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 2012**

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 Current Account Balances 2006–2010

The International Monetary Fund (IMF) supplies data on the balance of payments, particularly the current account balances, of its member countries. Table 1 was produced in October 2009 and shows balances for 2006 to 2008 and a forecast for the balances for 2009 and 2010 of several member countries.

Table 1: Current account balances in billions of US dollars (US$) 2006–2010

	2006	2007	2008	2009	2010
Brazil	13.6	1.6	–28.2	–18.8	–33.3
China	253.3	371.8	426.1	361.5	451.2
India	–9.3	–11.3	–26.6	–27.5	–33.6
Japan	170.4	211.0	157.1	96.9	105.6
Mexico	–4.4	–8.3	–15.7	–10.8	–12.6
Russia	94.3	77.0	102.4	45.4	62.0
United States	–803.5	–726.6	–706.1	–369.8	–324.7

The start of a worldwide recession in 2009 had a major impact upon the level of international trade and affected different countries in different ways.

A country's current account balance is a key macroeconomic indicator. In some countries a current account surplus is an important economic objective. Other countries, however, need to decrease a current account deficit. One of the possible actions by a government facing such a deficit is to introduce an expenditure-reducing policy.

(a) Compare the changes shown in the current account balance of Russia and the United States between 2006 and 2010. [2]

(b) Explain **two** possible economic reasons why China's international trade performance was stronger than that of India. [4]

(c) Explain **two** likely economic effects of the 2009 recession on international trade. [4]

(d) Why might a current account surplus be an important economic objective for some countries? [4]

(e) Discuss the desirability of using an expenditure-reducing policy to decrease a current account deficit. [6]

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Section B

Answer **one** question.

2 **(a)** Explain why all types of economic system benefit from the existence and use of money. [8]

(b) Discuss whether an economy's production possibility curve is more likely to move inward or outward over time. [12]

3 **(a)** Explain, using elasticity of demand, why a train company might introduce a policy of raising fares at busy travel times and lowering fares at less busy travel times. [8]

(b) Discuss why some governments decide that it is undesirable to leave the provision of private goods, such as train travel, to the private sector. [12]

4 **(a)** Explain, with the help of a diagram, how a government can maintain a stable foreign exchange rate. [8]

(b) Discuss whether a government should be more concerned by an unstable foreign exchange rate or by an unstable domestic price level. [12]

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Question 1 © IMF Staff Writers; *Sustaining the Recovery;* World Economic Outlook; www.imf.org/extermal/pubs/ft/web/2009/02/index.htm; October 2009.

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