Cambridge International AS & A Level

**Cambridge International Examinations**
Cambridge International Advanced Subsidiary and Advanced Level

**ECONOMICS** **9708/23**

Paper 2 Data Response and Essay (Core) **October/November 2015**

**1 hour 30 minutes**

No Additional Materials are required.

*9079707274*

**READ THESE INSTRUCTIONS FIRST**

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

**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.

The number of marks is given in brackets [ ] at the end of each question or part question.



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## Section A

Answer this question.

**1 EU agreement 'biggest deal Canada has ever made'**

Canada and the European Union (EU) signed the Comprehensive Economic and Trade Agreement (CETA), a free trade deal that will eliminate 98% of all tariffs, and many barriers on trade, investment and labour mobility. Canadian manufacturers, investors and service providers will have access to the 500 million people in the EU, where the total value of production approaches 17 trillion Canadian dollars (C$17 trillion) a year. A study estimates that the duty-free access of Canada's seafood, timber, manufacturing, agriculture and mineral industries to the EU will generate around C$12 billion in the Canadian economy and create about 80 000 new Canadian jobs.

Tariffs on imports from Europe of clothing, cheese, wine, dairy products and many other items would be removed. However, CETA could take two years to come into effect, as it requires the agreement of all EU members and the approval of Canada's provinces.

Canadian dairy farmers are against the agreement. They remain in favour of protection from foreign cheese producers and claim that European cheese will be dumped in the Canadian market. Canadian cheese producers argue that the industry is able to produce high-quality products for Canadian consumers but now this growing industry will face direct competition from cheaper, subsidised European cheese producers. Canadian cheese producers could indeed face difficulties, but the Government would provide compensation to address the negative effects of the agreement on the Canadian dairy industry.

But others are optimistic about the agreement, as it will allow Canadian beef and grain to gain new access to European markets. The vice-president of the Canadian Cattlemen's Association is also hopeful about the new agreement and believes that Canadian beef will be in 'strong demand' in the EU. Canadian producers will be able to sell an additional 50 000 tonnes of beef.

CETA's website claims that under the agreement 'Canada will now be one of the few developed countries in the world to have a guaranteed preferential access to more than 800 million consumers in the world's two largest economies, the EU and the United States'.

*Source: CTV News 2013, with files adapted from The Canadian Press*

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**Table 1: Canada's current account of the balance of payments 2008–2012, C$millions**

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Total receipts | 648 105 | 511 855 | 555 594 | 619 460 | 629 007 |
| Total payments | 646 197 | 557 605 | 614 013 | 667 926 | 691 222 |

**Table 2: Canada's trade in goods: principal trading areas – seasonally adjusted, current C$millions**

| | December 2012 | December 2013 |
|---|---|---|
| **Total exports** | **38 619** | **39 722** |
| US | 28 576 | 30 014 |
| EU | 3 028 | 2 640 |
| **Total imports** | **38 635** | **41 381** |
| US | 24 375 | 27 138 |
| EU | 3 257 | 3 385 |
| **Balance of trade in goods** | **–16** | **–1 659** |

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

**(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]

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

**(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]

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

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**[Turn over**

## Section B

Answer any **one** question.

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

**(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]

**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]

**(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]

**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]

**(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]

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