UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2010 question paper

for the guidance of teachers

9708 ECONOMICS

9708/23 Paper 23 (Data Response and Essay – Core), maximum raw mark 40

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UNIVERSITY of CAMBRIDGE
International Examinations

1 (a) (i) Summarise the main changes in bicycle production shown in Table 1. [2]

China's production has increased (1), all other production has decreased (1)

(ii) How might the changing pattern of production be explained? [3]

China has replaced production in the other countries or has achieved comparative advantage in bicycle production (1), this may be based on cheaper labour, advantageous exchange rate, economies of scale etc. (2)
Allow approach from other countries' angle.

(b) Explain the likely effects for Chinese bicycle manufacturers of the anti-dumping import duty introduced by the EU. [3]

Price in EU will rise or now less competitive (1), fewer Chinese bicycles will be sold (1), employment, revenue or profits will reduce (1)

(c) (i) Use Fig. 1 to compare the trend in the world production of bicycles with that of cars. [2]

Bicycle production has grown by a greater amount (1), tenfold rather than fivefold (1), it has shown greater volatility (1), unit bicycle production has always been greater than car production (1). Allow approach from car production angle. Any two points.

(ii) How might the change in Chinese ownership of bicycles and cars between 1995 and 2005 be explained? [4]

Car ownership has grown while bicycle ownership has fallen (1), this was in a period of rising incomes and prosperity (1), relative costs of use may have changed (1), cars are normal goods (explanation) (1), bicycles may be inferior goods (explanation) (1) Any four points.

(d) Discuss the externalities that might arise from the use of bicycles and cars. [6]

Externalities are effects on third parties, they can be positive (beneficial) or negative (harmful) (1), bicycles may have positive externalities e.g. health benefits, safer travel, reduced congestion (to max 4), cars may have negative externalities e.g. pollution, congestion, accidents (to max 4), credit different examples or plausible reversal of cases.

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2 (a) With the help of examples, explain why different economic decision makers face the problem of scarcity. [8]

Scarcity results from limited resources and unlimited wants. This means choice is necessary and an opportunity cost occurs. All economic decision makers including individuals, families, firms and governments are unable to achieve all of their wants. The nature of the sacrifice may differ from case to case but the basis is the same. Examples of the decision makers and their choices must be identified.

Understanding of the basis of scarcity	4 marks
Explanation of the position of different economic decision makers	4 marks

(b) Discuss why the mixed economy is the most common economic system. [12]

A mixed economy draws features from the market and planned system. This includes private ownership, profit and incentive as well as government ownership, public goods and planning. This is meant to gain the advantages of both systems while avoiding their drawbacks. As a result there should be efficiency, choice, flexibility and progress, allied to equality, avoidance of waste, security and social welfare.

Knowledge of features of a mixed economy	4 marks
Discussion of advantages of market/disadvantages of planned	4 marks
Discussion of advantages of planned/disadvantages of market	4 marks

3 (a) Explain why unanticipated inflation is considered more of a problem than anticipated inflation. [8]

Inflation is a persistent rise in the general price level. If it is at the level that economic agents expect it is anticipated, if it differs from this it is unanticipated. When inflation is anticipated appropriate action can be taken to offset its effects. Indexation can be used so that incomes and taxes retain their real value. If it is unanticipated the assumption on which planning by households, firms and governments is made will be wrong, so plans may fail. There will also be arbitrary effects on the distribution of income with some gainers and some losers. This may be thought unjust.

Understanding of anticipated and unanticipated inflation	4 marks
Explanation of the effects of the two types of inflation	4 marks

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(b) Discuss whether inflation is more likely to be caused by domestic or international influences. [12]

Causes of inflation are classified as monetary, cost-push and demand-pull. These can each be affected by domestic and international influences and their importance will depend upon the nature of the individual economy. Monetary will usually be from government creation of money and easy credit although money supply is also affected by international flows of finance. Cost-push may be from domestic wage rates and imported raw materials. Demand-pull may be from domestic demand from consumer and government spending or from demand for exports. An open economy with strong trade links is likely to be more affected by international pressures than a closed economy, as may economies lacking resources and facing a falling exchange rate.

Understanding of the types of inflation	4 marks
Discussion of domestic influences	4 marks
Discussion of international influences	4 marks

4 (a) Explain the relevance of the Marshall-Lerner condition and the J-curve effect to the success of a currency devaluation. [8]

Devaluation is government lowering the value of a currency from one fixed level to another. The J- curve effect shows that there is a time lag between introducing the policy and it having the desired effect. This may be the result of short-term elasticities and contractual obligations. The Marshall-Lerner condition requires a combined elasticity of demand for imports and exports greater than one. If this is not the case devaluation will not necessarily correct a deficit and may worsen the position.

Understanding of devaluation	2 marks
Explanation of J-curve effect	3 marks
Explanation of Marshall-Lerner condition	3marks

(a) There are various influences on the international value of a currency in a floating exchange rate system.
Discuss their relative importance in different economies. [12]

Market forces fix a floating rate of exchange, this can be shown by a demand and supply diagram. With a floating rate changes may depend upon trade flows, investment flows, speculative flows and 'hot money' flows. In turn these reflect competitiveness, confidence, investment opportunities and interest rates and vary between economies. Government may intervene in the market if 'dirty floating' is the system. The relative importance will depend upon the nature and position of the economy. The size of the economy, the importance of trade, the potential for inward and outward investment, the success of the economy, government intervention etc., differ between economies.

Understanding of floating exchange rate movements	4 marks
Discussion of importance of factors influencing floating rate	4 marks
Discussion of varied circumstances in different economies	4 marks

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