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) **May/June 2010**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

0932100310

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 **4** printed pages.

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Section A

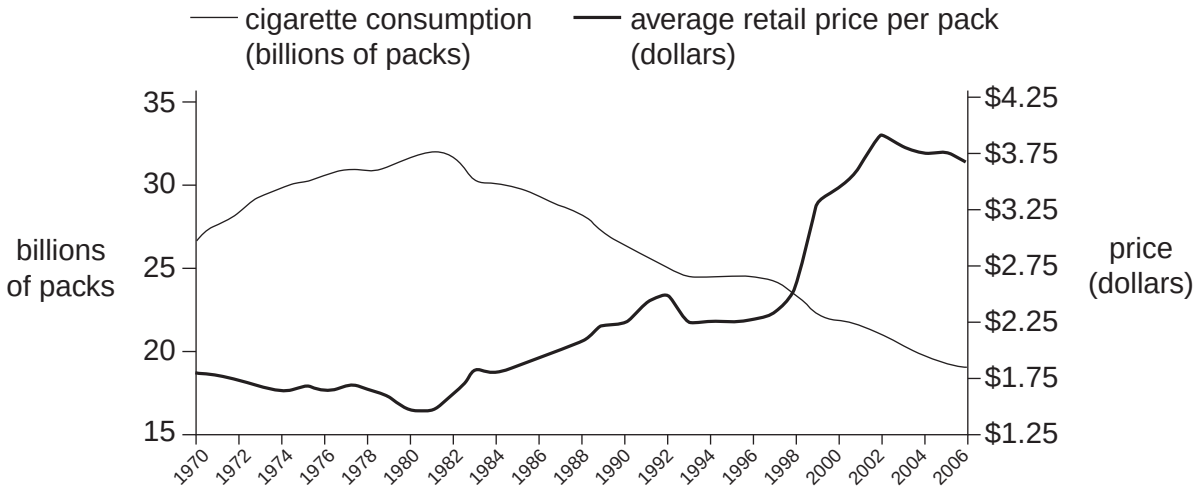
Answer this question.

1 **Economic Aspects of Cigarette Smoking**

Smoking cigarettes is a controversial matter that illustrates a number of economic issues. As with most products, the key influence on the level of consumption is the product's price.

United States

Fig. 1 US cigarette consumption and cigarette prices 1970–2006



Malaysia

A study of cigarette smoking in Malaysia estimated the short-run and long-run price elasticity of demand (PED) and the income elasticity of demand (YED) for cigarettes between 1990 and 2004. The results are shown in Table 1.

Table 1: Demand elasticities for cigarettes in Malaysia

Short-run PED	Long-run PED	YED
−0.08	−0.57	+1.46

Europe

In Europe, taxation of cigarettes is particularly heavy. In 2006 it was 76.4% of the final selling price in Germany, 77.1% in the UK and 80.4% in France. European countries are increasingly banning smoking in enclosed public areas and workplaces. Some anti-smoking campaigners are calling for the smoking of cigarettes anywhere to be made illegal.

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(a) How far does the data in Fig. 1 confirm that the normal demand curve relationship exists between the price and the quantity demanded of cigarettes? [3]

(b) **(i)** What do the three elasticity values in Table 1 tell us about the elasticity of demand for cigarettes? [3]

(ii) What might explain these different elasticity values? [4]

(c) Explain **two** possible economic reasons why cigarettes are heavily taxed. [4]

(d) Discuss the possible economic consequences of making cigarette smoking illegal. [6]

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[Turn over

Section B

Answer **one** question.

2 **(a)** Explain how division of labour can affect labour productivity. [8]

(b) Discuss how the operation of a barter economy would be affected by the introduction of money. [12]

3 **(a)** 'A free market price operates as a rationing and allocating mechanism.' Explain how it does this. [8]

(b) Discuss why certain goods and services are usually supplied directly by the government rather than through the market. [12]

4 **(a)** With the aid of a diagram, explain why an economy's floating exchange rate may depreciate. [8]

(b) Discuss whether a current account deficit is always a serious economic problem for a country. [12]

Copyright Acknowledgements:

Question 1 © Raising cigarette taxes reduces smoking especially among kids and the cigarette companies know it; http://tobaccofreekids.org; 2/01/2008.
Question 1 © Ross & Al Sadat; Demand analysis of tobacco consumption in Malaysia; Nicotine and Tobacco Research; Vol. 9, Issue 11, November 2007.

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