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 2013**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

2567888953

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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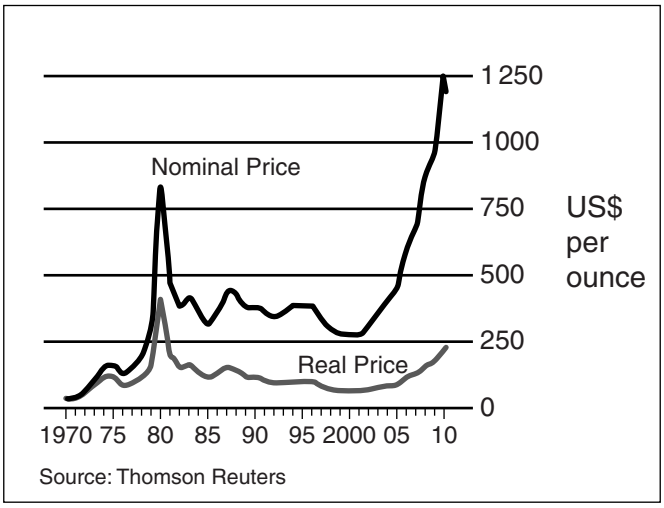
Section A

Answer this question.

The market for gold

1 The price of gold reacts to changing economic conditions and the level of economic confidence. Periods of economic downturn and uncertainty, such as 2008–9 and 2010, produce major changes in the gold price. This can be seen in Fig. 1 which shows the nominal and real price of gold between 1970 and 2010. The real prices are in terms of 1970 prices, which is the base year.

Fig. 1 Nominal and real prices of gold, US$ 1970 to 2010

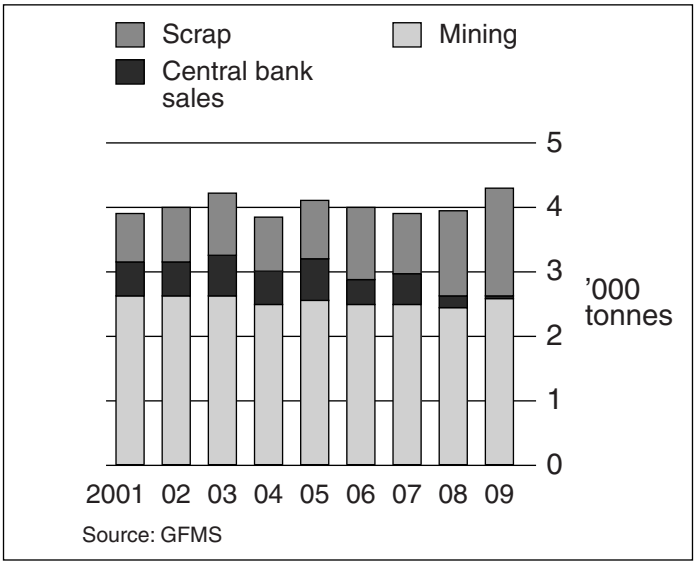


The supply of gold is made up of newly mined gold, gold sold from the stocks held by central banks and scrap gold, mainly from the sale of old jewellery. In 2003, 986 tonnes of scrap gold were traded at an average price of $280 per ounce but by 2009, 1674 tonnes were traded at an average price of $972 per ounce.

Gold is demanded for its use in industrial production, in dentistry, as jewellery and as a store of value. Gold is used as an insurance against uncertainty and traders may speculate on the price movements of gold.

Fig. 2 shows the changes in the pattern of supply of gold between 2001 and 2009.

Fig. 2 Gold supply ('000 tonnes), 2001 to 2009



(a) **(i)** Compare the difference between nominal and real prices of gold over the period 1970 to 2010. [2]

(ii) A gold trader in 2010 said that 'the price of gold has never been higher'. Explain whether Fig. 1 confirms this statement. [2]

(b) Use the data to estimate the price elasticity of supply of **scrap gold** between 2003 and 2009 and state whether it is elastic or inelastic. [4]

(c) **(i)** What were the changes in the sources of supply of gold between 2001 and 2009? [2]

(ii) Explain **two** possible reasons for these changes. [4]

(d) Discuss the extent to which gold is like other consumer goods, and whether the gold market operates like a consumer good market. [6]

Section B

Answer **one** question.

2 **(a)** With the help of a diagram, explain how a production possibility curve can illustrate the concepts of opportunity cost and economic growth. [8]

(b) Discuss whether free market economies or centrally planned economies are more likely to make choices that will maximise the benefit for consumers. [12]

3 **(a)** Explain, using economic analysis, how economists decide whether goods are substitutes or complementary goods. [8]

(b) Explain on which goods and services the government should impose indirect taxes to ensure that the incidence of the tax falls mainly on consumers, and discuss the extent to which consumer surplus would be affected. [12]

4 The best way to reduce a deficit on the current account of the balance of payments is to change the value of the deficit country's exchange rate.

(a) Explain how a change in a country's exchange rate might reduce a deficit on the current account of its balance of payments. [8]

(b) Discuss whether changing the exchange rate or imposing tariffs is the better way of reducing a deficit on the current account of the balance of payments. [12]

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