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) **October/November 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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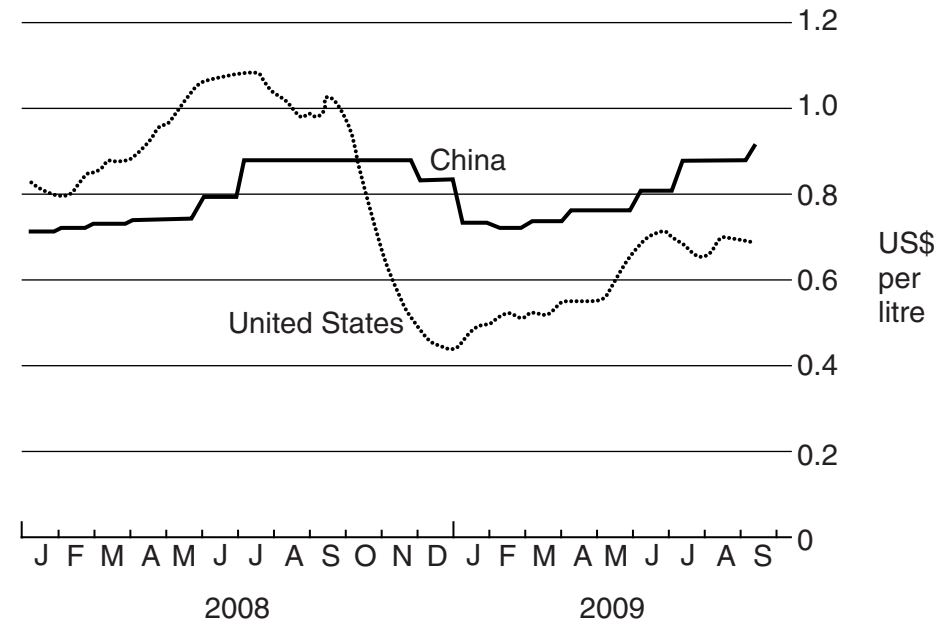
Section A

Answer this question.

Petrol Prices and Elasticity

1 The price of petrol in the United States (US) is determined mainly by market forces but in China the Government actively intervenes to set the petrol price. However, in 2009 it introduced a policy by which the price of petrol in China would more closely follow the world price of crude oil. The price of petrol in the two countries is shown in Fig. 1.

Fig. 1 The price of petrol in the US and China, US$ per litre, January 2008–September 2009



Sources: EIA; CEIC

The consumption of petrol generates considerable externalities and petrol is also a heavily taxed product. It is often quoted as an example of a product with an inelastic price elasticity of demand (PED). Studies in different countries have produced varied results. A South African study in 2004 gave a short-run PED of –0.21 and a long-run PED of –0.51. In 2008 an Australian study put the short-run PED between –0.1 and –0.14 and the long-run PED between –0.2 and –0.3.

(a) (i) Compare the price of petrol in the US and China between January 2008 and September 2009. [2]

(ii) How does Fig. 1 confirm that it is in China rather than in the US that the price of petrol is set by the government? [2]

(b) Explain how the consumption of petrol generates externalities. [4]

(c) (i) Identify **two** points about the PED of petrol on which the studies agree. [2]

(ii) Explain why the values of the short-run and long-run PEDs for petrol are different. [4]

(d) Discuss the possible consequences of the Chinese price setting policy between January 2008 and September 2009. [6]

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Section B

Answer **one** question.

2 **(a)** Explain, with the aid of a diagram, what changes will alter the amount of consumer surplus available from the consumption of a good. [8]

(b) Discuss why in many countries some services, such as education and healthcare, are supplied both by the government and private producers. [12]

3 **(a)** Explain the factors that might cause a fall in a country's terms of trade. [8]

(b) Discuss the view that unrestricted free trade has as many disadvantages as advantages. [12]

4 **(a)** Explain how an economy may face a deficit in its trade in goods yet have a surplus on its current account of the balance of payments. [8]

(b) Discuss whether a satisfactory balance of payments, a strong exchange rate and a low rate of inflation are likely to be achieved at the same time. [12]

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