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 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.

This document consists of **3** printed pages and **1** blank page.

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Section A

Answer this question.

1 **Economic Integration**

The world's two best known trade groups are probably the European Union (EU) and the North American Free Trade Area (NAFTA).

In 2005, a study examined the likely impact of the proposed formation of a third major trade group, JACIK. This would be an economic community comprising Japan, the Association of South East Asian Nations (ASEAN), China, India, and South Korea. ASEAN is a free trade area of ten countries including Indonesia, Malaysia and Singapore.

Exporting is an important activity for all three trade groups as shown in Table 1.

Table 1: Exports by value and world share, 2003

	EU	NAFTA	JACIK countries
Exports (US$ billions)	3523	1486	1657
% of world total	46.5	19.6	21.9

The 2005 study produced models of three levels of economic integration and the welfare gains with each were estimated. The results are shown in Table 2.

Table 2: Estimated welfare gains from the formation of JACIK in US$ million

	Model 1: Free trade of goods and services	Model 2: Free trade of goods and services and free movement of capital	Model 3: Free trade of goods and services and free movement of both capital and skilled workers
Japan	107626	111807	150695
ASEAN	13451	13553	19405
China	6327	7100	16328
India	6971	7379	9937
South Korea	13043	13317	14076
JACIK total	147418	153156	210441
Rest of World total	–27293	–45306	109916
World total	120125	107850	320357

(a) **(i)** Use Table 1 to compare the export performance of the three trade groups in 2003. [2]

(ii) How might the differences you have identified be explained? [3]

(b) **(i)** State **three** ways in which an economic union differs from a free trade area. [3]

(ii) Explain **two** problems that might make economic integration difficult. [4]

(c) Use Table 2 to show whether the free movement of capital or the free movement of skilled workers is estimated to be more beneficial for JACIK. [2]

(d) Discuss how the rest of the world might view the formation of JACIK. [6]

Section B

Answer **one** question.

2 **(a)** Explain whether the factors of production are always of equal economic importance within and between economies. [8]

(b) Discuss whether planned economies should always be replaced by free market economies. [12]

3 **(a)** Explain how income elasticity of demand and cross elasticity of demand can be used to classify different types of goods. [8]

(b) Discuss the effectiveness of government use of maximum and minimum prices to help consumers and producers. [12]

4 **(a)** How does aggregate demand and aggregate supply analysis explain the existence of inflation in the short run? [8]

(b) Discuss whether a period of inflation or a period of deflation is more economically desirable. [12]

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Copyright Acknowledgements:

Question 1 © Nagesh Kumar; *Towards a broader Asian community: Agenda for the East Asia Summit*; www.ris.org.in/dp100.pap.pdf; November 2005.

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