CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2013 series

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

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

CAMBRIDGE
International Examinations

1 (a) Describe China's changing contribution to the global production of REEs between 1950 and 2012. [3]

Prior to the mid-1980s China was not a supplier (1). Growth to become dominant supplier (1), elaboration (1), e.g. by the mid-1990s China had overtaken rest of the world production, by 2012 China will out produce the rest of the world more than twofold. China's share increased 1985–2007 (1) but fell 2008–12 (1).

(b) (i) Explain <u>two</u> possible reasons why demand for REEs is likely to continue to grow. [3]

Their extensive use means that economic growth and higher living standards are liable to raise the level of worldwide demand (2). Their use in high technology products means more demand as technology is more widely applied in high income elastic goods (2). The move to conservation and greener technologies will boost demand in energy saving and generation (2). Price has fallen, so demand likely to grow (2).

(ii) Analyse the social costs associated with the increased mining of REEs. [4]

Social costs are made up of private and external costs (1), private costs are incurred by the producer while external costs (negative externalities) affect 3rd parties (1), private costs of mining include e.g. labour costs (wages and training) and costs of equipment (purchase and running) (1), external costs include e.g. pollution and environment degradation with worsening health and living conditions. Alternative examples are acceptable.

(c) What might be the economic justifications for China's reduction in export quotas for REEs? [3]

It might argue the need

- to preserve a diminishing resource
- to supply its own industries
- to protect the environment
- to ensure security of supply
- to improve the terms of trade
- increase export earnings if PED inelastic (rising prices of X = 1)
- increase costs of foreign competitors of products using REEs/reduce competitiveness
- part of a general policy to reduce B of P surplus/depreciate currency

(d) Discuss whether it is likely that China will be able to maintain its domination of the international REEs market in a time of rising global prices for REES. [6]

China is currently dominant because of a lack of competitors; it has production advantages (such as low labour costs, investment) and market power. This may be short-lived if higher prices attract competitors, REEs can be sourced from countries other than China, the technology is known to former US producers, the prospect of higher prices/profit may encourage former producers or new entrants into the market and fear of dependence on China may encourage government intervention. A market response makes it unlikely that China will be as dominant in the long run as both economic and financial influences promote additional producers. Credit a reasoned conclusion.

© Cambridge International Examinations 2013

2 (a) Explain why the free market is ineffective in arriving at the correct price for merit goods and demerit goods. [8]

The correct price of merit goods in Economics is one that truly reflects all the benefits of consumption. These include both private benefits and positive externalities. In the case of demerit goods, the correct price is one that reflects all the costs including private costs and negative externalities. The free market price does not reflect all costs and benefits where externalities exist because of the self-interest that motivates consumer behaviour.

- For **knowledge and understanding** of "correct price", merit and demerit goods. **Up to 4 marks**
- For **application** to show how the free market will not arrive at the correct price for merit and demerit goods. **Up to 4 marks**

(b) Discuss the policies a government might adopt to ensure the correct price for merit and demerit goods is charged in the market. [12]

A range of policies is available including subsidies and indirect taxes, but both have difficulties in ensuring that the correct price is charged.

- For **analysis** of at least two policies to ensure that price is changed to reflect externalities and information failure in the case of merit and demerit goods. **Up to 4 marks**
- For **evaluative comment** on the likely effectiveness of these policies. **Up to 4 marks**

3 (a) Explain how unemployment and inflation are measured. [8]

Candidates should display knowledge of both measures of unemployment and inflation. Reference should be made to the unemployment rate, the claimant count and answers are likely to have some idea of the difficulties involved in measuring unemployment. In the case of the measurement of inflation either the CPI or the RPI are acceptable.

- For **knowledge and understanding** of how unemployment and inflation are measured (2 + 2). **Up to 4 marks**
- For **application** showing the issues involved in measuring unemployment and inflation with accuracy (2 + 2). **Up to 4 marks**

© Cambridge International Examinations 2013

(b) With the help of diagrams, analyse the factors that will lead to an increase in aggregate demand in an economy, and discuss whether this increase is more likely to have an impact on inflation or unemployment in that economy. [12]

Candidates should show a good understanding of the components of aggregate demand and be able to explain the factors that would cause an upward shift in the aggregate demand curve. The diagram should be accurate and clearly labelled and explain the point of equilibrium. Whether the impact is on inflation or unemployment depends upon the full employment position and the shape of the aggregate supply curve.

- For **analysis** of shifts in the aggregate demand curve with appropriate diagrams and with accompanying explanation. **Up to 8 marks**
- For **evaluative comment** on the likelihood of the impact being on inflation or unemployment. **Up to 4 marks**

4 (a) In a country world one country is more efficient at producing one product and the other country is more efficient at producing another product. Explain why specialisation and trade usually benefit both countries. [8]

This requires an explanation of the case of reciprocal absolute advantage. A simple model with clear explanation is sufficient to score full marks for application.

- For **knowledge and understanding** of the benefits of specialisation and trade. **Up to 4 marks**
- For **application** using an appropriate economic model based upon reciprocal absolute advantage. **Up to 4 marks**

(b) Suppose one country were more efficient at producing both products. Discuss whether it is the case that specialisation and trade will always benefit both countries [12]

This requires an explanation based upon comparative advantage and, for a good score, must be based upon opportunity costs. Trade may not be beneficial for a number of reasons such as transport costs, no differences in opportunity cost ratios etc.

- For **analysis** of the model of comparative advantage showing the impact of specialisation and trade. **Up to 8 marks**
- For **evaluative comment** considering the cases where trade is not beneficial. **Up to 4 marks**

© Cambridge International Examinations 2013

CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2013 series

9708 ECONOMICS

9708/22 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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

CAMBRIDGE
International Examinations

1 (a) Give <u>two</u> reasons why palm oil is an important product for the economy of Malaysia.[2]

To provide employment (1), to raise export revenue (1), to meet domestic demand (1)
Any two reasons

(b) Analyse, with the aid of diagrams, the impact of an increase in demand for palm oil on the markets for palm oil and palm kernel cake. [5]

Palm kernel cake is in joint supply as a by product of palm oil (1). Increased demand for palm oil results in a higher price and quantity (1), corresponding diagram (1), increased supply of palm kernel cake results in lower price and greater quantity (1), corresponding diagram (1)

(c) (i) How can Table 1 be used to provide one measure of productivity in palm oil production? [2]

Total production divided by area (1) gives output per hectare (1)

(ii) Use Table 1 to compare the productivity of palm oil production in Indonesia in 1995 and 2008. [2]

1995: 4480/2025 = 2.2, 2008: 18 090/7008 = 2.6 (1) productivity rose (1)

(d) What additional information would give a better understanding of changes in productivity in palm oil production in Indonesia? [3]

Possibilities include improvements in labour (training), capital equipment, fertiliser and land quality, technology that may raise productivity, movement of skilled labour to urban employment and unfavourable natural conditions that might reduce productivity.

(e) Discuss any <u>two</u> policies that governments might use to prevent harm to the environment from palm oil production. [6]

Possible policies include subsidies for research and more environmentally friendly technology, taxes to bring the market outcome to the socially optimal position, government rules and inspection, subsidies to alternative production.

Policies may be judged in terms of their cost, effectiveness, drawbacks and acceptability. Both policies need to be considered, credit a reasoned conclusion.

© Cambridge International Examinations 2013

2 In a free market price rations scarce goods.

(a) Explain this statement and, with the help of a diagram, show how price rations scarce goods when there is an increase in the costs of production. [8]

The basis of a good answer must be an accurate diagram of market equilibrium showing shifts in the supply curve and changes in equilibrium price and quantity.

- For **knowledge and understanding** of the way in which price rations scarce goods. **Up to 4 marks.**
- For **application** using an appropriate diagram showing shifts in the supply curve and the resulting change in equilibrium price and quantity. **Up to 4 marks.**

(b) Discuss whether preventing the price mechanism from working freely by using government price controls can ever be effective. [12]

Candidates should provide examples of circumstances when prices are controlled such as maximum or minimum price legislation and have a good appreciation of the problems that these controls bring to the market. With maximum prices for example shortages occur and an alternative system of allocation needs to be introduced. The candidate also needs to address the issue of whether these controls can be effective. So difficulties in the policing of the system and the problem of black/hidden/underground markets should be considered.

- For **analysis** of the effect of these controls on the market mechanism and the problems that arise. **Up to 8 marks.**
- For **evaluative comment** on whether these controls can be effective considering for example black markets, policing and monitoring. **Up to 4 marks.**

3 (a) Define the components of aggregate demand and, with the help of a diagram, explain how an increase in spending in an economy might result in inflation. [8]

- For **knowledge and understanding** of the components of aggregate demand. **Up to 4 marks.**
- For **application** using an appropriate diagram showing an increase in aggregate demand and the relationship with aggregate supply at a point where inflation would occur. **Up to 4 marks.**

(b) If an economy is experiencing inflation, discuss the view that its government should be more concerned about the external effects than its effects within the domestic economy. [12]

Candidates need to be able to distinguish between the external and internal effects of inflation and then they should reach an evaluative conclusion based upon an examination of the evidence. Discussion might include whether the economy is relatively open to international trade, whether the economy has a fixed or floating exchange rate, etc.

- For **analysis** of the external and domestic effects of inflation. **Up to 8 marks.**
- For **evaluative comment** on the 'more concerned' aspect of the question. **Up to 4 marks.**

© Cambridge International Examinations 2013

4 (a) Explain the meaning of the term 'protection' in the context of international trade and describe <u>two</u> methods of protection used by governments. [8]

Very often candidates describe methods of protectionism without thinking clearly about the meaning of the term. A good answer will go beyond a list of the types of protectionism and will provide a more general explanation perhaps referring to prevention of market forces working freely.

- For **knowledge and understanding** of the meaning of the term 'protection' in the context of international trade illustrated with two examples of methods of protection. **Up to 4 marks.**
- For **application** that describes how the two methods mentioned work to protect an economy. **Up to 4 marks.**

(b) Discuss, with examples, how international trade protection may affect consumers and producers in an economy and whether on balance protection can be justified. [12]

Consumers lose through for example reduced choice and higher prices, producers gain through reduced competition and increased profits. Economic theory usually concludes that protectionism can be justified in the case of infant industries. Other arguments are usually dismissed as social or strategic arguments for protectionism.

- For **analysis** of the way in which consumers and producers are affected with valid examples. **Up to 8 marks.**
- For **evaluative comment** on whether on balance protection can be justified. **Up to 4 marks.**

© Cambridge International Examinations 2013

CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2013 series

9708 ECONOMICS

9708/23 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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

CAMBRIDGE
International Examinations

1 (a) (i) Compare the difference between nominal and real prices of gold over the period 1970 to 2010. [2]

Prior to 1980 there was relatively little difference **(1)**, between 1980 and 2005 nominal prices were more than double real prices **(1)**, after 2005 there was an increasingly large nominal excess **(1)**. **Any two points.**

(ii) A gold trader in 2010 said that 'the price of gold has never been higher'. Explain whether Fig. 1 confirms this statement. [2]

This is only correct in nominal terms **(1)** in real terms it was higher in 1980 **(1)**.

(b) Use the data to estimate the price elasticity of supply of <u>scrap gold</u> between 2003 and 2009 and state whether it is elastic or inelastic. [4]

Formula or definition of PES **(1)** supply rose from 986 to 1674 tonnes or 69.7%, price rose from $280 to $972 or 247% **(1)** PES is 0.28 **(1)** supply is inelastic **(1)**.

(c) (i) What were the changes in the sources of supply of gold between 2001 and 2009? [2]

Scrap was the only one to increase **(1)**, mining barely altered **(1)**, central bank sales fell to a low for the period **(1)**. **Any two points.**

(ii) Explain <u>two</u> possible reasons for these changes. [4]

Individuals need to realise assets in difficult economic circumstances, a period of recession, falling employment and uncertainty **(2)**. Mining might be restricted by natural conditions making increased output difficult **(2)**.

Central banks had a low level of stocks because of previous sales, possibly because of budget considerations and did not want to reduce them further or central bankers may have sought a boost to the value of their reserves as one component appreciates, so did not sell **(2)**.

(d) Discuss the extent to which gold is like other consumer goods, and whether the gold market operates like a consumer good market. [6]

Gold has a normal demand and supply curve. Price and quantity react in the normal way. It has a range of substitutes in the form of other precious metals, property, and bonds and equities **(2)**. The product is somewhat unusual in that it is demanded as a durable good and a financial investment and there are diversified sources of supply for gold. Its price is relatively unstable **(2)**. The market is typical in that demand and supply are at work and that price reacts in a normal way to D and S changes **(2)**, it is unusual that central banks can be active in the market, consumers can also be suppliers and speculators may be at work **(2)**.

Detailed knowledge of the gold market is not expected. Allow reasonable assumptions about the nature of the product and market based on the data. Credit a reasoned conclusion.

© Cambridge International Examinations 2013

2 (a) With the help of a diagram, explain how a production possibility curve can illustrate the concepts of opportunity cost and economic growth. [8]

This question tests the grasp of some basic concepts in Economics that can be demonstrated through the Production Possibility Curve.

- For a **knowledge and understanding** of the production possibility curve supported by an appropriate diagram. **Up to 4 marks.**
- For **application** showing how a production possibility curve can illustrate both opportunity cost and choice. **Up to 4 marks (allow 3/1 or 1/3 split).**

(b) Discuss whether free market economies or centrally planned economies are more likely to make choices that will maximise the benefit for consumers. [12]

The candidate needs to explain that choices are made through the forces of demand and supply in a free market economy. This is likely to give a different allocation of resources compared to that in a centrally planned economy. The impact depends upon a number of factors in the market driven by market forces and the profit motive. In the centrally planned economy it depends upon decisions taken by planning committees. They may or may not choose to prioritise current consumer welfare.

- For **analysis** of how choices are made to maximise the benefit for consumers in each type of economy. **Up to 8 marks.**
- For **evaluative comment** on the 'more likely' aspect of the question. **Up to 4 marks.**

3 (a) Explain, using economic analysis, how economists decide whether goods are substitutes or complementary goods. [8]

- For **knowledge and understanding** of the concept of cross elasticity of demand with examples of substitutes and complements. **Up to 4 marks.**
- For **application** that uses the coefficient to classify each type of good. **Up to 4 marks.**

(b) Explain on which goods and services the government should impose indirect taxes to ensure that the incidence of the tax fell mainly on consumers and discuss the extent to which consumer surplus will be affected [12]

The incidence of indirect taxes depends upon the elasticity of demand and supply of the taxed goods. If the government wished to ensure that the tax fell on consumers they should choose goods with an inelastic demand and an elastic supply. This would reduce consumer spending power and lower their standard of living.

- For **analysis** of the influence of elasticity on the incidence of indirect tax and the goods and services the government should choose. **Up to 8 marks.**
- For **evaluative comment** on the extent to which consumer surplus will be affected. **Up to 4 marks.**

© Cambridge International Examinations 2013

4 The best way to reduce a deficit on the current account of the balance of payments is to change the value of the deficit country's exchange rate.

(a) Explain how a change in a country's exchange rate might reduce a deficit on the current account of its balance of payments. [8]

- For **knowledge and understanding** of the key terms current account deficit and the meaning of a reduction of the exchange rate. **Up to 4 marks (allow 3/1 or 1/3 split).**
- For **analysis** of how a reduction in the exchange rate corrects a deficit on the current account of the balance of payments. **Up to 4 marks.**

(b) Discuss whether changing the exchange rate or imposing tariffs is the better way of correcting a deficit on the current account of the balance of payments. [12]

- For **analysis** of the way in which tariffs might correct a deficit on the current account of the balance of payments. **Up to 4 marks.**
- For **evaluative comment** on the relative merits of each and which is better. **Up to 4 marks.**

© Cambridge International Examinations 2013