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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 2013**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

0276786142

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.

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Section A

Answer this question.

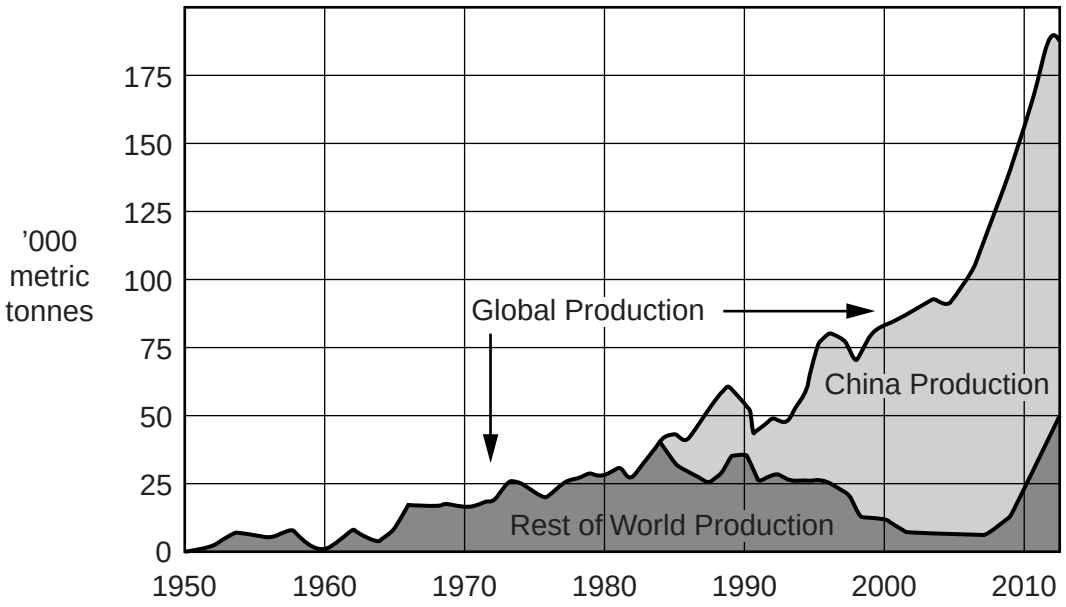
China and Rare Earth Elements (REEs)

1 Rare earth elements (REEs) are a group of 17 minerals, some with unusual names such as gadolinium and praseodymium that have become increasingly important in recent years. They are vital in the production of glass, petrol, flat-screen televisions, laptops, lasers, satellites, energy-saving light bulbs, jet engines and wind turbines. As many as eight REEs are used in an electric car and military hardware depends on them. World demand for REEs is expected to continue to increase.

There are problems with mining these minerals. They are found in many countries but are not concentrated enough to make it easy to exploit them economically. In the 1980s and 1990s China invested heavily in machinery and training labour for mining REEs. The entry of China into REEs mining pushed prices down to a level that forced many rivals in the United States out of production. Most countries rely totally on imports for their supplies of REEs.

Mining them produces undesirable side-effects, such as radioactivity, air pollution and spoilt landscapes. Mining also uses highly toxic chemicals that can pollute the water supply. China, as shown in Fig. 1, is now the dominant global supplier. It also has the largest reserves.

Fig. 1 Global production of REEs, 1950 to 2012



Source: Kaiser Research Online

China imposes export taxes on REEs of up to 25% and sets export quotas that were reduced in August 2010 from 28 417 metric tonnes to 7 976 metric tonnes per annum.

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(a) Describe China's changing contribution to the global production of REEs between 1950 and 2012. [3]

(b) **(i)** Explain **two** possible reasons why demand for REEs is likely to continue to grow. [4]

(ii) Analyse the social costs associated with the increased mining of REEs. [4]

(c) What might be the economic justifications for China's reduction in export quotas for REEs? [3]

(d) Discuss whether it is likely that China will be able to maintain its domination of the international REEs market in a time of rising global prices for REEs. [6]

Section B

Answer **one** question.

2 **(a)** Explain why the free market is ineffective in arriving at the correct price for merit goods and demerit goods. [8]

(b) Discuss the policies a government might adopt to ensure the correct price for merit and demerit goods is charged in the market. [12]

3 **(a)** Explain how unemployment and inflation are measured. [8]

(b) With the help of diagrams, analyse the factors that will lead to an increase in aggregate demand in an economy, and discuss whether this increase is more likely to have an impact on inflation or unemployment in that economy. [12]

4 **(a)** In a two country world one country is more efficient at producing one product and the other country is more efficient at producing another product. Explain why specialisation and trade usually benefit both countries. [8]

(b) Suppose one country were more efficient at producing both products. Discuss whether it is the case that specialisation and trade will always benefit both countries. [12]

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