INTERNATIONAL SPECIALISATION-SET-1-QP-MS

1 Countries sometimes establish agreements with each other to encourage free trade by abolishing tariffs or quotas on trade between them.

(b) Analyse the possible link between the level of tariffs and international specialisation.[4]

MARKSCHEME:

Analysis of possible effects on specialisation of tariffs. [4]

2 In the 1990s Cambodia became a mixed economy. One of the results of this was specialisation in the clothing industry. In 2005, import quotas for clothing in the key markets of the USA and the EU were removed. Clothing now accounts for 80% of Cambodia's exports. The increased role of the private sector has resulted in a rise in malnutrition in Cambodia.

(b)Explain two advantages to a country of specialisation. [4]

MARKSCHEME:

Generates economies of scale (1) enabling a country to be more internationally price competitive (1)
Improves productivity / efficiency (1) by producing what the country is best at (1)
Increases GDP (1) by making better use of scarce resources (1) allowing country to export more (1)
Increases purchasing power of consumers (1) who through trade can purchase goods and services from the most efficient producers (1)

3 **Crisis in the chocolate market**

There are concerns that the price of chocolate could rise significantly in the next few years. This is because of increasing demand for chocolate, particularly in emerging countries, and supply problems in the countries that produce cocoa beans.

Cocoa beans, the main ingredient in chocolate, are grown mainly in the west coast of Africa by small farms using labour-intensive methods. In 2012 Côte d'Ivoire (Ivory Coast) produced 37% of the world's output of cocoa beans, followed by Indonesia which produced 13%.

Côte d'Ivoire is becoming well known for supplying good quality cocoa beans. Concentrating on supplying the product its resources are most suited to has increased output in the country. Gross Domestic Product per head rose to US$1240 in 2013. Some farmers and farm workers, however, still live on less than US$2 a day.

In Indonesia, the income of most cocoa farmers and farm workers increased along with the rise in the country's average income between 2013 and 2014. Their purchasing power was, however, affected by the consumer prices index rising from 108.0 in 2013 to 115.2 in 2014. While people's medical care in Indonesia is improving with more doctors per head, the government is seeking to raise education standards.

Among the problems being experienced by cocoa bean producers are an ageing labour force, with the industry experiencing difficulties attracting young farmers and farm workers. The industry also regularly experiences problems caused by pests and diseases, including black pod disease. At the same time people in Asia, particularly China, are eating more chocolate and drinking more chocolate drinks. People in the United States of America and the European Union are also eating more chocolate, although concerns about the health effects of eating large quantities of chocolate are beginning to affect demand. For many people, however, chocolate is addictive. Chocolate producers seek to take advantage of this by increasing the gap between revenue and costs. Most chocolate producers come from developed countries and most are public limited companies trying to keep their shareholders happy. These producers take advantage of their market power to keep the price they pay for cocoa beans relatively low whilst the price they charge to consumers who buy their chocolate is kept relatively high.

MARKSCHEME:

Analyse two benefits of specialisation referred to in the extract. [4]

A country can specialise in what it is best at producing/increase efficiency/ increase productivity (1) so leading to higher output/higher income (1). Maximum mark = 2.

• A country can gain a good reputation in producing the product/produce a high quality product (1) this may increase demand for the product (1). Maximum mark = 2.

4 **(a)** Explain why specialisation in international trade might benefit a country. [6]

MARKSCHEME:

Brief explanation of benefits of specialisation in terms of efficient production, more economic use of resources. Full range can be used without any mention of comparative advantage. This term is not on the syllabus but specialisation and exchange is. [6]

5 It was reported that farmers in Malawi were being discouraged from specialising in growing the staple crop of maize. Instead they were encouraged to diversify into other crops.

(a) Explain what is meant by specialisation. [4]

(b) Discuss whether there are any benefits from specialisation rather than diversification. [6]

MARKSCHEME:

(a) Concentration on a particular skill, or in this case a particular product, which it is thought the country is better suited to providing. [4]
(b) Text books will tell you that specialisation will produce greater efficiency. However, this has implications in terms of the human cost of this through loss of income, employment, impoverishment of regions and general disaffection of those who are not involved in the specialised areas. [6]

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INTERNATIONAL SPECIALISATION-SET-2-QP-MS

1 **a.** Describe the structure of the current account of a country's balance of payments. [4]

(b) What is meant by specialisation? [4]

(c) Discuss the benefits and disadvantages of specialisation at the national level. [6]

MARKSCHEME:

(a) a) Structure of current account:
• visible trade account – the difference between the export revenue and import spending on physical goods, e.g. cars, washing machines
• invisible trade account – measures the difference between export revenue from and import spending on services, e.g. banking, insurance and tourism
• income – e.g. interest, profit and dividends flowing in and out of the country
• current transfers – e.g. grants for overseas aid.
An answer which just deals with visibles and invisibles can gain up to 3 marks. [4]

(b) Specialisation:
• the process by which individuals, firms and economies concentrate on producing those
goods and services in which they have an advantage
• production processes are broken up into a sequence of different tasks.
A maximum of 2 marks if only division of labour is considered. [4]

(c) Benefits:
• it can lead to greater efficiency of production
• it has the potential to increase the output that can be obtained from a given quantity of
resources
• reference to examples at the national level (idea of concept of comparative advantage,
although do not expect this term as it is not on the syllabus).
Disadvantages:
• at the national level, workers/firms may specialise in areas of production and there is a
decline in demand for the goods produced.
A maximum of 4 marks if only the benefits or disadvantages are discussed. An answer which
focuses on division of labour only can gain a maximum of 3 marks. [6]

2 **(a)** Explain why countries often specialise. [5]

(b) Despite the potential advantages of specialisation, explain why a country may choose **not** to specialise. [5]

MARKSCHEME:

Specialisation:
• the process by which individuals, firms and economies concentrate on producing those goods and services in which they have an advantage
• production processes are broken up into a sequence of different tasks.
A maximum of 2 marks if only division of labour is considered. [4]
(d) Benefits:
• it can lead to greater efficiency of production
• it has the potential to increase the output that can be obtained from a given quantity of resources
• reference to examples at the national level (idea of concept of comparative advantage, although do not expect this term as it is not on the syllabus).
Disadvantages:
• at the national level, workers/firms may specialise in areas of production and there is a decline in demand for the goods produced.
A maximum of 4 marks if only the benefits or disadvantages are discussed. An answer which focuses on division of labour only can gain a maximum of 3 marks. [6]

3 **(a)** Explain the advantages of regional specialisation in an economy. [4]

MARKSCHEME:

(a) Definition of regional specialisation – 1 mark
Up to 4 marks for possible advantages:
• able to focus on what the region is best at producing
• output in the region should be higher
• there should be higher living standards
• economies of scale could lead to lower costs
• efficiency is likely to increase
• may gain a good reputation.
Note: maximum mark of 4. [4]

4 Specialisation and exchange rates are two important aspects of international economics.

(a) Explain why specialisation is an important aspect of international trade. [5]

(b) Describe the potential disadvantages of international specialisation. [4]

MARKSCHEME:

(a) Explain why specialisation is an important aspect of international trade. [5]
• countries have different factor endowments (1)
• they should specialise in producing the products they are best at making/those which make the best use of these endowments (1)
• benefits from economies of scale can be obtained (1) so costs and prices can be lower (1)
• world output will increase (1) because of the greater efficiency of production (1) standards of living will rise (1)
(b) Describe the potential disadvantages of international specialisation. [4]
• a country can be vulnerable if it has to rely on imports to meet its needs (1) for instance, there may be a decline in the supply of a food product due to bad weather in the country from which it is sourced (1)
• less efficient industries will collapse (1) leading to an increase in unemployment (1)
• a country can be vulnerable to changes in world economic conditions (1) may be harmed by a world recession (1)
• a country can be vulnerable to volatility in exchange rate movements (1), e.g. exports may be reduced by a rise in the exchange rate (1)

5 Specialisation can lead to a significant increase in output and international trade.

(a) Explain what is meant by 'specialisation'. [4]

(b) Describe the benefits and disadvantages of specialisation at a regional level. [6]

MARKSCHEME:

(a) Explain what is meant by 'specialisation'. [4]
Up to 2 marks on the division of labour: the idea that specialisation involves the concentration on particular tasks, activities and products (1) carried out by individuals (1).
Up to 2 marks: the key aspect is concentration of what can be done best (1) and it can apply to firms and regions and countries as well (1).
(b) Describe the benefits and disadvantages of specialisation at a regional level. [6]
Up to 4 marks on the benefits:
Up to 2 marks: regions can concentrate or specialise in what they are good at (1) and this will involve making the most efficient use of the region's factor endowments and climate (1).
Up to 2 marks: this will lead to an increase in output (1) and this will provide for an increase in incomes and living standards (1).
Up to 2 marks: may enable the region to develop a reputation for providing the product (1), this may increase demand (1).
Up to 4 marks on the disadvantages:
Up to 2 marks: such specialisation could lead to a depletion in the factor endowments (1) and so would not be favourable in the long-run (1).
Up to 2 marks: the region could be vulnerable (1) if new alternative products are produced/grown elsewhere more cheaply (1).
Up to 2 marks: there may be a change in world economic conditions (1), making a region that specialises in just a few products vulnerable, leading to a rise in unemployment (1).