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 2013**

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.

This document consists of **3** printed pages and **1** blank page.

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Section A

Answer this question.

Tanzania and the East African Community (EAC)

1 Tanzania, Kenya and Uganda have long cooperated on economic matters as members of the East African Community (EAC). In 2005 EAC became a customs union. EAC then became a common market in 2010 and planned to become a monetary union in 2012.

The EAC Customs Union operates a common external tariff (CET) with a number of rates. The tariff includes rates of 0% on raw materials, capital goods and 'meritorious goods' (for example medicines); 25% on consumer goods, and higher rates on selected 'sensitive goods' (for example 100% on cane sugar, 75% on rice and 60% on wheat).

Officials have identified a number of problems facing the EAC Customs Union. These include the continuation of non-tariff barriers, language barriers, illegal cross-border trade and limited staff resources. These are thought to be reducing the effectiveness of the EAC Customs Union.

Some details of Tanzania's trade before and after the formation of the EAC Customs Union are given in Tables 1 and 2.

Table 1: Tanzania's trade with its EAC partners 2003 to 2008, US$ millions

	Before Customs Union		After Customs Union			
	2003	2004	2005	2006	2007	2008
Exports to Kenya	84.5	90.1	93.3	103.9	126.5	231.5
Imports from Kenya	117.8	131.5	174.7	156.9	113.6	197.9
Exports to Uganda	48.7	55.7	48.9	44.0	46.1	53.8
Imports from Uganda	8.3	7.7	6.5	5.4	6.5	6.4

Source: EAC

Table 2: Tanzania's trade balances 2003 to 2008, US$ millions

	Before Customs Union		After Customs Union			
Trade balance with:	2003	2004	2005	2006	2007	2008
EAC	7.1	6.6	–39.0	–14.4	52.5	81.0
Rest of world	–782.6	–1044.0	–1411.2	-2207.3	–3280.8	–3632.0

Source: EAC

(a) (i) Give **two** examples of non-tariff barriers to trade. [2]

(ii) State **two** changes that would have been necessary within the EAC when it moved from being a common market to being a monetary union. [2]

(b) Explain **two** possible reasons for the imposition of different CET rates by the EAC. [4]

(c) With reference to Tables 1 and 2, analyse the impact of the creation of the EAC Customs Union on the trade position of Tanzania. [6]

(d) Discuss the case for expanding the EAC after 2012 to include other neighbouring countries. [6]

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Section B

Answer **one** question.

2 **(a)** Explain the role of the enterprise factor of production in a free market economy, and compare this with the role of the other factors in the production process. [8]

(b) Explain the key differences between centrally planned and mixed economies, and discuss whether enterprise is a factor of production that is needed in a centrally planned economy. [12]

3 **(a)** Explain the relationship between the quantity of money in an economy and the value of money in that economy. [8]

(b) Explain the effects on the functions of money of a significant rise in the general price level and discuss which you consider to be most damaging for a modern economy. [12]

4 In October 2011, the Chinese Government said that they would not allow a further rise in the international value of China's currency, the yuan, because the Chinese economy would be damaged.

(a) Explain how exchange rates are determined in a free market and how some governments intervene to manage their exchange rate. [8]

(b) Explain the costs and benefits of a rising exchange rate and discuss whether on balance an economy 'would be damaged' by a rising exchange rate. [12]

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Question 1 © Mugisa, Onyango & Mugoya; *An Evaluation of the Implementation and Impact of the East African Community Customs Union*; The East African Community, http://www.eac.int; March 2009.

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