UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2011 question paper for the guidance of teachers

9708 ECONOMICS

9708/23 Paper 2 (Data Response and Essay – Core), maximum raw mark 40

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1 (a) Use Table 1 to identify the main changes in world potato production between 1991 and 2007. [3]

World production increased (1), production in developed economies fell while production in developing economies rose (1), developing overtook developed (1), greater change in developing economies production than in developed (1).

Use of data to support (1 mark)

(b) With reference to Table 2, what might explain the different production per hectare in North America and Africa? [3]

For a general comment that North America is more efficient/productive that could be explicit or implicit (1), reasons such as more equipment, more fertiliser, better infrastructure, more suitable climate (up to 2). This could be one point developed or two distinct points.

(c) Explain <u>two</u> possible reasons for the different levels of potato consumption. [4]

Tastes, custom, availability, relative price, income level, substitutes etc.
Identification of factor (1) plus explanation (1) x two reasons.

(d) Consider the likely cross elasticity of demand between fresh potatoes and processed potatoes. [4]

XED meaning or formula (1), substitutes have positive value (1), good substitutes have a high value
or poor substitutes have a low value (1), reasoning applied to this case (1)

(e) Discuss the effect on world trade and welfare of the spread of 'tariff escalation'. [6]

General tariff case.
Tariff harm: raises price, reduces trade, choice and welfare (the technical definition of welfare is **not** required. Consider welfare as general well-being). (Up to 3 marks)

Tariff benefits: protects domestic producers and helps independence and security. Protects domestic consumers from demerit goods. (Up to 3 marks)

4 marks maximum for general tariff discussion.

Tariff escalation.
This prevents changes in production patterns by protecting higher value added goods produced in developed countries and keeps developing countries in raw material production. This benefits developed countries. (Up to 2 marks)

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2 (a) Explain, with the help of a diagram, how an economy can in the short-run and long run enjoy consumption beyond its current production possibility curve. [8]

A production possibility curve (ppc) shows the maximum possible combination of two goods that can be produced using all its resources. Points outside of the ppc are unattainable by the economy itself. In the short run international trade enables a country to enjoy more than it can produce by running a trade deficit. In the long run technical progress and additional resources can move the ppc out beyond its current position as it achieves economic growth.
Understanding of ppc and short-run limitation on production (4 marks).

Short-run (up to 3 marks) and
Long-run (up to 3 marks) ability to increase production possibility.

4 marks maximum for consideration of short run and long run. (4 marks)

(b) Discuss the effectiveness of free market economies in raising the level of welfare. [12]

Free market economies are based on the market system and have restricted government intervention. Their strength is in efficiency, competition and incentive which should result in lower prices, good quality and choice. Individuals are able to become wealthy and average living standards are generally high. The system has its drawbacks as the profit motive may prevent the supply of public goods and restrict the supply of merit goods. It ignores imperfect information and the existence of externalities so preventing socially optimal output. It does not guarantee employment and economic security and may result in a highly uneven distribution of income and wealth.

Understanding of market economies and welfare indicators. (The technical definition of welfare is **not** required. Consider welfare as general well-being). (4 marks).

For a discussion of how market economies might result in a rise in the level of welfare (up to 5 marks).
For a discussion of how market economies might result in a lowering of the level of welfare (up to 5 marks).

8 marks maximum for consideration of impact of market economies.

(1 mark should be reserved within this for a reasoned conclusion)

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3 (a) Explain the significance of a rise in the terms of trade for a country. [8]

The terms of trade relate the price of exports to the price of imports. They are measured by the price of exports/price of imports and expressed as an index. A rise may result if export prices rise relative to import prices. The significance of a favourable move is that a given quantity of exports will be able to buy a greater quantity of imports and raise living standards. However, the same rise in the terms of trade may reduce a country's international price competitiveness and harm the balance of trade.
Understanding of a rise in the terms of trade (4 marks).
(Definition 1 mark)
(Formula or calculation 1 mark)
(Explanation/illustration of 'rise in terms of trade' 2 marks.)

Explanation of favourable outcomes up to 2 marks
Explanation of unfavourable outcomes up to 2 marks (4 marks).

(b) Discuss whether government action is the most likely cause of a current surplus on the balance of payments. [12]

A current account surplus occurs when inflows from trade, transfers and income are greater than outflows. Government may influence trade by trade protection policies, industrial support and by intervening in the exchange rate. The government involvement in transfers may mean receipt of aid, international contributions and grants. Income is more likely to link to the private sector. Other causes of surplus are based on private activity in efficient production and innovation. Income is likely to be from previous private overseas investment and loans and transfers can result from private remittances. For some economies the main factor may be resource endowment, national attitudes, political relationships and geography. The role and impact of the government will also vary with the nature of the economic system. Examples may be given.

Understanding of current account surplus (2 marks)
Discussion of government influences up to (6 marks).
Discussion of non-government influences up to (6 marks).
(10 marks maximum for discussion element of question)

1 mark should be reserved within this for a reasoned conclusion

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4 (a) Explain with the help of a diagram, the effect of a depreciation of a country's exchange rate on that country's rate of inflation. [8]

Depreciation under a floating exchange rate can lower export prices and raise import prices. Lower export prices will raise aggregate demand and contribute to demand pull inflation. Higher import prices may contribute to higher costs (cost push inflation) and deflect demand to local products (demand pull inflation). All of these factors would raise the rate of inflation. This would be shown in an aggregate demand and supply diagram with a left shift in AS and a right shift in AD.

Understanding of price changes (2) as a result of depreciation (2). (Up to 4 marks)

Explanation of links between depreciation price change and inflation through diagram showing AS shift (2) and AD shift (2). (Up to 4 marks)

(b) Inflation affects an economy both domestically and internationally. Discuss which effect is likely to be more significant. [12]

Inflation is a persistent rise in the price level. The domestic consequences affect real values, the distribution of income, employment levels, production costs and planning. The international consequences stem from the loss of competitiveness with a trade imbalance that affects the exchange rate and employment levels. In both cases the seriousness of the impact depends upon the level of inflation, whether it is anticipated and the importance of trade to an economy. There will be less impact domestically if there is indexation and internationally if other countries also experience inflation. For most economies the domestic effects are liable to be felt by more of the population.
For a definition of inflation. (Up to 2 marks).

For a discussion of the domestic effects of inflation. (Up to 6 marks).
For a discussion of the international effects of inflation. (Up to 6 marks).
(10 marks maximum for discussion element of question)

1 mark should be reserved within this for a reasoned conclusion

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