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

ECONOMICS **9708/02**

Paper 2 Data Response and Essay (Core)

October/November 2006

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

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.

1 **The market for onions in Bangladesh**

In Bangladesh the prices of essential foodstuffs usually rise in the period before religious festivals. In October 2003 the price of onions increased sharply. To deal with this the Government took three steps:

- It removed the 22.5% duty on imported onions.
- It introduced a maximum price ceiling of 18 Taka (Tk) per kilo.
- It set up a committee which monitored market prices twice each day.

A Government Minister said 'a kilo of imported onions should cost no more than Tk14. Then the importer adds a profit of Tk1 per kilo, the wholesaler Tk0.30 and the retailer Tk2 – this should reflect a just price.'

However, towards the end of October 2003, the maximum price ceiling was ineffective. Onions were selling on average for Tk28 per kilo, which was

- 90% above the October 2002 price,
- 50% above the September 2003 price and
- Tk10 above the Government maximum price.

Traders argued that the price increase was the result of low domestic production and reduced imports. Consumers said that supplies were normal and that traders had created an artificial crisis, because of the rise in demand before the Holy Month of Ramadan.

(a) **(i)** Calculate the approximate price per kilo of onions in September 2003. [2]

(ii) Identify **two** reasons why prices might normally be expected to rise before the Holy Month of Ramadan. [2]

(iii) What might the Minister have meant by 'a just price'? [2]

(b) **(i)** With the aid of a demand and supply diagram, explain how traders may benefit from reducing the supply of essential foodstuffs. [4]

(ii) With the aid of a demand and supply diagram, analyse the effect on the market for onions of the introduction of an effective maximum price. [4]

(c) Discuss the desirability of the Government's intervention in the market for onions. [6]

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Section B

Answer **one** question.

2 **(a)** Explain how production possibility curves might be used in assessing a country's economic performance. [8]

(b) Discuss whether a mixed economy is the best way for a country to deal with the basic economic problem. [12]

3 **(a)** Explain the difference between absolute and comparative advantage. [10]

(b) Discuss whether the principle of comparative advantage is a satisfactory explanation of the trade pattern of an economy with which you are familiar. [10]

4 **(a)** Explain the difference between cost-push inflation and demand-pull inflation. [8]

(b) Discuss whether a country experiencing inflation will always have a balance of payments problem. [12]

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