



Cambridge Pre-U

ECONOMICS

9772/01

Paper 1 Multiple Choice, Short Answers and Data Response

October/November 2020

MARK SCHEME

Maximum Mark: 80

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the October/November 2020 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

ANNOTATIONS

The following annotations are used in marking this paper and should be used by examiners wherever appropriate.

Annotation	Use or meaning
KU	Relevant economic knowledge and understanding used to help answer the question here (see AO1).
APP	Relevant application of economic concepts to the given question or context is shown here (see AO2)
AN	Relevant economic analysis of the situation in the question is demonstrated (see AO3).
EE	Relevant, effective evaluation of the issues in the question is given here (see AO4).
✓	Correct and relevant point made in answering the question.
BOD	Benefit of the doubt given. The point has not been made quite correctly, completely or precisely, but is nearly there and the intention is clear.
^	Omission mark. A term, a label, a line on a graph, an example, etc, required to make the point correctly has been missed out of the response.
×	Incorrect point or error made.
TV	Too vague. This part of the response is not precise enough to be worth any credit.
?	The point being made is unclear or confused.
IR	Irrelevant response – this work is not helping the candidate to answer the given question.
SEEN	This work has been noted by the examiner, but there is nothing of any credit here.
highlighter	Used to indicate something of significance, or referred to by another annotation or comment.
[T] (text box)	A catch-all, when you need to give more detail or explanation. Please note that teachers who request a script can read your comments. For the Essay there may be a requirement to show part marks in a text box – see the detailed mark scheme.

ASSESSMENT OBJECTIVES

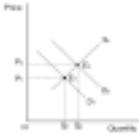
The skills listed below are what we expect candidates to be able to do. The marks in the mark scheme reward candidates who demonstrate these skills, so they are helpful to keep in mind if you have any doubts as to whether or not something is worthy of credit.

AO1 Knowledge and understanding	Demonstrate knowledge and understanding.
AO2 Application	Apply economic theory to real-world situations.
AO3 Analysis	Analyse economic problems using appropriate numerical and non-numerical techniques.
AO4 Evaluation	Evaluate and make conclusions; assess the relevance and appropriateness of assumptions made within economic models.

Question	Answer	Marks
1	B	1
2	D	1
3	A	1
4	C	1
5	D	1
6	C	1
7	D	1
8	B	1
9	B	1
10	D	1
11	D	1
12	B	1
13	D	1
14	C	1
15	A	1
16	D	1
17	A	1
18	D	1
19	D	1
20	B	1
21	B	1
22	A	1
23	B	1
24	B	1
25	A	1
26	D	1
27	D	1

Question	Answer	Marks
28	B	1
29	A	1
30	C	1

Section B: Short Answers

Question	Answer	Marks
31(a)	<p>1 mark for correct use of source material to calculate the value of the MES. 1 mark for correct formula to calculate the increase in total cost. 1 mark for correct calculation of the increase in total cost.</p> <p>MES = 500 units [1]</p> <p>$12/100 \times \text{£}500$ [1] = £60 increase in the firm's total cost. [1]</p> <p>Note: If just the answer of £60 is given, award 3 marks. Note: Max 2 marks if incorrect MES is used but the calculations are performed correctly</p>	3
31(b)	<p>1 mark for each of any two correct characteristics, for example:</p> <ul style="list-style-type: none"> • The industry concentration ratio is low • Profit maximisation • Competition is strong • There is product differentiation • Price elasticity of demand is relatively high (elastic) • Producers have some control over price (price makers) • The barriers to entry are low • The barriers to exit are low 	2
32(a)	<p>1 mark for recognising that a cross price elasticity of demand of +0.9 identifies the goods as substitutes. 1 mark for explaining that an increase in the price of a sugary drink will lead to an increase in demand for a substitute good (bottled water). 1 mark for an accurately drawn diagram identifying the price increase (P_1 to P_2) of bottled water as a result of the increase in demand ($D_1 - D_2$).</p>  <p>Note: Max 2 marks if no diagram is used</p>	3
32(b)	<p>1 mark for recognising that the income effect of a fall in price is to increase the real purchasing power of consumers. 1 mark for explaining that the increase in the real purchasing power will lead to an increase in the quantity demanded of a normal good.</p> <p>Note: This is the income effect of a <i>price change</i> not a change in income so it is an increase in the <i>quantity demanded</i>. Do not award the second mark if the candidate refers to an increase in demand.</p>	2

Question	Answer	Marks
33(a)	<p>1 mark for correctly defining sunk cost 1 mark for a correct example of a sunk cost 1 mark for the linked development of high sunk costs to the contestability of a market</p> <p>A sunk cost is a cost that a firm incurs that cannot be recovered even if the firm leaves the industry. [1]</p> <p>Examples of sunk costs include:</p> <p>Award [1] mark for any one of the following to a maximum of one:</p> <ul style="list-style-type: none"> • Advertising costs • Research and development project costs specific to an industry • Staff training costs <p>Note: allow any correct alternative example.</p> <p>If the sunk costs are high this may deter firms from entering a market due to the potential unrecoverable loss, this will make the market less contestable. [1]</p>	3
33(b)	<p>1 mark for explaining that the firm will maximise revenue when marginal revenue = 0 or at the mid-point of the AR curve or where $P \times Q$ is greatest or where the number of squares on the diagram is the most.</p> <p>1 mark for correctly calculating that this will take place at 3000 units of output.</p> <p>Note: If just the answer of 3000 units of output is given, award 2 marks.</p>	2
34(a)	<p>1 mark for correctly interpreting opportunity cost. 1 mark for application to the relationship between the production of consumer and capital goods in the diagram.</p> <p>e.g. Opportunity cost is the loss of (the benefit from) alternatives when one option is chosen. [1] Starting from a position of producing O consumer goods and C capital goods, if the quantity of consumer goods produced increases from O to B, the opportunity cost of this increase is the (benefit lost from the) reduction in production of CA capital goods [1].</p> <p>Note: allow any other correct alternative explanation that makes reference to the diagram.</p>	2

Question	Answer	Marks
34(b)	<p>1 mark for correctly interpreting external benefit. Up to 2 marks for the linked development that the direct health benefits derived from the use of parks and green spaces could lead to external benefits.</p> <p>An external benefit is a benefit that is enjoyed by a third party as a result of an economic transaction. [1] Third parties will derive benefits from the parks and green spaces because others who visit the parks and green spaces may not need to visit their GP as often [1] thus creating an external benefit by freeing (NHS) resources for use by the third party when needed. [1]</p> <p>Note: allow any reasonable alternative sources of external benefit, such as lower taxation required for the provision of NHS services.</p>	3

Question	Answer	Marks								
35(a)	<p>Define the term ‘productivity’.</p> <table border="1" data-bbox="320 875 1339 1205"> <thead> <tr> <th data-bbox="320 875 464 943"></th> <th data-bbox="464 875 1339 943">Knowledge</th> </tr> </thead> <tbody> <tr> <td data-bbox="320 943 464 1043">2 marks</td> <td data-bbox="464 943 1339 1043">Definition of productivity as a measure of output [1] per (unit of) input. [1]</td> </tr> <tr> <td data-bbox="320 1043 464 1144">1 mark</td> <td data-bbox="464 1043 1339 1144">Definition of productivity that may just focus on labour or capital productivity.</td> </tr> <tr> <td data-bbox="320 1144 464 1205">0 mark</td> <td data-bbox="464 1144 1339 1205">No relevant definition of productivity.</td> </tr> </tbody> </table>		Knowledge	2 marks	Definition of productivity as a measure of output [1] per (unit of) input. [1]	1 mark	Definition of productivity that may just focus on labour or capital productivity.	0 mark	No relevant definition of productivity.	2
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Question	Answer			Marks
35(b)	Explain, using Table 35.1, how the way the HDI is measured accounts for the difference between the GNI per capita rank and the HDI rank for Ivory Coast.			3
		Knowledge	Application	
	2 marks		The way the HDI is measured could account for the negative difference in the GNI per capita rank and the HDI rank (of – 20) for Ivory Coast, if relatively less effective use is made of National Income in Ivory Coast with respect to attaining better life expectancy/education outcomes.	
	1 mark	Knowledge that the HDI combines three broad dimensions: Life expectancy at birth, Education and GNI per capita (PPP US\$)	Identification of Ivory Coast as having a higher per capita GNI per capita rank than HDI rank. Or Ivory Coast makes less effective use of its GNI with respect to education and life expectancy than some other countries.	
	0 mark	No ability to identify the use of National Income in order to promote development	No relevant or very limited application	

Question	Answer				Marks																
35(c)	<p>Use a Lorenz curve diagram to analyse the effect of the increase in the import of milk from the EU on the domestic distribution of income in Senegal.</p> <p>In the case of Senegal, a significant proportion of the population is low income, rural and owns milk-producing livestock. This means that they are likely to be disproportionately affected by the import of cheap milk (domestically produced milk in Senegal, for example, costs about £0.75 a litre, whilst milk made from reconstituted imported powder costs half that). This is likely to lead to an increase in the inequality of income in Senegal because the already low-income livestock owners will suffer disproportionately from the cheap imported milk.</p> <table border="1" data-bbox="320 685 1326 1648"> <thead> <tr> <th></th> <th data-bbox="475 685 756 748">Knowledge</th> <th data-bbox="756 685 1038 748">Application</th> <th data-bbox="1038 685 1326 748">Analysis</th> </tr> </thead> <tbody> <tr> <td data-bbox="320 748 475 1184">2 marks</td> <td data-bbox="475 748 756 1184"></td> <td data-bbox="756 748 1038 1184">Accurate drawing of an original Lorenz curve diagram that also shows a clear rightward shift of an entire new curve.</td> <td data-bbox="1038 748 1326 1184">Clear explanation of how the increase in the import of EU milk will adversely affect the income of a significant proportion of the low income, rural, milk-producing livestock owning population of Senegal</td> </tr> <tr> <td data-bbox="320 1184 475 1518">1 mark</td> <td data-bbox="475 1184 756 1518">Correct definition of the Lorenz curve or knowledge of the Lorenz relationship</td> <td data-bbox="756 1184 1038 1518">An attempt to draw the Lorenz curve diagram, albeit imperfectly</td> <td data-bbox="1038 1184 1326 1518">Explanation of the effect of the import of EU milk (on the milk-producing livestock owning population of Senegal), that lacks clarity in the case of Senegal</td> </tr> <tr> <td data-bbox="320 1518 475 1648">0 mark</td> <td data-bbox="475 1518 756 1648">No worthwhile knowledge</td> <td data-bbox="756 1518 1038 1648">An inability to draw a relevant diagram</td> <td data-bbox="1038 1518 1326 1648">No worthwhile analysis of the diagram</td> </tr> </tbody> </table>					Knowledge	Application	Analysis	2 marks		Accurate drawing of an original Lorenz curve diagram that also shows a clear rightward shift of an entire new curve.	Clear explanation of how the increase in the import of EU milk will adversely affect the income of a significant proportion of the low income, rural, milk-producing livestock owning population of Senegal	1 mark	Correct definition of the Lorenz curve or knowledge of the Lorenz relationship	An attempt to draw the Lorenz curve diagram, albeit imperfectly	Explanation of the effect of the import of EU milk (on the milk-producing livestock owning population of Senegal), that lacks clarity in the case of Senegal	0 mark	No worthwhile knowledge	An inability to draw a relevant diagram	No worthwhile analysis of the diagram	5
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Question	Answer			Marks
35(d)	<p>Using the Extracts, and your own economic knowledge, evaluate the extent to which Foreign Direct Investment (FDI) into a country is likely to benefit the growth of its economy.</p>			10
		Analysis	Evaluation	
	6 marks		Clear evidence of evaluation and excellent awareness of the relative strengths of the arguments given	
	5 marks		Clear evidence of evaluation and very good awareness of the relative strengths of the arguments given	
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	0 mark	No relevant explanation	No evaluation	
	<p>Analysis Answers without direct reference to the issues raised in the information provided will be awarded a maximum of 4 marks.</p> <p>There are several leads in the data that can be pursued, these include:</p> <ul style="list-style-type: none"> • FDI is evidenced through Arla Foods establishing plants in Nigeria and Senegal whilst Danone took ownership of Fan Milk, with plants in six West African countries. • FDI (through Danone and Arla Foods, for example) can create employment and/or reinvestment in the host economy which will raise domestic incomes and saving and potentially, growth. • With a positive marginal propensity to consume there is likely to be an increase in aggregate demand in the host economy, due to the positive effects on both consumption and investment which could help to stimulate domestic growth. • There is likely to be a positive multiplier effect. 			

Question	Answer	Marks
	<ul style="list-style-type: none"> • An increase in the use of technology through the operation of the multinational companies could help to stimulate domestic growth. • The activities of multinational companies can also assist in achieving growth, through increasing the income and expenditure-based tax revenue of the host government. • Danone finances a domestic milk plant in Senegal while Arla Foods works with Nigerian dairy farmers, both of which, it is claimed will directly benefit the host economy. • Candidates may illustrate the interaction of AD/AS identified through a diagram, the relevant/accurate use of which should be credited. <p>Evaluation Candidates should evaluate the extent to which FDI is likely to benefit the growth of the host economy.</p> <p>A clear and full appreciation of the relative merits of at least two of the issues mentioned below, or similar, is required to award all 6 evaluation marks.</p> <ul style="list-style-type: none"> • The firms responsible for the FDI, such as Danone and Arla Foods, may not use their profits in the host economy reducing the extent of any reinvestment in the domestic economy and therefore reducing both the impact of the investment multiplier and the extent of the economic growth and its associated employment and income benefits. • The economies of scale and market dominance enjoyed by the firms responsible for the FDI would make it difficult for existing domestic small firms to survive and secure a sustainable future. The spokesperson of Burkina Faso's milk producers union said 'farmers across the region are actually leaving the industry'. Domestically produced milk in Senegal, for example, costs about £0.75 a litre, whilst milk made from imported powder costs half as much. This could mean that the net impact on domestic economic growth is low. This will be particularly true if the firm generating the FDI is only located in the host country for a relatively short time. The benefit of their presence will mostly disappear when they do, however, the original local milk producers may never recover. • The firms responsible for the FDI may arrange their own financial flows to avoid paying tax in the host country. Such 'transfer pricing' can represent a significant loss to the host nation and significantly reduce the extent of the positive impact of the FDI on domestic economic growth. • The operation of the multinational company may lead to it being a net importer rather than a net exporter with respect to the host economy. Between 2011 and 2016, the (FDI) processing of milk powder imports from the EU to West Africa jumped from 12,900 to 36,700 metric tonnes. This would have a negative rather than a positive impact on the host county's aggregate demand and its economic growth. • In the pursuit of profit, the firms generating the FDI can contribute to pollution and the overuse of the non-renewable resources of the host economy. If the health of local communities is compromised through air pollution, for example, the current standard of living and the future economic growth can also be limited. • The impact on economic growth from increased incomes, savings ratio and tax revenue may not be as great as the government of the host country hope for. This is because multinational firms have often been criticised for paying very low local wages, sometimes below the market rate. 	

Question	Answer	Marks
	<ul style="list-style-type: none"> • The benefits to the host economy of Danone and Arla Foods financing local milk industry projects have been dismissed. 'It's a way to look good in the EU,' said the president of Burkina Faso's milk producers union. 'They came for their business they did not come to help local producers.' • The extent to which the issues identified here will limit the economic growth of the host economies will depend on the strength of the host government and its ability to regulate the behaviour of the firm generating the FDI. This could possibly be through the imposition of a milk tariff by the Economic Community of West African States as suggested by European Commissioner for Agriculture, or investment in agricultural infrastructure as suggested by the Food and Agriculture Organisation. <p>Other valid points should be rewarded; however, the examiner should be sure that the candidate is directly answering the question.</p> <p>Candidates should be rewarded for genuine engagement with the question: they should be capable of reaching some form of conclusion with respect to the extent to which Foreign Direct Investment is likely to benefit the growth of the host economy.</p>	

Question	Answer		Marks																								
35(e)	<p>With reference to the information provided, and your own economic knowledge, evaluate the extent to which the Countryside Productivity Scheme (CPS) is likely to benefit the UK economy.</p>		10																								
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	<p>Analysis Answers without direct reference to the issues raised in the information provided will be awarded a maximum of 4 marks.</p> <p>There are a number of leads in the data that can be pursued, these include:</p> <ul style="list-style-type: none"> • In 2018, UK farmers will get a £40 million productivity boost under the new <u>Countryside Productivity Scheme</u>. • The grants to UK dairy farmers will help improve farm productivity through investing in cost-saving new technology such as robotic milking machines. • The UK Environment Secretary said the aim of the <u>Countryside Productivity Scheme</u> is to support UK dairy farmers to produce more and export more. • The increase in productivity will directly contribute to the international competitiveness of the UK dairy industry as measured by the Global Competitiveness Index, in particular, the 11th pillar in figure 35.1 which includes a measure of production process sophistication. 																										

Question	Answer	Marks
	<ul style="list-style-type: none"> • The benefits of higher levels of output can arise through economies of scale. The increase in the scale of some dairy farming operations means that they will be able to enjoy the benefits of efficiency gains and falling average costs of production. This could potentially lead to lower prices which could contribute to lower inflation in the UK economy. • One of the significant benefits of an industry being more productive and internationally competitive is that exports will be particularly high. This is because the produce of the industry will be in high demand due to the relatively low price and good quality. This is especially the case in regions with higher dairy prices or excess domestic demand, such as West Africa. • An increase in UK exports will have benefits in the UK economy of economic growth, increased employment rates and a healthier balance of payments on the current account. • Diversification into overseas markets achieved by UK dairy farmers is a significant source of benefit to the UK economy. This is manifest if there is a problem in the domestic market. The competitiveness of UK dairy farmers across wide geographic areas means that the risk of their large-scale failure is limited due to their international diversification. <p>Evaluation Candidates should evaluate the extent to which the Countryside Productivity Scheme (CPS) is likely to benefit the UK economy.</p> <p>A clear and full appreciation of the relative merits of at least two of the issues mentioned below, or similar, is required to award all 6 evaluation marks.</p> <ul style="list-style-type: none"> • The benefits to the economy of the reduced inflation resulting from the economies of scale that arise from the increased productivity and international competitiveness will depend on the ability of the dairy farmers to take advantage of the opportunities to expand without becoming so large that they suffer diseconomies of scale. If this were the case it could lead to cost-push inflation in the wider economy. • The extent to which the international diversification of markets brings risk-reducing benefits can be limited. This is especially the case when a phenomenon such as the global financial crisis of 2008 arises. Even when (regional) diversification is significant there are times when it is not possible for a particular industry to avoid the impact of a wide-reaching recession. • UK dairy farmers may ‘oversell’ abroad which could lead to problems in the UK market. This is especially the case if domestic dairy consumers are left without the choice or quantity of dairy products because production is skewed to the export markets. A fall in living standards and domestic demand-pull inflation could be significant if shortages in domestic markets persist. • In the future, significant UK export earnings could cause a surplus on the current account of the balance of payments. This in itself can create problems. A country with a surplus on the current account sees capital outflows of the same amount that must be financed. • An increase in UK exports could also create pressure on the currency of the UK to appreciate. An increase in the value of the exchange rate could offset the international competitiveness of the UK dairy farmers through an unanticipated apparent increase in the price of their exports. 	

Question	Answer	Marks
	<ul style="list-style-type: none"> • Countries that export aggressively, such as EU dairy farmers to West Africa, could trigger protectionist responses against them, from trade partners who are suffering the corresponding current account deficits or economic hardship. Such measures have been suggested by the European Commissioner for Agriculture as one recourse that the Economic Community of West African States could take against EU dairy farmers. Such action could be damaging to the UK economy if the dairy farming industry became reliant on its export markets. • The extent of the benefit to the UK economy would depend on the overall increase in international competitiveness. In the case of UK dairy farmers there may be an increase in the 11th pillar of international competitiveness, however, there are 11 other pillars as illustrated in figure 35.1. This means that the overall impact on international competitiveness and the overall benefit to the UK economy may not be significant. • The extent to which the issues identified here will reduce the benefits to the UK economy of the UK government's policy of providing grants to dairy farmers with the objective of improving their productivity and international competitiveness will depend on the significance of the dairy market within the UK economy. The greater the significance the greater the initial potential benefit and the greater the potential reductions in that benefit. <p>Other valid points should be rewarded; however, the examiner should be sure that the candidate is directly answering the question.</p> <p>Candidates should be rewarded for genuine engagement with the question: they should be capable of reaching some form of conclusion with respect to the extent to which the Countryside Productivity Scheme (CPS) is likely to benefit the UK economy.</p>	