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) **May/June 2012**

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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UNIVERSITY *of* CAMBRIDGE
International Examinations

Section A

Answer this question.

Inflation Targeting

1 Many central banks use 'inflation targeting'. Their principal aim is to achieve a particular annual rate of inflation within an acceptable range. For example, they might aim for a 2% rate of inflation but will accept a rate between 1% and 3%. Some economists claim that inflation targeting will help reduce the actual rate of inflation. The Central Bank of Turkey uses this approach and Table 1 shows how well it has worked.

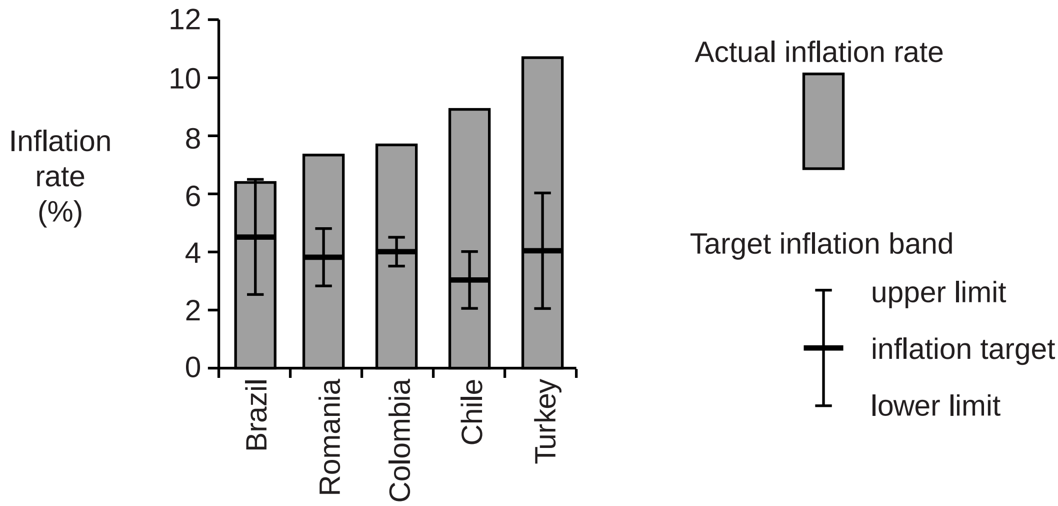
Table 1: Inflation in Turkey 2003–2008 (annual % rate)

	2003	2004	2005	2006	2007	2008
Target rate	20	12	8	5	4	4
Actual rate	18.4	9.3	7.7	9.7	8.4	10.8

In 2008 Turkey faced two particular difficulties. The New Turkish Lira (TRY) depreciated by 30% and food prices rose because of drought. Within the Turkish Consumer Price Index, food has a high weighting of 31%.

How successful five countries were in controlling inflation in 2008 is shown in Fig. 1.

Fig. 1 Target and actual inflation rates in five countries, 2008



(a) **(i)** In which year was Turkey most successful in meeting its inflation target? [1]

(ii) In which year was Turkey least successful in meeting its inflation target?

(b) Explain the likely effect of the depreciation of the New Turkish Lira on Turkey's rate of inflation? [4]

(c) With reference to Fig. 1, how might differences between the inflation targets and actual inflation rates in Chile and Brazil in 2008 be explained? [4]

(d) How might having a target for inflation affect the causes of inflation? [4]

(e) Discuss the possible problems of constructing an accurate consumer price index. [6]

Section B

Answer **one** question.

2 **(a)** Explain how the loss of confidence in money will affect an economy's production possibility curve. [8]

(b) Discuss the difficulties involved in changing a planned economy to a successful market economy. [12]

3 **(a)** Explain, using elasticity of demand, the possible reasons why in some countries there has been an increased use of private transport instead of public transport. [8]

(b) Discuss the economic reasons for subsidising public transport and taxing private transport. [12]

4 **(a)** Use economic analysis to explain the benefits of international trade. [8]

(b) Discuss whether restrictions on international trade can ever be justified. [12]

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Copyright Acknowledgements:

Question 1 © Durmus Yilmaz; *Turkey's Monetary & Exchange Rate Policy for 2009*; Bank for International Settlements Review; March 2009; www.bis.org/review/r09-115d.pdf.