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 2011**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

5743827376

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.

© UCLES 2011

Section A

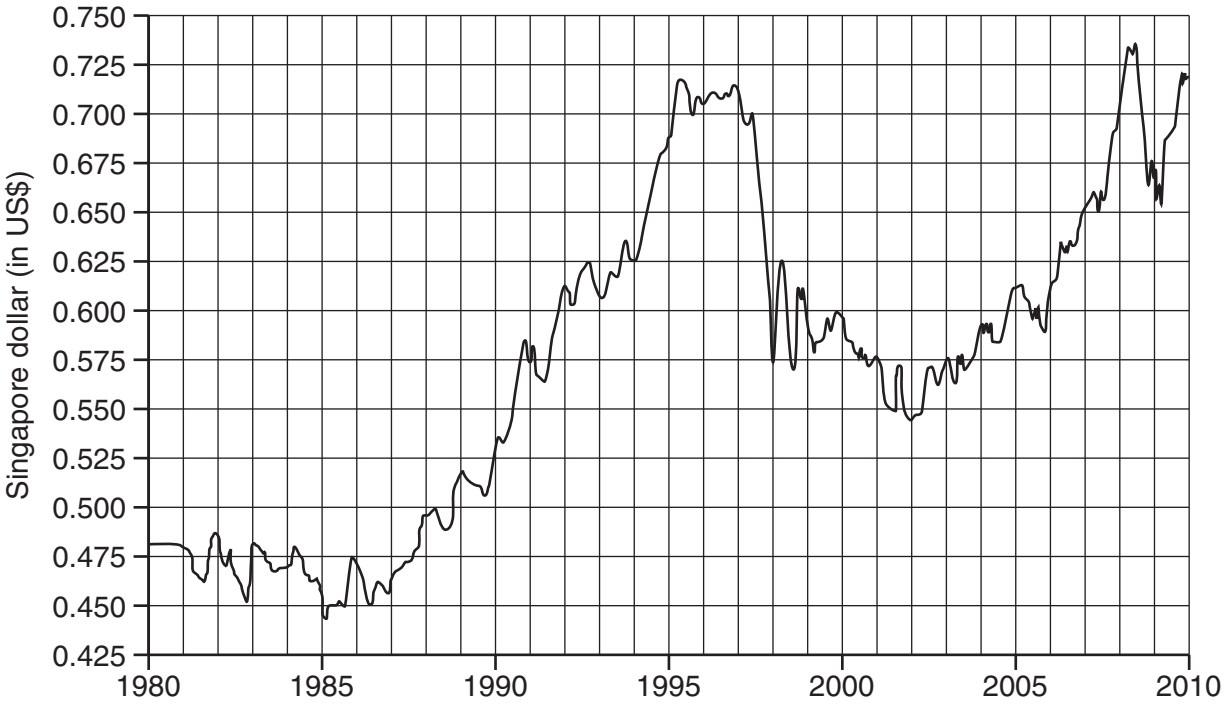
Answer this question.

1 **The Singapore Exchange Rate**

Singapore is a relatively small, open economy which relies heavily on international trade. The values of both its exports and imports are more than 100% of its GDP. Its largest trading partners are Malaysia, China and the US. In the second half of 2008 its economy faced a sharp downturn, with a large fall in its exports that affected the Singapore exchange rate.

Fig. 1 shows the exchange rate of the Singapore dollar (S$) in terms of the US dollar (US$) between 1980 and 2010.

Fig. 1: The Singapore Exchange Rate 1980–2010



(Source: Pacific Exchange Rate Service)

Singapore has a unique exchange rate system. The Monetary Authority of Singapore (MAS) uses the exchange rate to maintain price stability and encourage economic growth.

The main features of the system are that:

1 the S$ is managed against a weighted basket of currencies of its major trading partners and competitors,
2 the exchange rate is allowed to move within an undisclosed trading band but not to move outside of it,
3 the trading band is reviewed typically every three months and changed if necessary.

The poor economic conditions in March 2009 caused the MAS to lower the trading band which was the same as a depreciation of the S$.

© UCLES 2011

(a) Compare the exchange rate of the S$ against the US$ from the beginning of 1980 to the beginning of 2010. [2]

(b) Analyse the possible changes in the demand for and the supply of the S$ that could account for the trends in its exchange rate between 1997 and 2007. [4]

(c) Explain **two** ways in which an appreciating exchange rate can help to reduce inflation. [4]

(d) Using the extract, consider whether Singapore has both a floating and a fixed exchange rate system. [4]

(e) Discuss whether an economy will benefit from a fall in its exchange rate. [6]

Section B

Answer **one** question.

2 **(a)** Explain how resources are allocated in a free market economy. [8]

(b) Discuss how the market system might be influenced by government intervention to provide appropriate quantities of goods and services. [12]

3 **(a)** Explain how and why the price elasticity of supply of agricultural goods differs from that of manufactured goods. [8]

(b) Discuss whether the payment of government subsidies to farmers is a beneficial policy. [12]

4 **(a)** Explain the limitations of the theory of comparative advantage in accounting for a country's pattern of trade. [8]

(b) Discuss whether the introduction of trade barriers against imports can always be justified. [12]

© UCLES 2011

BLANK PAGE

Copyright Acknowledgements:

Question 1 © Professor Werner Antweiler; Pacific Exchange Rate Service; http://fx.Sander.ubc.ca; 15 March 2010.

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

© UCLES 2011