UNIVERSITY OF CAMBRIDGE INTERNATIONAL EX
International General Certificate of Secondary Educati

ECONOMICS

Paper 3 Analysis and Critical Evaluation

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READ THESE INSTRUCTIONS FIRST

This Insert contains extracts for Questions 1 and 2.

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International Examinations

Extract for Question 1

Iron ore prices rise

The manufacture of steel uses iron ore. The world's biggest steel
ore with the iron ore mining companies. In 2002, the price of iron o
which was the result of a decline in iron ore prices in real terms ov
time it was thought that the downward trend in prices would conti

However, five years later, in 2007, the price of iron ore had reache
rise was mainly due to the demand from China for steel. Every y
for steel by 45–50 million tonnes. This was equivalent to the entire steel output of Germany or about half the United States' steel output each year.

A similar price trend occurred for other metals such as zinc, copper and aluminium. The result was a huge increase in profits for the mining industry. Successful mining companies used these profits to buy rival competitors in order to cut costs and increase profits even further. The larger companies also had more power to negotiate the price of their output, for example, iron ore, when they sold this to other firms.

In 2007, it was uncertain, however, whether the market price would continue to rise. At the end of 2007, market prices of zinc and copper began to decline and it was thought that the general market price of minerals might decline again. Nevertheless, it was expected that any future decrease in price would not be as low as the 2002 levels.

Extract for Question 2

Reduced furniture prices help bring down inflation

In 2007 it was reported, 'falling prices, as measured by a price index, mean that the Central Bank (Bank of England) is less likely to put up interest rates again this year.

Food accounts for a 9% weighting in the price index, furniture is weighted 2% and gasoline (petrol) is weighted 4%. Record discounts on furniture sales together with decreasing food and gasoline prices have helped to lower inflation to 1.9%.

Previous rises in interest rates have reduced consumer confidence as shoppers have less money available to spend and are concerned about possible future interest rate rises. There is less incentive to buy or replace items which are not so essential, like furniture. As a result, retailers think there is a danger that demand will decrease and this leads to large price reductions and special promotion sales.

The other key elements that caused the fall in inflation were a small fall in gasoline prices, after a previous rise, and recent supermarket price cuts. Further downward pressure was put on inflation from the latest series of cuts in energy prices'.

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