Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay (Core) **May/June 2014**

1 hour 30 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

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.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **4** printed pages and **1** insert.

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Section A

Answer this question.

Trade in New Zealand

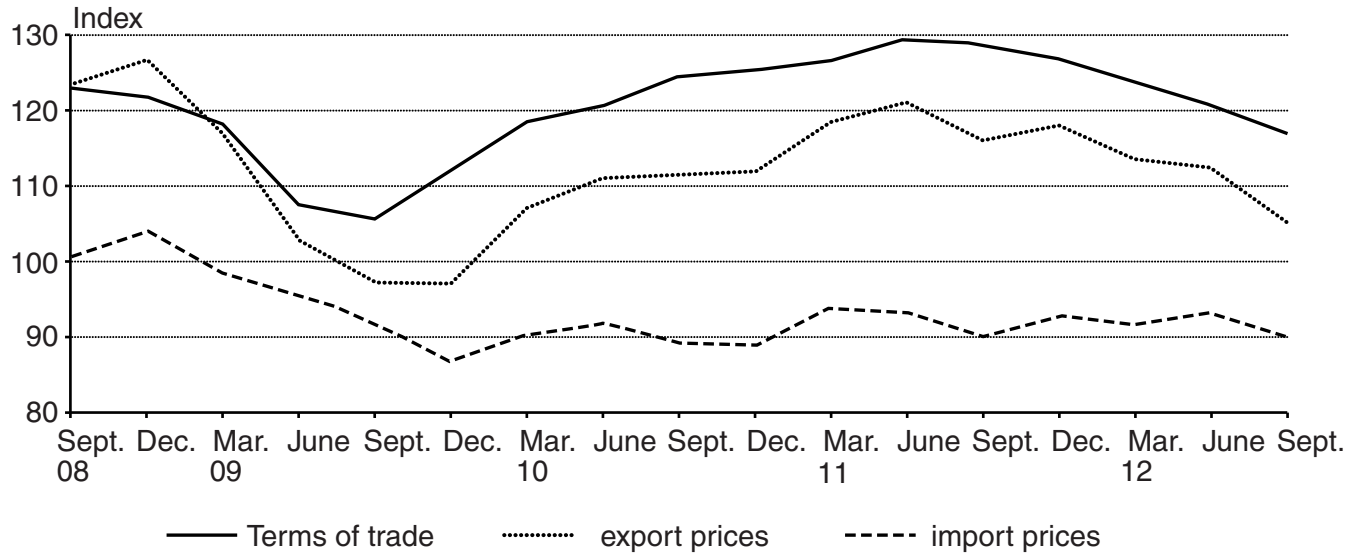
1 **Extract 1: Terms of trade down again but the view is positive**

New Zealand's terms of trade declined 3.2% from June to September 2012. There was a 13% drop in dairy prices which contributed to a 32% rise in the volumes of dairy products exported; the net effect on the total value of dairy exports was an increase of 16%. Meat prices fell 6%, but volumes were 15% higher, so that export receipts from the sector were 8.9% higher than June.

Exports of transport equipment fell 7.2% in volume terms, which was likely to reflect reduced economic activity in Australia and the United States, the key markets for New Zealand's manufactured exports. Demand in Australia is expected to recover in 2013, aided by interest rate cuts and renewed economic activity in China. Furthermore, prices for many of New Zealand's key export commodities were showing signs of improvement, and as international inflationary pressures remained weak, the terms of trade were expected to stabilise during 2013.

Source: Adapted from The New Zealand Herald 2012

Fig. 1 New Zealand's Terms of Trade Index, and Indices of Export Prices and Import Prices for Goods Traded
Quarterly
Base: June 2002 (=100)



Source: Statistics New Zealand

Extract 2: New Zealand's deficit above expectations

New Zealand's annual balance of trade deficit has increased to NZ$1.4 billion in October 2012, up from a deficit of NZ$875 million in the previous year. The total value of exports in October 2012 was 11% lower than in October the previous year. This can partially be explained by a 5.5% rise in the exchange rate of the New Zealand dollar over that period.

Dairy products accounted for nearly half the decline in exports, down 20% on October 2011. Imports at NZ$4.2 billion were up 1.7% on October 2011, due to higher imports of machinery and of consumer goods.

Source: Adapted from The New Zealand Herald 2012

(a) (i) Describe the change in New Zealand's terms of trade from June 2011 to September 2012. [1]

(ii) With reference to Fig. 1, account for the change that you have described. [2]

(b) (i) Given the information in Extract 1, calculate the price elasticity of demand for New Zealand meat from June to September 2012, if all other factors were equal. [2]

(ii) Explain why receipts from meat exports rose despite the fall in the price of meat. [2]

(c) Using the information provided in the extracts, explain why New Zealand's terms of trade were expected to 'stabilise during 2013'. [3]

(d) Use economic theory to explain why New Zealand specialises in exports of dairy products and meat and imports machinery and consumer goods. [4]

(e) Discuss whether the rising deficit in New Zealand's balance of trade is what would be expected, given the change in the terms of trade after June 2011. [6]

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[Turn over

Section B

Answer **one** question.

2 **(a)** Explain the meaning of the term 'equilibrium price and quantity' in the market for a good or service and show how a new equilibrium is established when there is an increase in demand. [8]

(b) Discuss the view that attempts to help poorer consumers through the imposition of a maximum price for food items will always fail. [12]

3 **(a)** Distinguish between income elasticity of demand and cross elasticity of demand and explain how each is used to identify different types of product. [8]

(b) Discuss which of these two types of elasticity would be more useful when predicting how a firm's revenues would change as demand factors change in a market economy. [12]

4 **(a)** Using diagrams, explain the difference between demand-pull and cost-push causes of inflation. [8]

(b) Distinguish between the domestic and external consequences of inflation and discuss which is most damaging to an economy. [12]

Copyright Acknowledgements:

Question 1 Extract 1 © Brian Fallow; Terms of Trade down again but the review is positive; The New Zealand Herald; 04 December 2012.
Question 1 Figure 1 © www.stats.gov.nz; The New Zealand's Terms of Trade Index; Statistics New Zealand; December 2012.
Question 1 Extract 2 © Brian Fallow; New Zealand's deficit above expectations; The New Zealand Herald; 28 November 2012.

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