CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 2015 series

9708 ECONOMICS

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

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Data Response

1 (a) Compare Canada's current account balance in 2012 with its balance in 2008. [2]

In 2008 surplus of C$1908 million. **(1 mark)**

In 2012 deficit of C$62215 million. **(1 mark)**

For both marks the terms surplus and deficit must be used.

(No reference to 'million', 1 mark maximum.)

(If the candidate states that a surplus becomes a deficit with no figures, 1 mark maximum.)

(b) With the help of a diagram, explain how the removal of tariffs on EU goods imported into Canada would affect their price and quantity. [4]

For an appropriate diagram showing the removal of a tariff **(up to 1 mark)** and the fall in price **(1 mark)** and the rise in quantity that results. **(1 mark)**

For an accompanying explanation. **(1 mark)**

(c) How would you decide whether Canada's cheese producers should be protected from competition from EU cheese producers? [4]

There are many arguments in favour of protecting Canada's cheese makers from competition from EU cheese producers. Some would argue that the cheese is being dumped, others that the costs of the unemployment that would arise would be too high. On the other hand, continuing to protect Canada's cheese makers reduces choice for Canada's cheese consumers. There are other arguments both for and against continuing protection.

For an **explanation** of any argument(s) that might be used to justify the continuing protection of Canada's cheese industry. **(Up to 3 marks)**

For an **explanation** of any argument(s) that might be used against the continuing protection of Canada's cheese industry. **(Up to 3 marks)**

(d) Explain, using the theory of comparative advantage, how it is possible for consumers in both the EU and the Canadian economy to benefit from the movement towards free trade. [4]

For **knowledge and understanding** of the law of comparative advantage. **(Up to 3 marks)**

For **application** of the law of comparative advantage in the context of CETA. **(Up to 1 mark)**

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(e) Evaluate any further information that would help you to assess the economic impact of Canada's trade agreement with the EU. [6]

A range of factors might be relevant such as the rate of exchange between European and the Canadian currency, transport costs, trends in Canadian: US trade, the resources available in each economy and so on.

For **identification and explanation** of the factors that would be useful in assessing the impact of the trade agreement. **(Up to 4 marks)**

For **evaluative comment** on the factors identified. **(Up to 2 marks)**

(If factors are identified but not explained, 1 mark maximum.)

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Essays

2 (a) Explain the functions of price, enterprise and profit in a free market economy. [8]

For **knowledge and understanding** of the role of price, enterprise and profit in a free market economy. **(Up to 4 marks)**

Profit as the reward to enterprise **(1 mark**), enterprise as the factor that organises the other factors **(1 mark)** and takes the risk of production **(1 mark)** and price as the device that signals **(1 mark)** the wants of consumers.

For **application** showing how enterprise responds to changes in price in pursuit of profit in a free market economy. **(Up to 4 marks)**

Marks should be awarded for the effective demonstration of the way in which prices change and entrepreneurs respond by re-allocating resources in line with consumer wants.

(b) Discuss whether an outward shift in an economy's production possibility curve is more likely to occur in a free market economy or a centrally planned economy. [12]

The extent to which free enterprise economies and centrally planned economies generate growth depends upon a range of factors. In free enterprise economies, growth will occur through the activities of entrepreneurs who are in pursuit of profit and who are responding to the wants of consumers. Entrepreneurs will be encouraged to invest in capital goods or human resources to generate profits. Some economies are short of entrepreneurs so growth is inhibited. Whether growth will occur in centrally planned economies depends upon the policies of decision makers. They may choose for example to produce capital goods or consumer goods. This raises the question of whether they are prepared to sacrifice current living standards for future living standards.

For **analysis** showing how growth will occur through choices made in a free market economy. **(Up to 6 marks)**

For **analysis** showing how growth will occur through choices made in a centrally planned economy. **(Up to 6 marks)**

(8 marks maximum)

For **evaluative judgement** on whether growth is most likely to occur in one rather than another type of economy. **(Up to 4 marks)**

3 Most governments provide both defence and education services.

(a) Explain why defence and education services would not be provided in sufficient quantities if the government did not provide them. [8]

For **knowledge and understanding** and **application** showing that defence is a public good that will not be provided at all if the government does not provide it because of the free rider problem. **(Up to 4 marks)**

For **knowledge and understanding** and **application** showing that merit goods are underprovided if not provided by the government because of incomplete information. **(Up to 4 marks)**

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(b) Discuss how taxation and subsidies could improve the provision of defence and education services in an economy and consider the likely success of such policies. **[12]**

Taxation could improve the supply of defence and education through providing the necessary funding for these products. Subsidies are more targeted and reduce price and increase quantity of the product. They are appropriate for merit good provision, but inappropriate for public goods because no price is charged.

For **analysis** of the role of taxation and subsidies in improving the provision of defence. **(Up to 6 marks)**

For **analysis** of the role of taxation and subsidies in improving the provision of education. **(Up to 6 marks)**

(8 marks maximum)

For **evaluative comment** on the likely success of providing defence and education through taxation and subsidies. **(Up to 4 marks)**

4 (a) Explain how an increase in the quantity of money in an economy and a decline in an economy's exchange rate can both cause inflation. **[8]**

For **knowledge and understanding** and **application** to show how an increase in the money supply can cause inflation. **(Up to 4 marks)**

For **knowledge and understanding** and **application** to show how a decline in an economy's exchange rate can cause inflation. **(Up to 4 marks)**

(b) Discuss the impact of a high rate of inflation on an economy and consider whether reducing inflation should take priority over removing a deficit on the current account of the balance of payments. **[12]**

A high rate of inflation will have both a domestic and external impact upon an economy. The domestic effects include a re-distribution of income and a reduction in productive investment together with menu and shoe leather costs. The external effects are that import and export prices are affected and this can lead to problems in the current account of the balance of payments.

A deficit on the current account of the balance of payments can cause problems with the maintenance of the exchange rate and might lead to capital flight if there is a loss of confidence in the economy. Whether reducing inflation should take priority over solving a deficit on the current account of the balance of payments depends upon a range of factors. These include whether the rate of inflation is higher than in competitor countries, the rate of inflation, the size of the current account deficit and so on.

For **analysis** of the impact of inflation on an economy. **(Up to 6 marks)**

For **analysis** of the impact of a deficit on the current account of the balance of payments on an economy. **(Up to 6 marks)**

(8 marks maximum)

For **evaluative comment** on which economic objective should take priority. **(Up to 4 marks)**

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