. [12]

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Section A

Answer this question.

The Price of Sugar

1 In August 2009, sugar reached its highest pr ice for 28 years at 23 US cents per pound of sugar . Changes in the price of sugar and in average food prices are shown in Fig. 1.

Fig. 1 Indices of sugar and average food prices, January 2008 to August 2009 (January 2008 = 100)

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One explanation of the world sugar price rise was the weather. 2009 proved particularly unfavourable in major producing countries, with drought in India, too much rain in Brazil and hailstorms in Russia. Another explanation offered was motorists' increased use of ethanol as a car fuel. One way to produce ethanol is by using sugar cane as a raw material. Sugar prices in individual economies changed in a variety of ways. In 2008 sugar prices in India fell partly because the Indian Government banned sugar exports. In response to this price fall, Indian farmers planted less sugar cane. Malaysia was affected by rising sugar prices but mainly as a consumer. The Malaysian Government set a maximum price of 1.45 ringgit per kilogram. Tesco hypermarkets in Malaysia reacted to this price by rationing customers to 2 kilograms per customer. On the black market in Malaysia sugar was sold at 1.70 ringgit per kilogram, while it fetched 2.90 ringgit in neighbouring Thailand.

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(a) **(i)** Calculate the approximate price of sugar in January 2008. [2]

(ii) Compare the behaviour of sugar prices with that of average food prices between January 2008 and August 2009. [3]

(b) With the use of diagrams, contrast the weather explanations of the sugar price rise with the ethanol explanations of the price rise. [5]

(c) Explain the likely reaction of

(i) consumers of sugar, and

(ii) producers of sugar

to a continual, rapid rise in its price. [4]

(d) With reference to the data, discuss the likely effects of

(i) the actions of the Indian government, and

(ii) the actions of the Malaysian government. [6]

Section B

Answer **one** question.

2 **(a)** Explain, with the help of a production possibility diagram, how the opportunity cost of producing different combinations of goods can be measured. [8]

(b) Discuss the ease with which a planned economy may be changed into a market economy. [12]

3 **(a)** Explain what determines the demand for and supply of a currency in the foreign exchange market. [8]

(b) Discuss the extent to which a decline in the value of the national currency (depreciation or devaluation) will improve a country's balance of trade. [12]

4 **(a)** Explain why governments measure changes in the general price level and why they usually have more than one measure of these changes. [8]

(b) Discuss whether it is better for a government to raise the economy's rate of productivity growth or to control its rate of inflation. [12]

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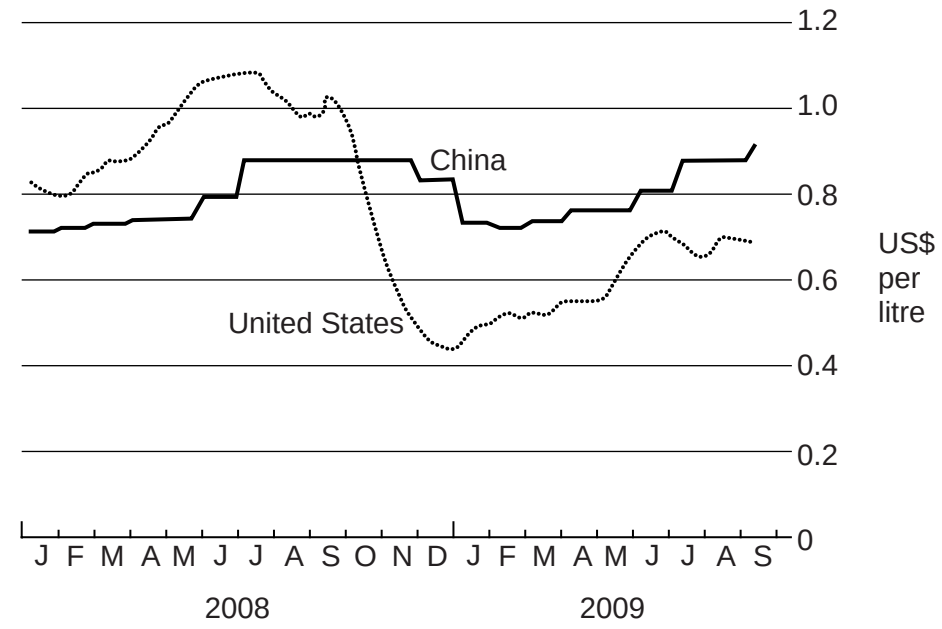
Section A

Answer this question.

Petrol Prices and Elasticity

1 The price of petrol in the United States (US) is determined mainly by market forces but in China the Government actively intervenes to set the petrol price. However, in 2009 it introduced a policy by which the price of petrol in China would more closely follow the world price of crude oil. The price of petrol in the two countries is shown in Fig. 1.

Fig. 1 The price of petrol in the US and China, US$ per litre, January 2008–September 2009



Sources: EIA; CEIC

The consumption of petrol generates considerable externalities and petrol is also a heavily taxed product. It is often quoted as an example of a product with an inelastic price elasticity of demand (PED). Studies in different countries have produced varied results. A South African study in 2004 gave a short-run PED of –0.21 and a long-run PED of –0.51. In 2008 an Australian study put the short-run PED between –0.1 and –0.14 and the long-run PED between –0.2 and –0.3.

(a) (i) Compare the price of petrol in the US and China between January 2008 and September 2009. [2]

(ii) How does Fig. 1 confirm that it is in China rather than in the US that the price of petrol is set by the government? [2]

(b) Explain how the consumption of petrol generates externalities. [4]

(c) (i) Identify **two** points about the PED of petrol on which the studies agree. [2]

(ii) Explain why the values of the short-run and long-run PEDs for petrol are different. [4]

(d) Discuss the possible consequences of the Chinese price setting policy between January 2008 and September 2009. [6]

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Section B

Answer **one** question.

2 **(a)** Explain, with the aid of a diagram, what changes will alter the amount of consumer surplus available from the consumption of a good. [8]

(b) Discuss why in many countries some services, such as education and healthcare, are supplied both by the government and private producers. [12]

3 **(a)** Explain the factors that might cause a fall in a country's terms of trade. [8]

(b) Discuss the view that unrestricted free trade has as many disadvantages as advantages. [12]

4 **(a)** Explain how an economy may face a deficit in its trade in goods yet have a surplus on its current account of the balance of payments. [8]

(b) Discuss whether a satisfactory balance of payments, a strong exchange rate and a low rate of inflation are likely to be achieved at the same time. [12]

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