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 2013**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

7830149354

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.

Vietnam and inflation

1 In the mid 1980s, Vietnam started the process of moving from a command economy to one in which the market played a significant part. In September 2010 it experienced a sharp rise in inflation that meant that the annual rate rose to 8.9%. The Government's target rate was 8%. Details of some of the price changes are given in Table 1.

Table 1: Inflation rate and weighting in Vietnamese CPI of selected items, 2010.

Category	Annual inflation rate (%)	Weighting in CPI (%)
Foodstuffs	10.3	24.5
Education	15.6	5.7
Housing	12.8	10.0
Telecommunication	–5.9	2.7
Transport	6.7	8.9

Source: Vietnam Government data

The Government actions in 2009 included:
- devaluing the Vietnamese dong (VND) against the US$ by 10%
- raising the minimum wage and state pensions by 12%
- increasing the minimum price of exported rice
- encouraging banks to offer cheaper credit and to lend more.

To limit inflation the Government introduced price controls. These affected state-owned enterprises, foreign businesses and locally-owned private firms. The controls applied to 'abnormal' price changes on a wide range of goods, including fertilisers, animal feeds, animal vaccines, cement, steel, liquid petroleum gas, coal, salt, milk powder, rice and sugar.

(a) With reference to the data identify **two** features of a command economy in Vietnam. [2]

(b) Explain how the actions of the Vietnamese Government in 2009 might have caused any **two** different types of inflation to occur in the Vietnamese economy. [4]

(c) Suggest **two** reasons why an inflation rate of 8.9% might **not** be a cause of concern to a government. [2]

(d) **(i)** Compare the contribution to the change in the CPI of the changes in the price of housing with that of education. [2]

(ii) Analyse **two** possible reasons for the Government's selection of the items included for price control. [4]

(e) Discuss the desirability of a policy of widespread price controls. [6]

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Section B

Answer **one** question.

2 **(a)** Explain, using a diagram, how the social cost of consuming some goods can exceed the private cost of consuming them. [8]

(b) Discuss, using examples, whether cost-benefit analysis is an effective way of decision making when allocating an economy's resources. [12]

3 A firm that produces yoghurt is given the following information about the price elasticity of demand of various flavours: strawberry (–0.8), vanilla (–1.0), pineapple (–2.5).

(a) Explain the pricing policy that the firm should adopt for each of the flavours if it wants to increase total revenue. [8]

(b) Explain the factors that would lead to an increase in the demand for all types of yoghurt and discuss the extent to which the firm can influence these factors. [12]

4 **(a)** Use a diagram to explain how a fall in the rate of interest in a country can cause its foreign exchange rate to change. [8]

(b) Discuss whether a rise in its exchange rate or a fall in its exchange rate is more beneficial for an economy. [12]

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