

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**General Certificate of Education Advanced Subsidiary Level**

**ECONOMICS**

**8708/2**

PAPER 2 Data Response and Essay

**OCTOBER/NOVEMBER SESSION 2001**

1 hour 30 minutes

Additional materials:  
Answer paper

**TIME** 1 hour 30 minutes

**INSTRUCTIONS TO CANDIDATES**

Write your name, Centre number and candidate number in the spaces provided on the answer paper/answer booklet.

Answer **two** questions.

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

**Section A**

Answer this question.

**Section B**

Answer any **one** question.

**INFORMATION FOR CANDIDATES**

The questions in this paper carry equal marks. The number of marks is given in brackets [ ] at the end of each part question.

You may answer with reference to your own economy or other economies that you have studied where relevant to the question.

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**This question paper consists of 4 printed pages.**



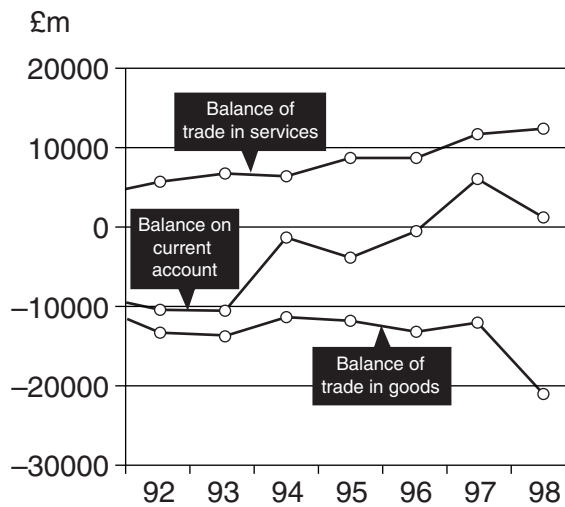
## Section A

## The UK's Balance of Payments

1 Table 1 gives selected details from the UK's balance of payments for 1998.

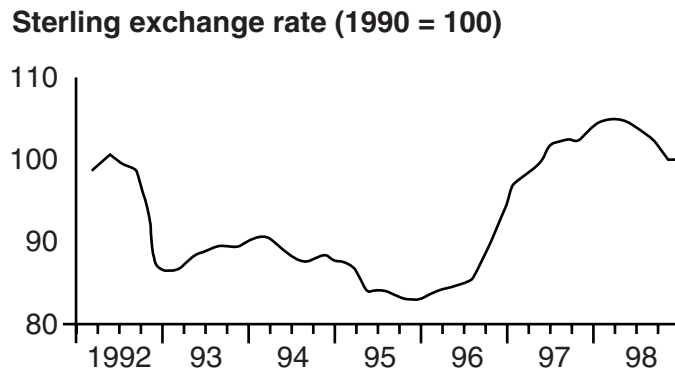
	£m	£m
<b>Trade in goods</b>		
Export of goods	163 704	
Import of goods	184 302	
Balance of trade in goods		-20 598
<b>Trade in services</b>		
Export of services	61 777	
Import of services	49 099	
Balance of trade in services		12 678
<b>Balance of trade in goods and services</b>		-7 920
<b>Balance on Current Account</b>		1 470

Fig. 1 shows selected balances for recent years.



**Fig. 1**

Fig. 2 shows the effective exchange rate for Sterling (£) for the same period.



**Fig. 2**

- (a) (i) Identify **two** differences between the UK's 1998 trade in goods and that in services. [2]  
 (ii) How might these differences be explained? [3]
- (b) (i) Name one item in the current account which does not arise from trade. [1]  
 (ii) Calculate the contribution of all non-trade items to the balance on current account. [1]
- (c) (i) Explain how, according to economic theory, a country's trade position will be affected by an appreciation of its currency. [3]  
 (ii) Comment upon the extent to which this effect is shown in the data. [4]
- (d) Discuss whether the UK government should introduce a general tariff on imported goods to help its trade position. [6]

**Section B**

Answer **one** of the following questions.

- 2 (a) Explain how the market system allocates scarce resources. [8]  
(b) Discuss when and how a government should intervene in the operation of the price system. [12]
- 3 (a) Explain the importance of the functions of money to the efficient operation of a modern economy. [8]  
(b) Discuss the problems of accurately measuring changes in the value of money. [12]
- 4 (a) Explain the difference between price elasticity of demand and income elasticity of demand. [8]  
(b) Discuss the value of these concepts to a company in planning its business strategy. [12]

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*Copyright Acknowledgements:*

Question 1. Table 1, Figs. 1 & 2. *The Student's Economy in Focus 1999/2000*. A Anderton, Causeway Press Ltd 1999 (adapted from *Economics Trends*. Annual Supplement, *Monthly Digest of Statistics*, Office for National Statistics). Reproduced by permission of Causeway Press Ltd.