



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)

October/November 2009

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.



Section A

Answer this question.

1 Elasticity of demand for air travel

The Department of Finance of Canada examined 21 studies of elasticity of demand for air travel. These were mainly based on behaviour in the USA. It produced a summary of what it thought were the most accurate estimates of elasticity for different segments of the market. Some of these findings are given in Fig.1 and Fig. 2.

Fig.1 Income elasticity of demand (YED) for air travel

	<i>YED value</i>
Total market	+1.1

Fig. 2 Price elasticity of demand (PED) for air travel

<i>market segment</i>	<i>PED value</i>
Long-distance international business flights	-0.3
Long-distance international leisure flights	-1.0
Short-distance business flights	-0.7
Short-distance leisure flights	-1.5

- (a) (i) State the formula used to calculate income elasticity of demand. [2]
(ii) What can be concluded about air travel from Fig. 1? [2]
- (b) Using Fig. 2, explain a likely reason for the different price elasticity values for
(i) business flights compared with leisure flights [3]
(ii) long-distance flights compared with short-distance flights. [3]
- (c) Explain the significance of the price elasticity values in Fig. 2 for an airline considering a policy of fare cutting. [4]
- (d) Discuss the costs and benefits of an increased demand for air travel. [6]

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Section BAnswer **one** question.

- 2 (a) Explain, with the help of a diagram, how the price of a product moves to a new equilibrium following a decrease in its supply. [8]
- (b) Discuss whether government intervention always improves the operation of the market. [12]
- 3 (a) Explain why it is usually more difficult to trade internationally than domestically. [8]
- (b) Discuss, with examples, how far the global distribution of factors of production determines what a country imports and exports. [12]
- 4 (a) Explain how a rapid rate of inflation in a country will affect its floating exchange rate. [8]
- (b) Discuss whether a government should operate a fixed exchange rate system. [12]

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