Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **May/June 2020**

MARK SCHEME

Maximum Mark: 40

Published

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Question	Answer	Marks
1(a)	**Calculate the percentage of Nigeria's national output that is accounted for by Lagos.** US$136 billion/US$405 billion = 33.58024% **(1 mark)**	**1**
1(b)	**Distinguish between a country's balance of trade and its terms of trade.** • For an explanation of a country's balance of trade, i.e. the difference in the value of the exported and imported goods and services **(1 mark)** • For an explanation of a country's terms of trade, i.e. the difference in the average prices of exports and imports (index number showing the average price of exports divided by the index number showing the average price of imports × 100/1) **(1 mark)** **For an explicit distinction between the two concepts, stressing that one involves values and one involves prices. (1 mark)**	**3**
1(c)	**Explain the contribution of the factor enterprise to the successful economic transformation of Lagos.** Candidates could stress the importance of: • the majority of Nigerian entrepreneurs are operating in Lagos • entrepreneurship has certainly played a key role in the modern Lagos economy; the encouragement of start-up initiatives can be stressed • the need to be innovative has been increasingly recognised; the development of new goods, services and markets can be stressed • Lagos is the centre of thriving music, fashion, film and technology industries that have significant influence throughout Africa **4 marks maximum (a max of 2 marks for an explanation of the factor enterprise and a max of 2 marks for link to the successful economic transformation of Lagos)**	**4**
1(d)(i)	**Explain why 'free trade zones' (FTZ) can be considered a supply-side policy.** • Role that free trade zones, as a supply-side policy, can play in the development and expansion of the Lagos economy • Role of private sector in helping to turn Lagos into the most productive and dynamic part of the Nigerian economy; link between private ownership, productivity and dynamism can be stressed • Generous tax incentives; this will leave firms with substantial funds to finance development and expansion • Help to lower costs, remove bureaucracy and make the economy more flexible and efficient • Up to 2 marks for explanation of free trade zones as a supply-side policy **(2 marks)**	**2**

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Question	Answer	Marks
1(d)(ii)	**Explain how measures to reduce protection through policies such as 'free trade zones' encourage specialisation and the development of comparative advantage in Nigeria.** • Up to 2 marks for explanation of how free trade zones can encourage specialisation in Nigeria • Up to 2 marks for explanation of how free trade zones can encourage the development of comparative advantage in Nigeria	**4**
1(e)	**Discuss whether government intervention to encourage private sector firms, in a mixed economy such as Nigeria, is always likely to be successful.** • Role of government policy and support to private sector **(Up to 3 marks)** • Role of private sector **(Up to 3 marks)** **5 marks maximum** **Reserve 1 mark for a conclusion** **6 marks maximum**	**6**

Question	Answer	Marks
2(a)	Explain, with the aid of a production possibility curve (PPC) diagram, why scarcity makes choice inevitable for firms and how each choice has an opportunity cost. **Up to 2 marks for Knowledge and Understanding** For correct diagram: • Vertical axis correctly labelled, e.g. Good A, agricultural goods/consumer goods, and horizontal axis correctly labelled, e.g. Good B, manufactured goods/capital goods (**1 mark)** • PPC drawn as a curve or a straight line, showing trade-off between production of two goods **(1 mark)** **Up to 6 marks for Application** Use of the production possibility curve to **explain**: • scarcity **(up to 2 marks)** • choice **(up to 2 marks)** • opportunity cost **(up to 2 marks)**	**8**

Question	Answer	Marks
2(b)	**Discuss the view that the only goods a government should produce are public goods.** **Up to 8 marks for Analysis** • Analysis of the production of public goods by a government, with the use of appropriate examples **(Up to 4 marks)** • Analysis of the production of other goods by a government, such as merit goods, with the use of appropriate examples **(Up to 4 marks)** **Up to 4 marks for Evaluation** For exercising some judgement on whether the only goods that a government should produce are public goods **Reserve 1 mark for a conclusion**	**12**

Question	Answer	Marks
3(a)	Explain, with the aid of a demand and supply diagram, **two** factors that might cause an increase in the demand for foreign holidays. **Up to 2 marks for Knowledge and Understanding** For correct diagram: • Vertical axis correctly labelled: P/Price, horizontal axis correctly labelled: Q/Quantity and Demand and Supply curves correctly drawn and labelled **(1 mark)** • Shift of the demand curve correctly drawn and labelled **(1 mark)** **Up to 6 marks for Application** Application of two factors to an increase in the demand for foreign holidays • Explanation of first factor **(Up to 3 marks)** • Explanation of second factor **(Up to 3 marks)**	**8**

Question	Answer	Marks
3(b)	**Discuss whether an indirect tax on foreign holidays is likely to be effective in reducing the number of holidays taken.** **Up to 8 marks for Analysis** • Effectiveness of an indirect tax in reducing the number of holidays taken **(Up to 4 marks)** • Lack of effectiveness of an indirect tax in reducing the number of holidays taken **(Up to 4 marks)** **Up to 4 marks for Evaluation** **For exercising some judgement on whether an indirect tax on foreign holidays is likely to be effective in reducing the number of holidays taken** **Reserve 1 mark for a conclusion**	**12**

Question	Answer	Marks
4(a)	**Explain, with the aid of a diagram, one demand factor and one supply factor that can cause the depreciation of a foreign exchange rate.** **Up to 2 marks for Knowledge and Understanding** For correct diagram: • Vertical axis correctly labelled: P/Price, horizontal axis correctly labelled: Q/Quantity, and Demand and Supply curves correctly drawn and labelled **(1 mark)** • Shift of the demand and/or supply curve correctly drawn and labelled **(1 mark)** **Up to 6 marks for Application** Application of two factors to the depreciation of a foreign exchange rate • Explanation of one demand factor **(Up to 3 marks)** • Explanation of one supply factor **(Up to 3 marks)**	**8**

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Question	Answer	Marks
4(b)	**Discuss whether an appreciation of a country's foreign exchange rate is likely to cause both a rise in inflation and a decrease in employment in its economy.** **Up to 8 marks for Analysis** • Analysis of the effect of an appreciation of a country's foreign exchange rate on the level of inflation in an economy **(Up to 4 marks)** • Analysis of the effect of an appreciation of a country's foreign exchange rate on the level of employment in an economy **(Up to 4 marks)** **Up to 4 marks for Evaluation** For exercising some judgement on whether an appreciation of a country's foreign exchange rate is likely to cause both a rise in inflation and a decrease in employment in its economy **Reserve 1 mark for a conclusion**	**12**

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Question	Answer	Marks
1(a)	**State what the upward trend shown in Fig. 1.1 means has happened to the value of the peso between 2016 and 2018.** The peso has depreciated or gone down or decreased **(1 mark)**	**1**
1(b)	**The central bank of Argentina sold US dollars from its foreign exchange reserves to a value of US$1.5 billion on one day in May 2018.** **With the help of a supply and demand diagram, explain what effect you would expect this intervention to have on the value of the Argentine peso.** • For a correctly labelled supply and demand diagram showing a shift to the right of the demand curve for the peso **(1 mark)** • And a rise in its value **(1 mark)** • For an accompanying explanation linking this rise in demand for the peso to the sale of foreign currency reserves **(1 mark)**	**3**
1(c)(i)	**Distinguish between a budget deficit and a current account deficit.** • For understanding that a budget deficit means that government expenditure exceeds government revenue. **(1 mark)** • For understanding that a current account deficit means that exports (or inflows) are less than imports (outflows) of current account items such as goods and services (or other current account items) **(1 mark)**	**2**
1(c)(ii)	**Explain <u>one</u> way in which persistent high inflation represents a risk to the peso.** • For an explanation that high inflation will make Argentinian goods and services uncompetitive in international markets **(1 mark)** • And that this will lead to an excess supply of the Argentine peso which will create downward pressure on its price **(1 mark)**	**2**
1(d)	**Use aggregate demand and aggregate supply analysis to explain how the recent interest rate rises might help Argentina to reduce its annual rate of inflation and achieve its target.** • For an explanation of how the interest rate rise might help to reduce the inflation caused by demand-pull factors **(Up to 4 marks)** • For an explanation of how the interest rate rise might help to reduce the inflation caused by cost-push factors **(Up to 4 marks)** Allow **2 marks** for evaluative comment that the interest rate rise might exacerbate inflation. **6 marks maximum**	**6**

Question	Answer	Marks
1(e)	**Discuss whether the potential advantages outweigh the disadvantages to the Argentine economy if the president is successful in reversing protectionism.** • For an analysis of the advantages of removing protectionism **(Up to 3 marks)** • For an analysis of the disadvantages of removing protectionism **(Up to 3 marks)** **Reserve 1 mark for a reasoned conclusion**	**6**

Question	Answer	Marks
2(a)	**Use a production possibility curve diagram(s) to distinguish between the growth of an economy and a reduction in the number of unused resources in an economy and explain <u>one</u> reason that might cause each to occur.** • For **knowledge and understanding** of a production possibility curve with appropriate and correctly labelled axes. **(2 marks)** • For **application** using a production possibility curve diagram that shows the growth of an economy illustrated through a shift outward of the curve with a valid example **(1 mark)** and explanation **(1 mark)** of what might cause this to happen **(Up to 3 marks)** • For **application** using a production possibility curve diagram that shows a reduction in the number of unused resources illustrated through a movement from within the curve to a point on or nearer to the curve together **(1 mark)** with a valid example **(1 mark)** and explanation **(1 mark)** of what might cause this to happen **(Up to 3 marks)**	**8**
2(b)	**Discuss whether the transition of an economy from one that is centrally planned to one in which resources are allocated through the free market is likely to be of overall benefit to the citizens of that economy.** **Up to 8 marks for Analysis** • For **analysis** of the way in which resources are allocated in a centrally planned economy with due reference to the problems of resource allocation that arise in such an economy. **(Up to 4 marks)** • For **analysis** of the way in which resources are allocated in a free market with due reference to the problems of resource allocation that arise in such an economy. **(Up to 4 marks)** **Up to 4 marks for Evaluation** • For **evaluative comment** and a reasoned conclusion on the 'overall benefit' **(4 marks)**	**12**

Question	Answer	Marks
3(a)	**Explain whether you would expect the price elasticity of supply of water to be relatively elastic or relatively inelastic.** • For **knowledge and understanding** of the concept of elasticity of supply • For an understanding of what price elasticity of supply measures **(1 mark)** and for an accurate formula **(1 mark)** **(Up to 2 marks)** • For **application** to explain why water might be price elastic in supply with due reference to the factors that influence the elasticity of supply **(3 marks)** • For **application** to explain why water might be price inelastic in supply with due reference to the factors that influence the elasticity of supply **(3 marks)**	**8**
3(b)	**Consider the short-term and long-term policies that could be adopted to deal with a water shortage in an economy and discuss whether these are likely to be successful.** **Up to 8 marks for Analysis** • For **analysis** that considers any policy that might reduce the demand for water or increase the supply of water in the short-run **(Up to 4 marks)** • For **analysis** that considers any policy that might reduce the demand for water or increase the supply of water in the long-run **(Up to 4 marks)** **Up to 4 marks for Evaluation** • For **evaluative comment** and a reasoned conclusion on the likely success of the policies considered **(4 marks)**	**12**

Question	Answer	Marks
4(a)	**Explain, using examples, the difference between private goods and public goods and why public goods will not be supplied by private enterprise.** **Up to 2 marks for Knowledge and Understanding** • For **knowledge and understanding** of the distinction between the two types of good based upon excludability **(1 mark)** and rivalry in consumption **(1 mark)** **Up to 6 marks for Application** • For **application** explaining why public goods will not be supplied in a free market economy because of non-excludability and the lack of rivalry in consumption **(4 marks)** with due reference to the free rider issue **(2 marks)**	**8**

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Question	Answer	Marks
4(b)	**Consider the problem of the provision of merit goods in a market economy and assess whether direct provision of such goods is the most effective way to deal with this problem.** **Up to 8 marks for Analysis** • For **analysis** explaining the underproduction and under-consumption of merit goods based upon information failure in a market economy **(Up to 4 marks)** • For **analysis** that compares direct provision of merit goods with at least one alternative means of provision, e.g. subsidisation of these goods or public education campaigns **(Up to 4 marks)** **Up to 4 marks for Evaluation** • For **evaluative comment** and a reasoned conclusion on the most effective policy **(4 marks)**	**12**

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1(a)	**Explain why a plastic bottle can be classified as both a private good and a demerit good.** • For an explanation of why a plastic bottle can be classified as a private good with reference to the characteristics of **excludability (1 mark)** and **rivalry (1 mark)**. **(Up to 2 marks)** • For an explanation of why a plastic bottle can be classified as a demerit good with reference to the characteristics of overconsumption **(1 mark)** as a result of information failure **(1 mark).** **(Up to 2 marks)**	**4**
1(b)(i)	**Distinguish between an ad valorem tax and a specific tax.** *Ad valorem* tax –where a proportion or a % of price charged is taxation, e.g. GST, VAT **(1 mark)** Specific tax- where there is a fixed amount of tax per unit, e.g. fuel, alcohol **(1 mark)**	**2**
1(b)(ii)	**Explain whether the 'bottle tax' referred to in the extract is an ad valorem tax or a specific tax.** The tax is a specific tax **(1 mark),** but there is some element of ad valorem if the tax depends upon the size of the bottle **(1 mark)**	**2**
1(c)(i)	**With the help of a diagram, analyse the impact of the 'bottle tax' on the price and sales of plastic bottles.** The diagram should show a shift to the left of the supply curve **(1 mark)** with an explanation that the price will increase and the quantity demanded should fall **(1 mark)**	**2**
1(c)(ii)	**With the help of a diagram(s), explain what would determine the incidence of the 'bottle tax' on the consumers of plastic bottles.** • For an accurate diagram that illustrates the influence of the price elasticity of demand upon the incidence of the tax. **(Up to 2 marks)** • For an accurate diagram that illustrates the influence of the price elasticity of supply upon the incidence of the tax. **(Up to 2 marks)**	**4**
1(d)	**Discuss whether taxing plastic bottles is the most effective way of reducing plastic waste in developing economies.** Candidates should discuss the advantages and disadvantages of taxing plastic bottles **(Up to 2 marks)** These should be compared with the case for adopting at least **one** other method of reducing plastic waste. **(up to 2 marks)** Allow **1 mark** for contextual reference to developing economies. Allow **1 mark** for a reasoned conclusion.	**6**

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Question	Answer	Marks
2(a)	**The price elasticity of supply for a new smartphone is estimated at 0.8 in the short run and 1.5 in the long run.** **Explain price elasticity of supply and suggest why the above estimates differ.** **Up to 2 marks for Knowledge and Understanding** of price elasticity of supply: What it measures (**1 mark)** For accurate formula (**1 mark)** **Up to 6 marks for Application** Explanation of the factors determining the difference between the two estimates.	**8**
2(b)	**Discuss whether, for a manufacturer of smartphones, knowledge of their product's price elasticity of demand or its cross elasticity of demand with respect to other products is more useful.** **Up to 8 marks for Analysis** • For an explanation of the possible usefulness of PED **(Up to 4 marks)** • For an explanation of the possible usefulness of XED **(Up to 4 marks)** **Up to 4 marks for Evaluation** An evaluation of which is likely to be most useful. **Reserve 1 mark for a conclusion**	**12**

Question	Answer	Marks
3(a)	**The annual rate of inflation in an economy increased sharply and unexpectedly.** **Explain the likely consequences of such an increase for consumers and businesses.** **Up to 2 marks for Knowledge and Understanding** of inflation: An increase in the **general** price level. **(Up to 2 marks)** **Up to 6 marks for Application** The point about the stem data is that there has been an **unexpected** increase in the rate of inflation. The focus of the answer should reflect this. • an explanation of at least two possible consequences of a sharp increase. **(up to 4 marks)** • reference to the unexpected element of the rise. **(up to 2 marks)**	**8**
3(b)	**Discuss whether a substantial rise in interest rates is the best way of correcting this increased rate of inflation.** **Up to 8 marks for Analysis** • For an explanation of how a substantial rise in interest rates might reduce the rate of inflation in an economy with due reference to the advantages and disadvantages of this approach. **(Up to 4 marks)** • For an explanation of at least one other valid policy approach to solving the problem of inflation such as deflationary fiscal policy and/or supply-side policy. **(Up to 4 marks)** **Up to 4 marks for Evaluation** With **1 mark reserved** for concluding whether or not a substantial rise in interest rates is most likely to succeed.	**12**

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Question	Answer	Marks
4(a)	**Explain why the theory of comparative advantage may <u>not</u> give a true account of the benefits of free trade.** **Up to 2 marks for Knowledge and Understanding** of comparative advantage: • Lower opportunity cost of producing a product because of differing resources **(1 mark)** leads to specialisation and trade **(1 mark)** **Up to 6 marks for Application** For consideration of the reasons why the law of comparative advantage may not lead to benefits through trade. **(Up to 2 marks for each reason explained)**	**8**
4(b)	**Discuss whether the US and China could both benefit from the imposition of tariffs on each other's goods.** **Up to 8 marks for Analysis** • For an explanation of how each country might benefit from the imposition of tariffs **(Up to 4 marks)** • For an explanation of how each country might lose from the imposition of tariffs **(Up to 4 marks)** **Up to 4 marks for Evaluation** With **1 mark reserved** for a clear final conclusion of whether both countries might benefit.	**12**

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