

UNIVERSITY OF CAMBRIDGE

ECONOMICS 9708/22 Paper 2 Data Response and Essay (Core) **May/June 2011 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 Australia and its Northern Territory

The Northern Territory of Australia is a large, sparsely populated area. It relies heavily on tourism, mining, agriculture and fishing. The extraction of oil and gas and the mining of iron ore and bauxite have grown significantly in recent years. Its manufacturing is principally based on the processing of its natural resources.

The Northern Territory government publishes forecasts, which compare the economic prospects of the Northern Territory with those of Australia as a whole. The table below gives extracts from the forecasts in January 2009.

Table 1: Selected economic forecasts for Northern Territory and Australia

	Northern Territory		Australia	
	2008–9	2012–13	2008–9	2012–13
International exports, constant price (A\$m)	4172	6004	176 010	236 824
International imports, constant price (A\$m)	2718	2811	217 675	224 521
Consumer price index, 1989–90 = 100	164.6	180.0	167.7	186.4

Average weekly nominal earnings, A\$	954	1078	916	1050
Unemployment rate (%)	3.7	5.7	4.2	6.5
Population aged 15–64 (thousands)	170	186	17 456	18 627

* A\$ = Australian dollars

- (a) (i)** Calculate and compare the change in the trade balance between 2008–9 and 2012–13 of the Northern Territory with that of Australia. [4]
- (ii)** Explain why exports and imports are often measured at constant prices. [2]
- (b)** Explain **two** additional pieces of information that would be useful in judging Australia's international financial position. [4]
- (c)** Analyse the change in average weekly earnings in Australia in real terms between 2008–9 and 2012–13. [4]
- (d)** With the help of the text and the table, discuss the economic outlook for the Northern Territory. [6]

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a (i) Unlike whole of Australia that experienced significant deficit during 2008 and 2009, Northern Territory experienced surplus during more time periods for which we are given the information. For the Northern Territory, between 2008-2009, there has been surplus of 1454 Australian dollars which increased to 3193 Australian dollars between 2012-2013. On the opposite the whole of Australia experienced deficits of 41, 665 during 2008-2009 and surplus of 12, 303 during 2012-2013.

a (ii) To account for the inflation often calculate certain economic variables at constant prices. This, in this case, estimates changes in quantities of economies' exports and imports. Therefore when economic variables are calculated at constant prices they are known as real variables and other variables are known as nominal variables. Hence the values of Australia's balance of trade calculated in first part are real changes in country's balance of trade and are not nominal variables meaning that increase in balance represents that economy's exports have increased relatively to imports and vice versa.

- (b) Apart from balance of trade information we need to have information about economy's investment patterns including both direct and indirect investment. These international transactions also affect economies' financial position. Higher net investment inflow represents stronger financial position and vice versa. Moreover income and current transfer transactions are also important in gauging economies' financial position. Increased money inflow through income and current transfer would mean improved balance of payment situation and vice versa. Income represents income earned by nationals of one economy or foreign economy's assets and vice versa. Moreover current transfers represent transactions between governments of different countries and international organizations.
- (c) For both the northern territory and Australia as a whole the real average income increased by 4 percent. The increase in general price level for 10.7 percent for whole Australia and average income levels increased by 14.63% hence real wages increased by 4%. On the other hand the CPI for Northern Territory increased by 9.1 percent and average income levels increased by 13 percent therefore real wages increased by 4 percent overall. Hence the change in real wages was same for both the areas.
- (d) Australian Northern Territory has huge economic growth potential that can be gauged through the growth potential of the industries located there. Mining of natural resources including bauxite, oil, iron ore, gas and fishing are main industries located in the territory. Over times raw material processing industries are expected to locate there. This will further contribute to vicinity's economic activity. These industries might include processing of natural resources that are extracted there. These value added products will significantly enhance citizens' average income levels. Moreover though currently the increase in area's real income is equal to rest of Australia but it is expected to increase more rapidly in coming years. Furthermore unlike rest of Australia where unemployment increased by 2.2 percent, increase in Northern Territory's unemployment was just two percentage points. Most importantly Northern Territory is contributing significantly towards country's balance of payments and is helping it to earn substantial amounts of foreign currency reserves. These figures are much lower for whole of Australia.

Increased government spending in the region to promote establishment of more industries will substantially enhance region's export potential. Establishment of manufacturing industries will positively contribute to country's balance of trade and national income and employment prospects.

