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

ECONOMICS **9708/22**

Paper 2 Data Response and Essay (Core) **May/June 2010**

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 **Inflation in Paraguay**

Paraguay is a small South American country with few of the advantages that bigger, better known economies such as Venezuela and Brazil enjoy.

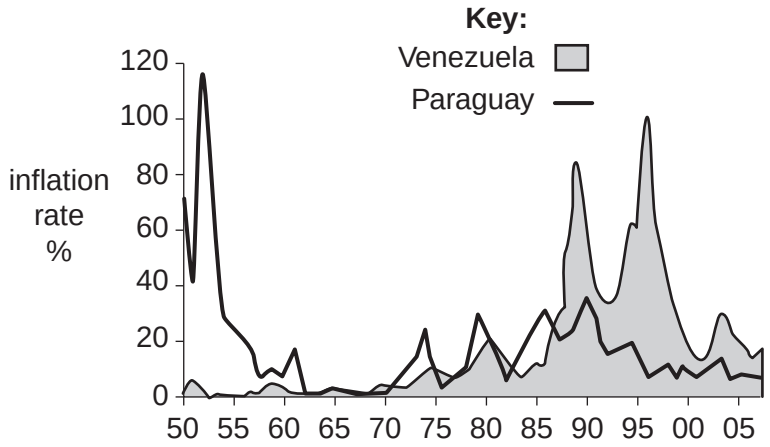
In January 2008 Paraguay updated its Consumer Price Index (CPI) with new weights based on the latest household budget survey. Table 1 shows the changes in the weights.

Table 1 Weights in the Paraguayan CPI, 1992 and 2008

	1992	2008
Food	35.1	32.1
Clothing	8.6	4.9
Alcohol and tobacco	2.1	1.2
Furniture	8.0	7.7
Transport	7.4	14.8
Communication	0.7	3.4
Housing	10.4	8.9
Health	4.8	4.1
Entertainment	5.1	6.1
Education	2.7	4.0
Restaurants and hotels	4.8	5.5
Miscellaneous goods and services	10.3	7.3

Paraguay's performance and that of Venezuela in controlling inflation are shown in Fig. 1.

Fig. 1 Inflation in Paraguay and Venezuela 1950–2005



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(a) **(i)** Why are weights used in constructing a CPI? [2]

(ii) Explain possible reasons why the weights for alcohol and tobacco and transport changed between 1992 and 2008. [4]

(b) **(i)** What is meant by inflation? [2]

(ii) Using Fig. 1 compare Paraguay's inflation between 1950 and 2005 with that of Venezuela. [2]

(iii) To what extent did Paraguay achieve a low and stable rate of inflation between 1950 and 2005? [4]

(c) Discuss whether all countries should set annual inflation targets of around 3%. [6]

Section B

Answer **one** question.

2 **(a)** Explain how a country's production possibility curve depends upon its factors of production. [8]

(b) Discuss how well comparative advantage explains the pattern of international trade. [12]

3 **(a)** With the help of a diagram, explain why some goods are produced in quantities greater than is socially desirable. [8]

(b) Discuss whether national defence or a public park is the better example of a public good. [12]

4 **(a)** Using a normal demand curve, explain how consumer surplus occurs. [8]

(b) With the help of diagrams, discuss whether consumers will benefit from the introduction on a product of **(i)** an indirect tax, and **(ii)** an effective maximum price. [12]

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Copyright Acknowledgements:

Question 1 © Monfort & Peňa; *Inflation Determinants in Paraguay*; www.imf.org/external/pubs/ft/wp/2008/wp08270.pdf; December 2008.

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