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

ECONOMICS **9708/23**

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.

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Section A

Answer this question.

1 **Chinese Bicycles**

China is famous for its bicycles. There has even been a song written about those in Beijing. China is the world's leading producer and exporter of bicycles. Table 1 gives its output for two years compared with other leading producers.

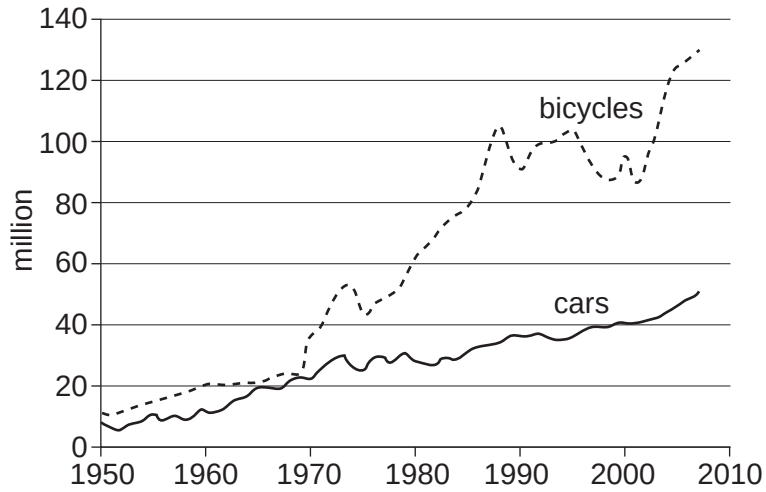
Table 1 Bicycle production (millions), selected producers

Year	China	Italy	Taiwan	Japan	US
1997	30.0	4.0	11.9	1.8	6.0
2007	87.0	2.5	4.9	1.1	0.3

In 2007, China exported 59 million bicycles, of which 17.3 million went to the US and 9.7 million to Japan. The European Union (EU) imported only 0.8 million, mainly because of a 48.5% anti-dumping import duty on Chinese bicycles. Taiwan, China's major competitor, concentrates on more expensive, higher quality products, and exported 4.7 million bicycles.

Fig. 1 shows the world output of bicycles and cars.

Fig. 1 World bicycle and car production, 1950 to 2007



In 2007 domestic sales of Chinese bicycles fell 3.8% to 28 million. Between 1995 and 2005 the number of bicycles owned in China fell from 670 million to 435 million, while car ownership rose from 4.2 million to 8.9 million.

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(a) **(i)** Summarise the main changes in bicycle production shown in Table 1. [2]

(ii) How might the changing pattern of production be explained? [3]

(b) Explain the likely effects for Chinese bicycle manufacturers of the anti-dumping import duty introduced by the EU. [3]

(c) **(i)** Use Fig.1 to compare the trend in the world production of bicycles with that of cars. [2]

(ii) How might the change in Chinese ownership of bicycles and cars between 1995 and 2005 be explained? [4]

(d) Discuss the externalities that might arise from the use of bicycles and cars. [6]

Section B

Answer **one** question.

2 **(a)** With the help of examples, explain why different economic decision makers face the problem of scarcity. [8]

(b) Discuss why the mixed economy is the most common economic system. [12]

3 **(a)** Explain why unanticipated inflation is often considered more of a problem than anticipated inflation. [8]

(b) Discuss whether inflation is more likely to be caused by domestic or international influences. [12]

4 **(a)** Explain the relevance of the Marshall-Lerner condition and the J-curve effect to the success of a currency devaluation. [8]

(b) There are various influences on the international value of a currency in a floating exchange rate system. Discuss their relative importance in different economies. [12]

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Copyright Acknowledgements:

Question 1 © Bicycles Indicator Data; http://www/earthpolicy-org/Indicators/Bike/2008-data.htm#fig1; Earth Policy Institute.

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