UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay (Core) **October/November 2011**

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

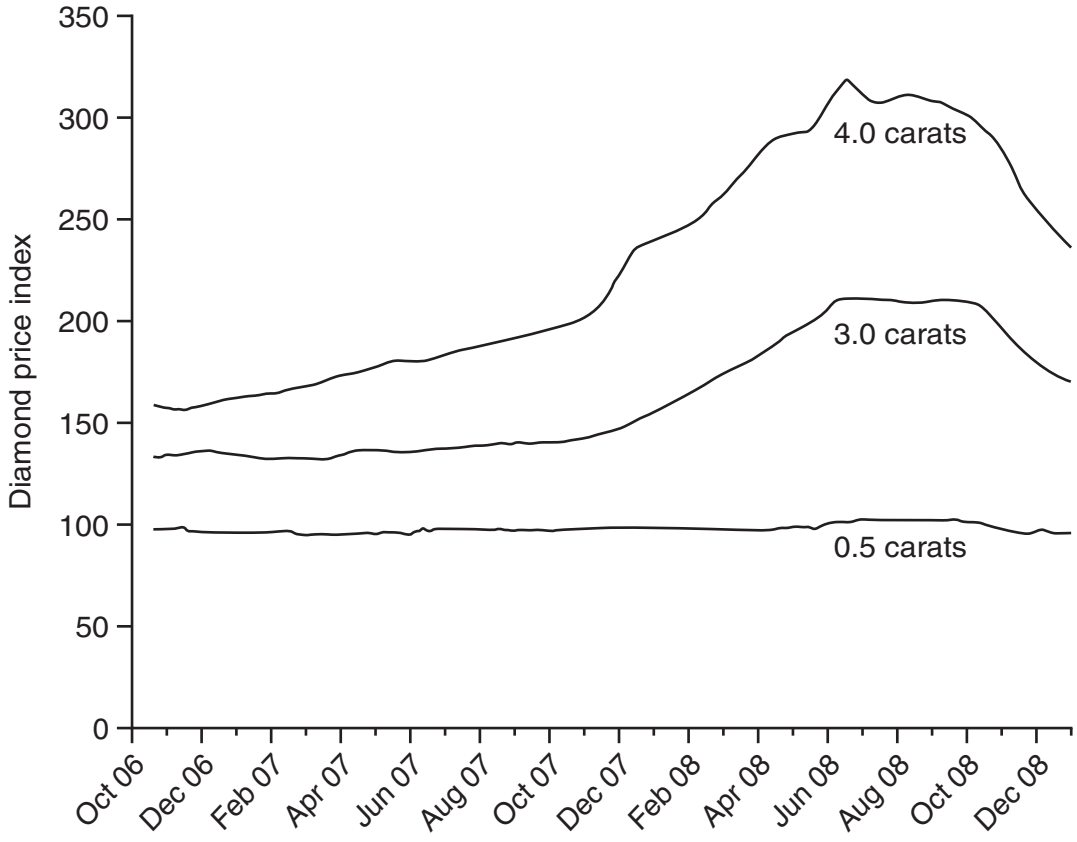
Answer this question.

The Diamond Market

1 The world diamond market was badly hit by the start of the global economic slowdown in 2008. Mines were shut in Southern Africa and Canada, diamond cutters and polishers lost their jobs in India and retail jewellers went out of business in the US. One small piece of good news for the diamond industry was the decision of New York's government not to introduce a planned 5% luxury tax on jewellery and watches priced over $20 000 in its 2009–2010 budget.

Fig. 1 shows the monthly price indices for three sizes of diamond (0.5, 3.0 and 4.0 carats) from October 2006 to December 2008.

Fig. 1: Diamond price indices October 2006 – December 2008 (base month for each index July 2004 = 100)



Source: IDEX Online Research

Diamond mining has a controversial history. Mines are expensive to operate and have been associated with low pay for workers and appalling working conditions. In Africa diamonds have financed civil wars. In Canada's North West Territories mining has been held responsible for damage to the habitat of wildlife.

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(a) Compare the price behaviour of the three sizes of diamond between July 2004 and December 2008. [3]

(b) Explain **two** possible influences on the demand for diamonds. [4]

(c) Show, with the help of a diagram, how the introduction of the 5% luxury tax would have affected the supply of diamonds. [4]

(d) Using an example from the data, explain the meaning of external cost. [3]

(e) Discuss how well diamonds might serve as money if people lose confidence in paper currency. [6]

Section B

Answer **one** question.

2 **(a)** Explain how a government's approach to making a decision about a construction project might differ from that of a private firm. [8]

(b) Discuss whether economists would classify healthcare and national defence in the same way. [12]

3 **(a)** Explain what determines a country's comparative advantage in production. [8]

(b) Discuss the effectiveness of expenditure-switching policies in reducing a current account deficit on the balance of payments. [12]

4 **(a)** Explain the factors which determine the size and productivity of a country's labour force. [8]

(b) Discuss the problems that governments face in trying to produce accurate unemployment statistics. [12]

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Copyright Acknowledgements:

Question 1 © Diamonds Prices Fall in November; IDEX Online Research, International Diamond Exchange; http@//diafon.net/blog/?=475; 10 April 2009.

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