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Location Entry Codes

UNIVERSITY of CAMBRIDGE
International Examinations

As part of CIE's continual commitment to maintaining best practice in assessment, CIE has begun to use different variants of some question papers for our most popular assessments with extremely large and widespread candidature, The question papers are closely related and the relationships between them have been thoroughly established using our assessment expertise. All versions of the paper give assessment of equal standard.

The content assessed by the examination papers and the type of questions are unchanged.

This change means that for this component there are now two variant Question Papers, Mark Schemes and Principal Examiner's Reports where previously there was only one. For any individual country, it is intended that only one variant is used. This document contains both variants which will give all Centres access to even more past examination material than is usually the case.

The diagram shows the relationship between the Question Papers, Mark Schemes and Principal Examiner's Reports.

Question Paper	Mark Scheme	Principal Examiner's Report
Introduction	Introduction	Introduction
First variant Question Paper	First variant Mark Scheme	First variant Principal Examiner's Report
Second variant Question Paper	Second variant Mark Scheme	Second variant Principal Examiner's Report

Who can I contact for further information on these changes?
Please direct any questions about this to CIE's Customer Services team at: international@cie.org.uk

First variant Mark Scheme

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2009 question paper

for the guidance of teachers

9708 ECONOMICS

9708/21 Paper 2 (Data Response and Essay – Core), maximum raw mark 40

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 must be read in conjunction with the question papers and the report on the examination.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the May/June 2009 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

UNIVERSITY of CAMBRIDGE
International Examinations

Page 2	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2009	9708	21

1 (a) (i) Compare the price of copper in the middle of 2003 and the middle of 2006. [2]

Higher in 2006 (1), 4 fold (1) or by $6000 per tonne (1) or by 300% (1)

(ii) Explain one change in demand and one change in supply that might have caused this movement in the price of copper. [4]

Demand increased (1) increasing global growth, new uses, dearer alternatives (1)
Supply decreased (1), strike action, resource exhaustion, rising production costs (1)
Accept other valid influences.

(b) (i) Calculate Chile's approximate visible trade balance in 2005. [2]

Surplus (1), $10 billion (1)

(ii) What information in addition to that in Fig.1 would be required to calculate Chile's current account balance in 2006? [4]

Visible import figures, service figures, income flows, current transfers.
1 mark per item to max (4).

(c) (i) How did the importance of copper as part of Chile's exports change between 2002 and 2005? [2]

Increased (1), from under to over 50% (1) or from approx 40% to 60% of total (1)

(c) (ii) Discuss whether it is desirable for a country to specialise in the production and export of a single good. [6]

Benefits of specialisation include comparative advantage, increased output and efficiency, international competitiveness, reduced unit costs.
Disadvantages include restricted job opportunities, vulnerability to changes in price, competition and technology, need to import, resource depletion.
One side to maximum of four marks.

2 (a) An economy can produce agricultural and industrial goods. Explain the possible effects on its production possibility curve if there is an increase in the productivity of its agricultural workers. [8]

A ppc shows an economy's maximum output of two goods when using all of its resources. Productivity is the measure of output per worker. Assuming the production of agricultural goods and industrial goods, the ppc would be expected to pivot outwards, as workers produce more, indicating greater quantities of agricultural goods. Further possibilities include greater production of industrial goods as well because better food supplies increase overall productivity or as restriction on agricultural total output shifts resources to industrial production, which in turn expands.

For knowledge of ppc and productivity	up to 2 marks
For understanding of pivot with more agricultural output	up to 4 marks
For explanation of alternative outcomes	up to 2 marks

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(b) Discuss whether a market economy can solve the problem of scarcity more effectively than a command economy. [12]

A market economy involves minimal government intervention and relies on private motives and ownership. A command economy is directed by the government with public motivation. Scarcity occurs when there is insufficient output to meet peoples' wants at zero price. Scarcity arises because of limited resources and unlimited wants and is shown by the area outside of a ppc. The market economy may appear to reduce the extent of scarcity more by operating efficiently and improving the supply of goods and services, however the wants of consumers expand as more basic needs are satisfied so scarcity remains. The command economy has achieved lower living standards but with a more even distribution. Economic systems are unlikely ever to remove the problem of scarcity, although its nature may differ under different systems.

For understanding of the economic systems and scarcity	up to 4 marks	
For analysis of the ability of each to reduce scarcity	up to 6 marks	] to max
For discussion of the meaning and solution of scarcity	up to 6 marks	] 10 marks

3 (a) Explain, with the aid of a diagram, how consumer surplus will be affected by the introduction of an indirect tax. [8]

Consumer surplus is the excess the consumer is prepared to pay over the amount actually paid for a good and is shown by the area between the demand curve and price line. An indirect tax is levied on a good and will usually raise the price of a good and reduce the quantity demanded by shifting the supply curve to the left. The result will be a reduction in consumer surplus as a result of the reduced consumption and higher price.
The effect will depend upon the price elasticities involved.

For knowledge of consumer surplus	up to 2 marks
For a labelled diagram showing impact of indirect tax	up to 4 marks
For explaining a reduction in consumer surplus	up to 2 marks

(b) Discuss the advantages and disadvantages of using indirect taxes to deal with the negative externalities associated with some products. [12]

Negative externalities from production and consumption are harmful third party effects, which include pollution and environmental destruction. They make social cost > private cost. They result in the overproduction of goods which sell at a lower price than is optimal. A tax would internalise the externality, reduce output, allow the market to operate, act as an incentive to cut costs and also raise revenue for the government. However it might be difficult to measure the harm done, to set the correct rate which might need to be individual to each firm, would have administrative costs and would be inflationary and regressive.

For understanding of the effect of negative externalities	up to 4 marks	
For analysis of the operation of a tax	up to 6 marks	] to max
For discussion of the impact of a tax	up to 6 marks	] 10 marks

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4 (a) Explain why there can be problems for an economy if the internal value of its money is unstable. [8]

Money is anything generally acceptable as a means of payment and fulfils four functions. It will not fulfil these effectively if its value is unstable. Consequences will include obstacles to trading, problems for producers in planning output and for consumers in judging purchases, instability in foreign trade, saving and tax revenues. Economic progress and greater welfare require an efficient and stable system of exchange.

For knowledge of money and its functions — up to 2 marks
For explanation of the impact on economic variables — up to 6 marks

(b) Discuss whether it is possible to construct a consumer price index that is an accurate measure of changes in the cost of living for all households [12]

CPI measures the rate of inflation or changes in the cost of living. It is constructed by selecting a basket of goods, allotting the items weights and sampling at different times outlets through which they are sold. Changes in the price level can then be calculated. Although this is done accurately it may not reflect the change in prices faced by all citizens. This will depend on the composition of the basket of goods, the weighting given to each item, how frequently values are taken and the range of outlets used. Some groups have spending patterns which differ from the average because of income and wealth levels and attitudes. Pensioners are an often quoted case, but house owners and young people might also not be representative.

For understanding the construction of CPI — up to 4 marks
For analysis of areas of possible inaccuracy — up to 6 marks
For discussion of spending patterns of different households — up to 6 marks
] to max 10 marks

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Second variant Mark Scheme

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2009 question paper

for the guidance of teachers

9708 ECONOMICS

9708/22 Paper 2 (Data Response and Essay – Core), maximum raw mark 40

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One side to maximum of four marks.

2 (a) Explain, with examples and diagrams, the effects of a decrease in incomes on the markets for normal and inferior goods. [8]

Normal goods have positive YED while inferior goods have negative YED. Examples might be eating out and public transport respectively but may vary between economies. A decrease in demand for normal goods would lower demand (curve shifts to left) causing a lower price and reduced quantity traded. For inferior goods demand would rise (curve shifts to right) price would rise and quantity traded increase.

Definitions and examples	up to 4 marks
Diagrams with outcomes	up to 4 marks

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(b) Discuss the extent to which an economist would classify a packet of cigarettes and a vaccination against influenza as similar types of good. [12]

Both products are private goods. They are rivalrous and excludable so can be supplied by the market. In this way they can be classified together. Cigarettes produce negative externalities (e.g. passive smoking) and are over-consumed. They are sometimes referred to as demerit goods on the basis of inadequate information for the consumer. Influenza vaccinations possess positive externalities (they help to prevent the transmission of disease to others) and may be under-consumed. They may be considered merit goods on the basis of insufficient information. In this case the products are classified differently.

Understanding of classifications	up to 4 marks	
Discussion of common classification	up to 6 marks	] to max
Discussion of different classification	up to 6 marks	] 10 marks

3 (a) Explain, with the help of an example, the effects when a government introduces a maximum price for a good or service. [8]

Maximum prices cannot be exceeded and are set below the market price, e.g. rents and fuel. They act as a ceiling price. Quantity demanded will exceed quantity supplied and a shortage will result. A system for allocation will be needed. This might be rationing or queues. A black market may develop and the intention of helping the poorest may be thwarted. Home rental market is a frequently used example. This may be illustrated by a diagram.

Understanding of a maximum price	up to 2 marks
Explanation of outcomes	up to 6 marks

(b) With the help of a diagram, discuss how desirable it is for a government to pay subsidies to producers. [12]

A subsidy will reduce the cost of production and shift the supply curve to the right. This will reduce price and increase quantity traded. The degree to which price falls will depend upon the elasticities involved. The consumer will benefit from lower prices and producers will gain higher incomes. It is also a way to increase the production of goods with external benefits which will improve welfare. This can be shown in a diagram. Problems arise because the expenditure will have an opportunity cost, might involve increased taxation and may contradict the efficiency of the market outcome.

Analysis of impact of subsidy with diagram	up to 4 marks	
Discussion of benefits	up to 6 marks	] to max
Discussion of drawbacks	up to 6 marks	] 10 marks

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4 (a) Explain the 'infant industry' and anti-dumping arguments for the introduction of tariffs. [8]

An infant industry is one which has a potential comparative advantage. Currently it is too small to gain economies of scale and too young to have trading experience. A tariff will allow time to grow and become efficient, at which point the tariff will be removed.
Dumping is the selling of goods below the cost of production, possibly due to government support, it may lead to monopolisation of the market. This is deemed unfair competition and restriction of free trade so can be offset by a tariff.

Meaning of a tariff	up to 2 marks
Explanation of infant industry argument	up to 3 marks
Explanation of anti-dumping argument	up to 3 marks

(b) Discuss whether trade arrangements, such as the European Union and the South Asian Free Trade Area, encourage or discourage the benefits of free trade. [12]

Free trade encourages competition and efficiency, lowers prices, increases choice and raises living standards. Trade arrangements may vary from relatively loose free trade areas to very structured economic unions. The effects of membership involve trade creation and trade diversion. As a member a country would hope to benefit although this may involve the need for restructuring with short-term costs. The number of trading arrangements has been increasing so extending the benefits. For non- members there is reduced opportunity to experience free trade and its benefits although some countries may feel that the benefits of free trade are not shared equally among participants and may undermine domestic industries and employment.

Understanding of the types of trade arrangement	up to 4 marks	
Discussion of the benefits of trade	up to 6 marks	] to max 10 marks
Discussion of the drawbacks of trade arrangements	up to 6 marks	

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