UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 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) Suggest the likely opportunity cost to Ghanaian children of time spent fetching water. Explain your answer [2]

Meaning of opportunity cost (1), education, leisure or acceptable alternative e.g. working on a farm (1)

(b) Use Table 1 to compare the change in Ghana's cocoa output with that of the other main producers. [3]

Greater % growth than 3 others (1), less % growth than Indonesia (1), largest absolute increase (1) supporting calculation (1), retained second position (1), any three valid points

(c) With the use of a diagram, analyse the effect on the market for Cadbury's chocolate of the problems reported in the first paragraph. [6]

Commentary: higher raw material prices reduce supply (1), health warnings reduce demand (1), price may rise or fall or remain unchanged (1)
Diagram: correct shift in D (1) and S (1), new lower quantity from change in D and S (1)

(d) Explain how the Cadbury Cocoa Partnership hoped to affect the productivity of cocoa farmers? [3]

Define labour productivity as output per worker, and increase it (1), higher yielding crops (1), use of fertilisers (1), co-operative working (1) any 3 points

(e) Discuss the consequences for countries such as Cote D'Ivoire and Ghana of relying heavily on the production of one crop. [6]

Merits: benefits of specialisation, lower costs, exploitation of comparative advantage, ability to export, market power.
Problems: risk of loss of demand, emergence of rivals, limited job opportunities, natural hazards, need to import, seasonality of agriculture. Boredom as a factor is not to be rewarded.
Up to 4 marks for one side
Reasoned conclusion e.g. the importance of diversification 1 mark max.

2 (a) Explain the difficulties of carrying out a cost-benefit analysis. [8]

Cost benefit analysis is a technique to evaluate the social costs and social benefits of an investment project and to decide if it is worthwhile. Each stage has potential problems. Identifying the costs and benefits (how wide can the external elements be?), putting a monetary value on the costs and benefits (no market value available), forecasting and discounting future values (level of uncertainty and appropriate rate), deciding to proceed (political interference)

Understanding of cost-benefit analysis	2 marks
Explanation of process	2 marks
Explanation of difficulties	4 marks

2 Stages 1 mark; 4 stages 2 marks

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(b) Discuss the economic consequences of externalities associated with production and consumption. [12]

Externalities can be positive (beneficial) and negative (harmful), they affect third parties not involved in the transaction. They can result from consumption and production, are not reflected in the price of output and result in inefficiency. Negative externalities arise from industrial production and include pollution and environmental damage. Transport, energy supply and agriculture also contribute. At an individual level smoking, driving and tourism can have harmful effects. Industry can produce external benefits such as technology spillover and the training of workers who go to other firms. In consumption maintaining a garden and taking medication may benefit neighbours. Negative externalities are more common than positive ones.

Understanding of externalities	4 marks
Discussion of negative externalities with examples	4 marks
Discussion of positive externalities with examples	4 marks

If only discuss production **or** consumption 8 marks max.

3 (a) Explain why a low and stable rate of inflation may be beneficial to an economy. [8]

Inflation is a persistent/sustained rise in the general price level. A stable rate will bring certainty, raise confidence and minimise menu and shoe leather costs. Firms, individuals and governments will be able to plan effectively. Overseas investors are more likely to invest in the economy. A low rate will encourage production and employment and allow the economy to remain competitive in international markets.

Understanding of inflation	2 marks
Explanation of the benefits of stable rate	3 marks
Explanation of the benefits of a low rate	3 marks

(b) Discuss whether rapid inflation can be caused only by government actions. [12]

Inflation may be caused by monetary, demand pull and cost push factors. Monetary may result from government increases in money supply and lax regulation of the banking system or unsound banking practices. Demand pull may be caused by expansionary government policies and consumer incomes and attitudes to spending. Cost push may occur because of trade unions achieving wage rises in excess of productivity gains, tax rises, raw material costs and the actions of monopoly suppliers. All of these can affect the rate of inflation depending upon the scale of their impact.

Understanding of the different types of inflation	4 marks
Discussion of the government's role in causing inflation	4 marks
Discussion of the role of non-government causes of inflation	4 marks

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4 (a) Explain

(i) the difference between trade creation and trade diversion, and

Both result from establishing a trading area. Creation means shifting consumption from high cost to lower cost producers because of fewer trade barriers and more specialisation. Diversion means switching consumption from lower cost producers outside of the area to higher cost producers within. This results from the external tariff.

Understanding terms 2 marks
Explaining terms 2 marks

(ii) the difference between expenditure-dampening and expenditure-switching trade policies. [8]

Expenditure-dampening intends to lower the total level of spending within an economy by raising taxes and interest rates to reduce imports and raise exports. Expenditure-switching attempts to get foreign and domestic consumers to purchase the country's goods rather than rival countries by tariffs, quotas and devaluation.

Understanding terms 2 marks
Explaining terms 2 marks

(b) Discuss whether a balance of payments current account deficit necessarily indicates a weak economy. [12]

The balance of payments current account includes balances of goods, services, transfers and income. A deficit means outflows exceed inflows. Whether a deficit is a serious matter and indicates weakness depends upon its size (minimal or excessive), its continuity (how long has it run? is it continuous?), the cause of the deficit (buying consumer or investment goods?), its affordability (level of reserves, ease of borrowing), the effect it is having on the economy (running up debt, need for restrictive policies) and the nature of the deficit (which part of the account is causing the problem?), whether the deficit is structural or cyclical.

Depending which of these conditions apply, it may or may not indicate a weak economy. Examples can support the judgment.

Understanding of a current account deficit 4 marks
Discussion of conditions showing weakness 4 marks
Discussion of conditions showing ability to cope 4 marks

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