CAMBRIDGE
International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 AS Level Data Response and Essays **May/June 2025**

MARK SCHEME

Maximum Mark: 60

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 May/June 2025 series for most Cambridge IGCSE, Cambridge International A and AS Level components, and some Cambridge O Level components.

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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 descriptions 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.

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Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)

b DO credit alternative answers/examples which are not written in the mark scheme if they are correct

c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).

d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)

e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities

f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).

g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

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4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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Annotations guidance for centres

Examiners use a system of annotations as a shorthand for communicating their marking decisions to one another. Examiners are trained during the standardisation process on how and when to use annotations. The purpose of annotations is to inform the standardisation and monitoring processes and guide the supervising examiners when they are checking the work of examiners within their team. The meaning of annotations and how they are used is specific to each component and is understood by all examiners who mark the component.

We publish annotations in our mark schemes to help centres understand the annotations they may see on copies of scripts. Note that there may not be a direct correlation between the number of annotations on a script and the mark awarded. Similarly, the use of an annotation may not be an indication of the quality of the response.

The annotations listed below were available to examiners marking this component in this series.

Annotation	Use
	Correct point
	Incorrect point
	Unclear response
	Key information missing from response
	Indicates knowledge and understanding of the concepts and issues relating to the question.
	Indicates where the answer has demonstrated analysis.
	Indicates appropriate reference to the information provided
	Expansion of point already made in response
	Indicates where the answer has demonstrated evaluation
	Indicates where the answer has demonstrated particularly strong/justified evaluation
	For use on questions 2,3,4 and 5. Indicates where the response has reached Level 1 in the Mark Scheme, Table A
	For use on questions 2,3,4 and 5. Indicates where the response has reached Level 2 in the Mark Scheme, Table A
	For use on questions 2,3,4 and 5. Indicates where the response has reached Level 3 in the Mark Scheme, Table A
	Used when the benefit of the doubt is given in order to reward a response.
	Used when the answer or parts of the answer do not answer the question asked.
	Indicates that the page or content has been seen by examiner, but no credit given.

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Annotation	Use
TV	Used when parts of the answer are considered to be too vague to be given credit.

Assessment objectives

AO1 Knowledge and understanding
- Show knowledge of syllabus content, recalling facts, formulae and definitions.
- Demonstrate understanding of syllabus content, giving appropriate explanations and examples.
- Apply knowledge and understanding to economic information using written, numerical and diagrammatic forms.

AO2 Analysis
- Examine economic issues and relationships, using relevant economic concepts, theories and information.
- Select, interpret and organise economic information in written, numerical and diagrammatic form.
- Use economic information to recognise patterns, relationships, causes and effects.
- Explain the impacts and consequences of changes in economic variables.

AO3 Evaluation
- Recognise assumptions and limitations of economic information and models.
- Assess economic information and the strengths and weaknesses of arguments.
- Recognise that some economic decisions involve consideration of factors such as priorities and value judgements.
- Communicate reasoned judgements, conclusions and decisions, based on the arguments.

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Table A: AO1 Knowledge and understanding and AO2 Analysis

Use this table to give marks for each candidate response for AO1 Knowledge and understanding and AO2 Analysis for **Questions 2(b)**, **3(b)**, **4(b)** and **5(b)**.

Level	Description	Marks
3	• A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate. • The response clearly addresses the requirements of the question and explains economic issues, and fully develops these explanations. • Analysis is developed and detailed and makes accurate and relevant use of economic concepts and theories. Where necessary, there is accurate and relevant use of analytical tools such as diagrams and formulae, and these are fully explained. • Responses are well-organised, well-focused and presented in a logical and coherent manner.	6–8
2	• Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies. • The response addresses the general theme of the question and the relevant economic issues, with limited development. • Analysis is generally accurate with some development but little detail. Uses analytical tools such as diagrams and formulae where necessary. Use of these tools is partially accurate or not fully explained. • Responses are generally logical and coherent but are sometimes lacking in focus or organisation.	3–5
1	• A small number of relevant knowledge points are included and the response is limited by significant errors or omissions. • The response has little relevance to the question. • Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. • Responses show limited organisation of economic ideas.	1–2
0	• No creditable response.	0

Table B: AO3 Evaluation

Use this table to give marks for each candidate response for AO3 Evaluation for **Questions 2(b)**, **3(b)**, **4(b)** and **5(b)**.

Level	Description	Marks
2	• Provides a justified conclusion or judgement that addresses the specific requirements of the question. • Makes developed, reasoned and well-supported evaluative comment(s).	3–4
1	• Provides a vague or general conclusion or judgement in relation to the question. • Makes simple evaluative comment(s) with no development and little supporting evidence.	1–2
0	No creditable response.	0

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Section A Data response

Question	Answer	Marks
Follow the point-based marking guidance at the top of this mark scheme.		
1(a)	**Using the data in Table 1.1, compare changes in the inflation rate and changes in the interest rate in the US.** • The inflation rate rose and then fell, while the interest rate rose continuously. **(1)** • The proportionate changes in the interest rate were always greater than that of the inflation rate. **(1)** Marks should be awarded for an explicit comparison between changes in the inflation rate and changes in the interest rate in the US, not for a description of those changes in each of the three months.	**2**
1(b)	**Explain one reason why using the Consumer Price Index (CPI) to measure the inflation rate in the US may not produce an accurate result.** • The CPI is supposed to be based on the average basket of products bought by all households **(1)**, but as buying patterns change the basket used in the CPI may no longer be typical of all households. **(1)** **OR** • The weights and products are usually updated every two or three years to reflect changes in buying patterns **(1)**, but this may not be frequent enough if there is a rapid change in the products being bought and/or the proportion of income spent on them. **(1)**	**2**

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Question	Answer	Marks
1(c)	**'In an attempt to bring about disinflation, the Federal Reserve used a contractionary monetary policy.' Consider whether disinflation is more harmful than deflation.** • **Disinflation** is a fall in the rate of inflation (in an economy over a period of time) **(1)**, so although this means that the problems caused by inflation will be less they will still be in existence, such as the effect on the distribution of income, purchasing power, the competitiveness of exports, menu costs, shoe leather costs and the impact on investment planning. **(1)** • **Deflation** is a fall in the average or general level of prices (in an economy over a period of time) **(1)**, but this too can bring problems such as when a substantial fall in aggregate demand leads to a recession with lower output and higher unemployment and so has a potentially negative effect on the investment decisions of firms. **(1)** **Max 3 marks.** **There will be a max mark of 2 if a candidate only considers disinflation or deflation and they will not, in this case, be able to gain any evaluation marks.** **Evaluation** • What is the extent of the disinflation, i.e. by how much is the inflation rate falling? **(1)** • How long is the disinflation and deflation expected to last? **(1)** • To what extent are other countries experiencing disinflation or deflation? **(1)** **Max 1 mark**	**4**

Question	Answer	Marks
1(d)	**Assess whether increases in the interest rate make a recession in the US inevitable?** **Up to 4 marks for explanation/analysis:** • **Inevitable**: higher interest rates (0.25% in January 2022, 1.50% in June 2022, 4.50% in December 2022) make borrowing more expensive for both consumers and firms, so that there is a fall in both AD and AS, leading to higher unemployment and a recession. **(Up to 3 marks)** • **Not inevitable**: demand and supply may not be interest elastic and there are other factors that can influence AD and AS apart from interest rates. **(Up to 3 marks)** **Up to 2 marks for evaluation:** • Relevant evaluation which considers both the potential likelihood of recession and the possibility of there not being a recession in the US and weighs up the factors involved. **(1)** • Reserve 1 mark for a conclusion on whether increases in the interest rate make a recession in the US inevitable. **(1)**	**6**
1(e)	**Assess whether the Federal Reserve setting an inflation target as part of its monetary policy is likely to be helpful for the US economy.** **Up to 4 marks for explanation/analysis:** • **Possibly helpful**: it can help to create and maintain a degree of stability and confidence in the US economy at a time of significant price increases, informing consumers and firms that appropriate action will be taken to prevent the rate of inflation from becoming too high. It can influence inflation expectations; if these remain stable, it may help to prevent (or limit) a wage-price spiral. **(Up to 3 marks)** • **Possibly unhelpful**: the establishment of a target may not be particularly helpful as the Federal Reserve may not be willing to take the necessary measures to keep inflation at a particular level; it is aware that there is a delicate balancing act between keeping the rate of inflation close to a particular target and the risk of bringing about an economic downturn. **(Up to 3 marks)** **Up to 2 marks for evaluation:** • Relevant evaluation such as in relation to the particular inflation target adopted by the Federal Reserve. **(1)** • Reserve 1 mark for a conclusion on whether it is helpful for the Federal Reserve to set an inflation target for the US economy. **(1)**	**6**

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Section B Microeconomics essay

Question	Answer	Marks
EITHER		
2(a)	**With the help of a diagram, explain the reasons for a movement within a production possibility curve (PPC) and a shift of a PPC and consider the extent to which opportunity cost determines the shape of a PPC.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and understanding (max 3 marks)** A knowledge and understanding of a PPC diagram: • Vertical axis correctly labelled, e.g. Good Y, Consumer Goods, Agricultural Goods. **(1)** • Horizontal axis correctly labelled, e.g. Good X, Capital Goods, Manufactured Goods. **(1)** • PPC touches both axes. **(1)** **AO2 Analysis (max 3 marks)** An analysis of the reasons for a movement within a PPC and a shift of a PPC: • Movement within a PPC is caused by a reallocation of existing resources. **(1)** • A shift of a PPC is the result of an increase in the quantity and/or quality of resources or the impact of an improvement in technology. **(1)** • A shift of a PPC does not involve the concept of opportunity cost because with the use of additional resources, more of two goods could be produced. **(1)** **AO3 Evaluation (max 2 marks)** Offers a valid judgement on the extent to which opportunity cost determines the shape of a PPC, distinguishing between constant opportunity costs (a straight line) and increasing opportunity costs (a curve) **(1)** to reach a conclusion. **(1)**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

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Question	Answer	Marks
2(b)	**Assess whether a shift to the right of a PPC is only caused by an increase in the quantity of resources.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** • **An increase in the quantity of resources**: an increase in the quantity of land, labour, capital or enterprise would enable an economy to produce more of all goods and so the PPC shifts outwards. • **An increase in the quality of resources**: it is not only an increase in the quantity of resources that can cause a shift to the right of a PPC; if there is an increase in the quality and productivity of the factors of production, this will also lead to a shift to the right of a PPC. • **Technological change**: this could be a cause of a shift to the right of a PPC. **Level 1 responses** will be assertive and lacking in explanations/mainly descriptive and/or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies/concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. Accept all valid responses. **AO3 Evaluation** • Evaluation of the influence of both the quantity and the quality of resources/factors of production in bringing about a shift to the right of a PPC. • Evaluation of the potential influence of both the quantity and quality of resources in expanding an economy's productive capacity through the increased availability and quality of inputs.	**12**
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Question	Answer	Marks
OR		
3(a)	**With the help of a diagram, explain how changes in a subsidy can influence the price and quantity sold of a product in a market and consider how expenditure on a subsidy is affected by the price elasticity of demand for the product.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and understanding (max 3 marks)** A knowledge and understanding of a subsidy diagram: • Axes correctly labelled (vertical axis: Price, horizontal axis: Quantity) and demand and supply curves correctly labelled. **(1)** • An increase in a subsidy causing the supply curve to shift to the right bringing about a fall in price and a rise in quantity with new equilibrium positions (for price and for quantity) clearly shown. **(1)** • A decrease in a subsidy would cause the supply curve to shift to the left, raising price and lowering quantity with new equilibrium positions (for price and for quantity) clearly shown. **(1)** **AO2 Analysis (max 3 marks)** An analysis of the impact of a subsidy in a market: • A subsidy is a sum of money paid by a government to a producer. **(1)** • The effect of an increase in a subsidy is that the price charged to a consumer will be lower than it would otherwise have been, leading to an increase in quantity; this may be done to keep down the price, and encourage the consumption, of certain products. **(1)** • The effect of a decrease in a subsidy would have the opposite effect. **(1)** **AO3 Evaluation (max 2 marks)** Offers a valid judgement on how expenditure on a subsidy is affected by the price elasticity of demand for the product **(1)** to reach a conclusion. **(1)**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

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Question	Answer	Marks
3(b)	**Assess whether an increase in the tax on a demerit good is always the best way to reduce the consumption of such a product.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** Explanation of the potential **advantages** and **benefits** of an increase in the tax on a demerit good: • The increase in the indirect tax will increase the price of the product. • The increase in price is likely to decrease the consumption of the product. Explanation of the potential **disadvantages** and **limitations** of an increase in the tax on a demerit good: • The demand for the demerit good may be relatively inelastic meaning that the increase in tax will only have a relatively slight impact. • Other methods may be more effective in decreasing consumption, such as an information campaign to make consumers more aware of the potential disadvantages of consuming a demerit good or the establishment of a minimum price for a demerit good. **Level 1 responses** will be assertive and lacking in explanations/mainly descriptive and/or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies/concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. Accept all valid responses. **AO3 Evaluation** • Evaluation of the potential effectiveness of an increase in the tax on a demerit good. • Evaluation of whether other methods, such as an information/education campaign, might be more effective. • In conclusion, whether an increase in the tax on a demerit good is always the best way to decrease the consumption of such a good. Accept all valid responses.	**12**
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Section C Macroeconomics essay

Question	Answer	Marks
EITHER		
4(a)	**Explain how the circular flow of income in an economy changes when that economy moves from a closed to an open economy <u>and</u> consider what determines the extent of this change.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and understanding (max 3 marks)** A knowledge and understanding of the meaning of the **circular flow of income** in an economy: • The way in which income flows around an economy, from firms to households and back to firms in a continuous process. **(1)** • Payments are made to factors of production in the form of income, profit and rent. **(1)** • Payments from all these sources are spent on goods and services.**(1)** **AO2 Analysis (max 3 marks)** An analysis of injections and withdrawals/leakages as an economy moves from a closed economy to an open economy: • **CLOSED ECONOMY** – **Injections**: Investment (I) and Government spending (G) • **Withdrawals/leakages:** Savings (S) and Taxes (T) • **OPEN ECONOMY** – **Injections**: Spending on exports (X) is added to I and G • **Withdrawals/leakages**: Spending on imports (M) is added to S and T **There will be a max mark of 2 if a candidate only considers a closed economy or an open economy, and they will not, in this case, be able to gain any evaluation marks.** **AO3 Evaluation (max 2 marks)** Offers a valid judgement on what determines the extent of the change from a closed to an open economy **(1)** to reach a conclusion. **(1)**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
4(b)	**Assess whether the potential benefits of free trade always outweigh the arguments for protectionism.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** Explanation of the potential **benefits of free trade**: • Increase in world output. • Resources are allocated more efficiently as a result of specialisation. • Production can be at lower cost. • Consumers can have a wider range of products to choose from. • There can be a substantial increase in economic growth. • There can be an improved standard of living. Explanation of the **arguments for protectionism**: • Infant industry argument: infant or sunrise industries are protected to allow them to be able to compete with already established firms. • Declining or sunset industries: these can be protected to give time for the factors of production to be transferred to alternative uses. • Strategic industries: these can be protected because of their importance to an economy. • Current account deficit: protectionism may be used to reduce a deficit. • Anti-dumping: protection against firms selling at a price below cost. **Level 1 responses** will be assertive and lacking in explanations/mainly descriptive and/or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies/concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. Accept all valid responses.	**12**

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Question	Answer	Marks
4(b)	**AO3 Evaluation** • Consideration of the relative strength of the two sets of arguments. • Consideration of who may benefit from free trade and protectionism. • In conclusion, whether the potential benefits of free trade always outweigh the arguments for protectionism. Accept all valid responses	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Question	Answer	Marks
OR		
5(a)	**Explain the difference between a budget surplus and a budget deficit <u>and</u> consider the extent to which a budget surplus is better than a budget deficit.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and understanding (max 3 marks)** A knowledge and understanding of a government budget. **(1)** A knowledge and understanding of a budget surplus. **(1)** A knowledge and understanding of a budget deficit. **(1)** **AO2 Analysis (max 3 marks)** An analysis of the budget position: • The benefits and limitations of a **budget surplus**. **(2)** • The benefits and limitations of a **budget deficit**. **(2)** **There will be a max mark of 2 if a candidate only considers a budget surplus or a budget deficit, and they will not, in this case, be able to gain any evaluation marks.** **Note:** The question is NOT about a current account of the balance of payments. **AO3 Evaluation (max 2 marks)** Offers a valid judgement on the extent to which a budget surplus is better than a budget deficit **(1)** to reach a conclusion. **(1)**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
5(b)	**Assess whether expansionary fiscal policy always benefits an economy.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** Potential **advantages** of an expansionary fiscal policy: • Lower taxes/higher government spending will increase AD in an economy. • Higher AD could lead to lower unemployment. Potential **disadvantages** of an expansionary fiscal policy: • The budget deficit will need to be financed, which will increase the national debt. • The increase in AD could be inflationary. **Level 1 responses** will be assertive and lacking in explanations/mainly descriptive and/or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies/concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. Accept all valid responses. **AO3 Evaluation** • The effect on an economy will depend on the extent of the expansionary fiscal policy. • A recognition that expansionary fiscal policy can have both advantages and disadvantages. • In conclusion, whether an expansionary fiscal policy is always beneficial to an economy. Accept all valid responses. **(Up to 4 marks)**	**12**
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

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e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities

f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).

g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

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4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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Annotations guidance for centres

Examiners use a system of annotations as a shorthand for communicating their marking decisions to one another. Examiners are trained during the standardisation process on how and when to use annotations. The purpose of annotations is to inform the standardisation and monitoring processes and guide the supervising examiners when they are checking the work of examiners within their team. The meaning of annotations and how they are used is specific to each component and is understood by all examiners who mark the component.

We publish annotations in our mark schemes to help centres understand the annotations they may see on copies of scripts. Note that there may not be a direct correlation between the number of annotations on a script and the mark awarded. Similarly, the use of an annotation may not be an indication of the quality of the response.

The annotations listed below were available to examiners marking this component in this series.

Annotation	Use
	Correct point
	Incorrect point
	Unclear response
	Key information missing from response
	Indicates knowledge and understanding of the concepts and issues relating to the question.
	Indicates where the answer has demonstrated analysis.
	Indicates appropriate reference to the information provided
	Expansion of point already made in response
	Indicates where the answer has demonstrated evaluation
	Indicates where the answer has demonstrated particularly strong/justified evaluation
	For use on questions 2,3,4 and 5. Indicates where the response has reached Level 1 in the Mark Scheme, Table A
	For use on questions 2,3,4 and 5. Indicates where the response has reached Level 2 in the Mark Scheme, Table A
	For use on questions 2,3,4 and 5. Indicates where the response has reached Level 3 in the Mark Scheme, Table A
	Used when the benefit of the doubt is given in order to reward a response.
	Used when the answer or parts of the answer do not answer the question asked.
	Indicates that the page or content has been seen by examiner, but no credit given.

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Annotation	Use
TV	Used when parts of the answer are considered to be too vague to be given credit.

Guidance on using levels-based mark schemes

Marking of work should be positive, rewarding achievement where possible, but clearly differentiating across the whole range of marks, where appropriate.

The marker should look at the work and then make a judgement about which level statement is the best fit. In practice, work does not always match one level statement precisely so a judgement may need to be made between two or more level statements.

Once a best-fit level statement has been identified, use the following guidance to decide on a specific mark:

- If the candidate's work **convincingly** meets the level statement, award the highest mark.
- If the candidate's work **adequately** meets the level statement, award the most appropriate mark in the middle of the range (where middle marks are available).
- If the candidate's work **just** meets the level statement, award the lowest mark.

Assessment objectives

AO1 Knowledge and understanding
- Show knowledge of syllabus content, recalling facts, formulae and definitions.
- Demonstrate understanding of syllabus content, giving appropriate explanations and examples.
- Apply knowledge and understanding to economic information using written, numerical and diagrammatic forms.

AO2 Analysis
- Examine economic issues and relationships, using relevant economic concepts, theories and information.
- Select, interpret and organise economic information in written, numerical and diagrammatic form.
- Use economic information to recognise patterns, relationships, causes and effects.
- Explain the impacts and consequences of changes in economic variables.

AO3 Evaluation
- Recognise assumptions and limitations of economic information and models.
- Assess economic information and the strengths and weaknesses of arguments.
- Recognise that some economic decisions involve consideration of factors such as priorities and value judgements.
- Communicate reasoned judgements, conclusions and decisions, based on the arguments.**Table A**: AO1 Knowledge and understanding and AO2 Analysis

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Use this table to give marks for each candidate response for AO1 Knowledge and understanding and AO2 Analysis for **Questions 2(b)**, **3(b)**, **4(b)** and **5(b)**.

Level	Description	Marks
3	• A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate. • The response clearly addresses the requirements of the question and explains economic issues, and fully develops these explanations. • Analysis is developed and detailed and makes accurate and relevant use of economic concepts and theories. Where necessary, there is accurate and relevant use of analytical tools such as diagrams and formulae, and these are fully explained. • Responses are well-organised, well-focused and presented in a logical and coherent manner.	**6–8**
2	• Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies. • The response addresses the general theme of the question and the relevant economic issues, with limited development. • Analysis is generally accurate with some development but little detail. Uses analytical tools such as diagrams and formulae where necessary. Use of these tools is partially accurate or not fully explained. • Responses are generally logical and coherent but are sometimes lacking in focus or organisation.	**3–5**
1	• A small number of relevant knowledge points are included and the response is limited by significant errors or omissions. • The response has little relevance to the question. • Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. • Responses show limited organisation of economic ideas.	**1–2**
0	No creditable response.	**0**

Table B: AO3 Evaluation

Use this table to give marks for each candidate response for AO3 Evaluation for **Questions 2(b)**, **3(b)**, **4(b)** and **5(b)**.

Level	Description	Marks
2	• Provides a justified conclusion or judgement that addresses the specific requirements of the question. • Makes developed, reasoned and well-supported evaluative comment(s).	**3–4**
1	• Provides a vague or general conclusion or judgement in relation to the question. • Makes simple evaluative comment(s) with no development and little supporting evidence.	**1–2**
0	No creditable response.	**0**

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Section A

Question	Answer	Marks
Follow the point-based marking guidance at the top of this mark scheme.		
1(a)(i)	**Identify the overall change in the unemployment rate in South Africa between January 2020 and October 2022.** • It increased / rose **(1)** **Note: do not accept answers that identify a number of changes <u>within</u> these dates, only the overall change <u>between</u> these dates** **Guidance:** please ignore any correct or incorrect calculation of figures as a calculation is not required by the question. The mark should only be awarded if the candidate identifies that the unemployment rate has increased.	**1**
1(a)(ii)	**Compare the trend in the unemployment rate in South Africa between January 2020 and January 2022 with that between January 2022 and October 2022.** • It increased in the first period and then fell in the second period **(1)** **Guidance:** The only comparison that should be accepted is a comparison of the overall trend between January 2020 and January 2022 and the overall trend between January 2022 and October 2022. Any reference to other dates is irrelevant and should not be rewarded. Any use of accurate figures must be accompanied by references to an increase followed by a fall	**1**
1(b)	**Identify <u>one</u> possible impact on firms in South Africa and one possible impact on the government of South Africa of such a high rate of unemployment.** • Firms may find it easier / cheaper to recruit labour / pay lower wages / may suffer weaker demand for their products. **(1)** • Government may have reduced tax revenue / higher welfare payments. **(1)** **Guidance: 1 mark maximum** per impact on firms and the government respectively.	**2**

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Question	Answer	Marks
1(c)	**Consider whether continued falls in the value of the South African rand may lead to a reduction in the current account deficit of the balance of payments.** • Continued falls in the Rand will make exports relatively cheaper **(1)** and imports relatively more expensive **(1).** • This should lead to an increase in demand / sales of exports and / or a fall in demand / sales of imports and / or an increase in the value of net exports or (X-M) **and therefore a fall in the current account deficit (1).** • **Reserve 1 mark** for a valid conclusion example the importance of PED and any other valid eval **(Note: MLC should not be expected)**. **Please use a text box to show the mark split e.g. 2,1**	**4**
1(d)	**Assess the extent to which closer membership of the AfCFTA may help South Africa to achieve the growth needed to 'escape from its economic difficulties'.** • **Up to 3 marks** for an explanation / analysis that examines the benefits of free trade in achieving the growth needed to escape South Africa's economic difficulties e.g.: • This will open up additional markets which may lead to export-led growth **(1)** • encouraging domestic businesses to be more competitive **(1)** • which may lead to lower prices and better products and therefore increase consumption at home and abroad **(1)** more FDI **(1)** (**Up to 3 marks**) • **Up to 3 marks** for an explanation / analysis of the drawbacks of free trade in achieving the growth needed to escape South Africa's economic difficulties e.g. • Domestic businesses will face increased competition **(1)** • Leading to a possible fall in the demand for domestically produced goods **(1)** • Leading to increased unemployment **(1)** and a possible slowdown / fall in economic growth **(1)** • Which may lead to a further deficit on the current account **(1) (Up to 3 marks).** **Note: 4 marks maximum for analysis** • For a balanced evaluation that clearly assesses both sides **(1)** with a justified conclusion that clearly answers the question. **(Reserve 1 mark).**	**6**

Question	Answer	Marks
1(e)	**Assess the extent to which the policies suggested to improve infrastructure and to reduce the high rates of unemployment in South Africa are likely to reduce income inequality.** Policies that may be referred to are all supply side policies and are those which: • Improve transport links and safeguard electricity supplies. • Setting an appropriate national minimum wage. • Strengthening employment protection. • Improving levels of education and training and school to job transitions. • Promotion of entrepreneurship. **Up to 3 marks for** an explanation / analysis should focus on how such policies may reduce income inequality e.g., by: • Increasing mobility (due to improved transport links) to take advantage of job opportunities. **(1)** • Raising wage levels / protecting jobs **(1)** • Making people more employable / able to move into self-employment thus raising income levels. **(1)** **(Up to 3 marks)** **Up to 3 marks for** an explanation / analysis of the drawbacks of such policies in reducing income inequality • Cost of implementation meaning such policies are possibly withdrawn **(1)** • Time taken to implement such policies **(1)** • Receptiveness of workforce for example, people may not understand the importance of education, may prioritise earning income now etc. **(1)** • If the policies simply have the impact of making people who are already earning higher incomes even better off / the benefits are equally shared across all income levels, this will not reduce income inequality. **Note: 4 marks maximum for analysis** For a balanced evaluation that clearly assesses both sides **(1)** with a justified conclusion that clearly answers the question. **(Reserve 1 mark).**	**6**

Section B

Question	Answer	Marks
EITHER		
2(a)	**With the help of examples, explain the difference between public goods and free goods <u>and</u> consider whether a market economy can ever produce public goods.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** For a clear explanation that free goods are those that are not scarce / have zero opportunity cost / no factors of production are involved in producing them **(1)** and public goods are those that have the characteristics of non-excludability and non-rivalry (separately explained) **(1)**. For appropriate examples of **both** types of goods, e.g., fresh air as a free good and national defence as a public good **Note: do not accept** examples such as roads, education or health services or explanations that public goods are simply those provided by a government **(1)** **AO2 Analysis (max 3 marks)** The characteristics of public goods make it easy for consumers to **not** pay for goods and services making it difficult for firms to charge a price / recognition of the free rider problem **(1)** meaning that people can enjoy the benefits without paying for it / firms are unable to make a profit **(1)** meaning that a market economy is unlikely to provide them **(1)**. **AO3 Evaluation (max 2 marks)** Unless there is some method of effectively charging consumers by making public goods excludable **OR** receiving e.g., a subsidy from the government to produce them **OR** businesses are genuinely motivated to act in the interests of the public, **(1)** it is unlikely that a market economy could ever produce public goods **(1)**.	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

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Question	Answer	Marks
2(b)	**Assess the extent to which a government can ensure that both merit and demerit goods are produced in desirable quantities.** Use **Table A**: AO1 Knowledge and understanding and AO2 Analysis and **Table B**: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** Merit goods are those considered desirable by society but are under consumed and therefore the quantity of consumption and production should be encouraged whereas demerit goods are those considered undesirable by society but are over consumed and therefore the quantity of consumption and production should be discouraged. Analysis should focus on the extent to which this is achievable. For example: • Use of subsidies / maximum prices / taxation / minimum prices. • Direct provision of merit goods. • Providing information on the benefits of merit goods / drawbacks of demerit goods. Considering the problems, for example: • PED together with the receptiveness of consumers e.g., towards consuming more merit goods / fewer demerit goods. • The drawbacks of policies of minimum prices and maximum prices explained including costs of enforcement. • The cost (including opportunity cost) of provision of merit goods. • Receptiveness of consumers towards more information provision and thus its effectiveness compared to its cost. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and/or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **AO3 Evaluation** That clearly analyses and compares both the extent of how both are achievable together with the associated problems and comes to a valid conclusion to answer the question. **A one-sided response cannot gain any marks for evaluation.**	**12**

Question	Answer	Marks
2(b)	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

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Question	Answer	Marks
OR		
3(a)	**Explain <u>three</u> reasons, associated with costs of production, why the supply curve for a particular market may shift to the right <u>and</u> consider the extent to which government microeconomic policy may also shift the supply curve for a particular market to the right.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** For an explanation of e.g., a fall in wage rates, an increase in worker productivity, a fall in raw material costs, a fall in costs of distribution, improvements in technology etc. explaining why they may shift the supply curve to the right **(1 × 3).** **AO2 Analysis (max 3 marks)** **Guidance:** The effect depends on the government policy used **however** it must be targeted at a particular market. Government microeconomic policy may include indirect taxes, subsidies, maximum and minimum prices, direct provision, regulations, provision of information and buffer stock schemes. Candidates should analyse at least **one** of these policies to consider the extent to which it may shift the supply curve for a particular market to the right. **For example,** the government may intervene by providing subsidies to education providers **(1)** which may increase the supply of education to the market and shift the supply curve to the right **(1) however,** the extent to which this will occur will depend on e.g., the size of the subsidy, the extent to which the provider uses the subsidy in the manner intended, the PED value **(1).** It may also depend on whether the government also puts regulations in place which limit the supply of education by providers **(1).** **Note: up to 2 marks for explaining the effect of the policy itself, and 1 mark for the extent to which it might shift the supply curve to the right.** **AO3 Evaluation (max 2 marks)** The extent to which the discussed policy will shift the supply curve to the right for a particular market will depend upon the responsiveness of the market itself. It may also depend on how the market may be affected by other government microeconomic policies. Allow any response based on valid analysis. **Note**: **reserve 1 mark for a justified conclusion.**	**8**

Question	Answer	Marks
3(a)	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
3(b)	**Assess the extent to which knowledge of a product's price elasticity of supply is the most useful measure of elasticity to a firm needing to react quickly to changes in its market.** Use **Table A**: AO1 Knowledge and understanding and AO2 Analysis and **Table B**: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** • An analysis of the usefulness of using PES that considers the strengths and weaknesses of the approach. For example, it lets the business know how quickly it can react to changes in price, but this may be of little use if production times are slow or it is not possible to hold stocks e.g., if perishable. • This needs to be compared with the usefulness of another measure of elasticity but must be in the context of a business needing to react quickly to changes in the market. E.g., YED may be useful in a recession, but this may depend on the ability to switch to inferior goods. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and / or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **AO3 Evaluation** That clearly analyses at least two sides to the question and comes to a valid conclusion. **A one-sided response cannot gain any marks for evaluation.** Accept all valid responses	**12**
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Section C

Question	Answer	Marks
EITHER		
4(a)	**With the help of an AD / AS diagram (s), explain one demand- side and one supply- side cause of deflation <u>and</u> consider which is likely to be more damaging to an economy.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** For an understanding of what is meant by deflation **(1)** An accurate AD / AS diagram showing a fall in the general price level due to a left shift in the AD curve **(1)**. An accurate AD / AS diagram showing a fall in the general price level due to a right shift in the AS curve **(1)**. **Note: no further explanations are required.** **AO2 Analysis (max 3 marks)** As indicated by the diagram, a fall in AD is also associated with a fall in GDP and employment levels. Analysis should focus on why this may be considered damaging to an economy. **For example,** this may lead to a fall in economic growth / a recession **(1)** which may lead to a rise in unemployment **(1) (up to 2 marks)**. On the other hand, the rightward shift in AS will lead to an increase in GDP and employment and why this may be considered beneficial to an economy. **For example,** this may lead to an increase in economic growth **(1)** resulting in more people being employed **(1),** It may also reduce inflationary pressure **(1), (up to 2 marks)**. **Note: 3 marks maximum overall** **AO3 Evaluation (max 2 marks)** That clearly considers both causes and assesses how damaging they are to an economy. **Note: reserve 1 mark for a valid conclusion.** **Please use a text box to show the mark split e.g., 3 3 1**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
4(b)	**Assess the extent to which using fiscal policy would be the best way to reduce a high rate of inflation.** Use **Table A**: AO1 Knowledge and understanding and AO2 Analysis and **Table B**: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** Use of fiscal policy will involve increasing levels of taxation and reducing government spending. The advantages include the fact that it is relatively quick and can be effective particularly if dealing with demand-pull inflation. However, it will reduce economic growth and may lead to unemployment, It will also be less effective if the main cause is cost-push inflation. These advantages and disadvantages must be analysed against an alternative policy or policies. These are likely to be supply-side or monetary policies. The analysis should focus on their likely success in reducing a high rather than low / sustainable rate of inflation. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and / or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **AO3 Evaluation** That clearly compares the analysis of using fiscal policy with **using at least one other policy** and reaches a justified conclusion as to which is the **best** way. **A one-sided response cannot gain any marks for evaluation.** Accept all valid responses.	**12**
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

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Question	Answer	Marks
OR		
5(a)	**With the help of a diagram (s), explain <u>two</u> ways in which a fall in the balance of trade in goods may affect the value of a floating exchange rate <u>and</u> consider the extent to which a change in the relative rate of interest between two countries may have a greater impact on the exchange rate.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** A fully labelled diagram **(1)** showing and explaining that, as a result of an increase in the demand for imports this may increase the supply of currency and therefore lead to a fall in the price of the currency **(1)** and for showing and explaining that a fall in the demand for exports may reduce the demand for the currency and therefore lead to a fall in the price of the currency **(1)**. **AO2 Analysis (max 3 marks)** Analysis that assesses the impact of changes in the relative interest rates on the demand and supply of the currency due to e.g., hot money flows for example, as the relative rate of interest increases in one country this may mean more overseas' residents want to move their savings to that country **(1)** increasing demand for the currency and increasing the exchange rate **(1)** **however** the extent will depend on factors such as stability / confidence in that country **(1)** and the influence of other factors affecting the exchange rate **(1) (up to 3 marks)** **AO3 Evaluation (max 2 marks)** An assessment of the extent to which changes in the relative rates of interest may have a greater effect on a floating exchange rate than a fall in the balance of trade in goods **(1)** leading to an overall conclusion **(1)**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

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Question	Answer	Marks
5(b)	**Assess whether an improvement in the terms of trade or a surplus on the current account of the balance of payments is of more benefit to an economy.** Use **Table A**: AO1 Knowledge and understanding and AO2 Analysis and **Table B**: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** • Analysis of the benefits of a positive terms of trade may include the ability to purchase more imports and therefore boost living standards. It may also strengthen the reputation / provide reassurance of the stability of the country in question and lead to a rise in FDI. However, it may arise from inflation and not be linked to greater competitiveness. It may lead to a current account deficit if exports fall. • Analysis of the benefits of a current account surplus may include economic growth and a rise in employment. Again, it may lead to a strengthening of the reputation / provide reassurance of the stability of the country in question. However, it may be the result of obtaining growth through exports leaving little for the domestic population and hence a fall in living standards. It may also be inflationary. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and / or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **AO3 Evaluation** For a clear comparison of the analysis of the benefits and drawbacks of both scenarios leading to a justified conclusion. **A one-sided response cannot gain any marks for evaluation.** Accept all valid responses.	**12**
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

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CAMBRIDGE
International Education

Cambridge International AS & A Level

ECONOMICS **9708/23**

Paper 2 AS Level Data Response and Essays **May/June 2025**

MARK SCHEME

Maximum Mark: 60

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 May/June 2025 series for most Cambridge IGCSE, Cambridge International A and AS Level components, and some Cambridge O Level components.

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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 descriptions 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.

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Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)

b DO credit alternative answers/examples which are not written in the mark scheme if they are correct

c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).

d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)

e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities

f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).

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2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

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4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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Annotations guidance for centres

Examiners use a system of annotations as a shorthand for communicating their marking decisions to one another. Examiners are trained during the standardisation process on how and when to use annotations. The purpose of annotations is to inform the standardisation and monitoring processes and guide the supervising examiners when they are checking the work of examiners within their team. The meaning of annotations and how they are used is specific to each component and is understood by all examiners who mark the component.

We publish annotations in our mark schemes to help centres understand the annotations they may see on copies of scripts. Note that there may not be a direct correlation between the number of annotations on a script and the mark awarded. Similarly, the use of an annotation may not be an indication of the quality of the response.

The annotations listed below were available to examiners marking this component in this series.

Annotation	Use
	Correct point
	Incorrect point
	Unclear response
	Key information missing from response
	Indicates knowledge and understanding of the concepts and issues relating to the question.
	Indicates where the answer has demonstrated analysis.
	Indicates appropriate reference to the information provided
	Expansion of point already made in response
	Indicates where the answer has demonstrated evaluation
	Indicates where the answer has demonstrated particularly strong/justified evaluation
	For use on questions 2,3,4 and 5. Indicates where the response has reached Level 1 in the Mark Scheme, Table A
	For use on questions 2,3,4 and 5. Indicates where the response has reached Level 2 in the Mark Scheme, Table A
	For use on questions 2,3,4 and 5. Indicates where the response has reached Level 3 in the Mark Scheme, Table A
	Used when the benefit of the doubt is given in order to reward a response.
	Used when the answer or parts of the answer do not answer the question asked.
	Indicates that the page or content has been seen by examiner, but no credit given.

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Annotation	Use
TV	Used when parts of the answer are considered to be too vague to be given credit.

Assessment objectives

AO1 Knowledge and understanding
- Show knowledge of syllabus content, recalling facts, formulae and definitions.
- Demonstrate understanding of syllabus content, giving appropriate explanations and examples.
- Apply knowledge and understanding to economic information using written, numerical and diagrammatic forms.

AO2 Analysis
- Examine economic issues and relationships, using relevant economic concepts, theories and information.
- Select, interpret and organise economic information in written, numerical and diagrammatic form.
- Use economic information to recognise patterns, relationships, causes and effects.
- Explain the impacts and consequences of changes in economic variables.

AO3 Evaluation
- Recognise assumptions and limitations of economic information and models.
- Assess economic information and the strengths and weaknesses of arguments.
- Recognise that some economic decisions involve consideration of factors such as priorities and value judgements.
- Communicate reasoned judgements, conclusions and decisions, based on the arguments.

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Table A: AO1 Knowledge and understanding and AO2 Analysis

Use this table to give marks for each candidate response for AO1 Knowledge and understanding and AO2 Analysis for **Questions 2(b)**, **3(b)**, **4(b)** and **5(b)**.

Level	Description	Marks
3	• A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate. • The response clearly addresses the requirements of the question and explains economic issues, and fully develops these explanations. • Analysis is developed and detailed and makes accurate and relevant use of economic concepts and theories. Where necessary, there is accurate and relevant use of analytical tools such as diagrams and formulae, and these are fully explained. • Responses are well-organised, well-focused and presented in a logical and coherent manner.	6–8
2	• Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies. • The response addresses the general theme of the question and the relevant economic issues, with limited development. • Analysis is generally accurate with some development but little detail. Uses analytical tools such as diagrams and formulae where necessary. Use of these tools is partially accurate or not fully explained. • Responses are generally logical and coherent but are sometimes lacking in focus or organisation.	3–5
1	• A small number of relevant knowledge points are included and the response is limited by significant errors or omissions. • The response has little relevance to the question. • Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. • Responses show limited organisation of economic ideas.	1–2
0	No creditable response.	0

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Table B: AO3 Evaluation

Use this table to give marks for each candidate response for AO3 Evaluation for **Questions 2(b)**, **3(b)**, **4(b)** and **5(b)**.

Level	Description	Marks
2	• Provides a justified conclusion or judgement that addresses the specific requirements of the question. • Makes developed, reasoned and well-supported evaluative comment(s).	3–4
1	• Provides a vague or general conclusion or judgement in relation to the question. • Makes simple evaluative comment(s) with no development and little supporting evidence.	1–2
0	No creditable response.	0

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Section A

Question	Answer	Marks
Follow the point-based marking guidance at the top of this mark scheme.		
1(a)	**Use a demand and supply diagram to demonstrate how 'a series of typhoons' affected the market price of food crops in Southeast Asia in January 2023.** • An accurate/fully labelled supply and demand diagram showing a shift to the left of the supply curve **(1)** • New equilibrium showing higher equilibrium price and lower equilibrium quantity **(1)**	**2**
1(b)	**Is the short-run price elasticity of supply of red onions elastic or inelastic? Justify your answer.** • Inelastic **(1)** (accept perfectly inelastic) • Reference to the typhoons in Southeast Asia meaning that supply is volatile/unpredictable. The candidate may refer to the nature of agricultural goods means that you cannot simply grow additional red onions. • The explanation must refer to how it affects the responsiveness of supply **(1)** **If a candidate refers to the PES being price elastic, then this can be accepted but only if the development is linked to the illegal importation and storage of red onions.**	**2**
1(c)	**With the help of a production possibility curve (PPC) diagram, consider the impact on the opportunity cost to a farmer in the Philippines of starting to grow red onions.** • Correctly labelled axes (one must be red onions) PPC diagram that touches both axes. Either straight line or concave. (1) • An initial production combination showing all resources are used to produce the 'other good' with zero 'onions being produced (1). • A second production combination showing increased output of 'onions' and reduced output of the 'other good' (1) **Max of one mark for the analysis if the initial production choice is not at a starting point of zero red onions.** **For valid evaluation** • For example – the opportunity cost will rise the greater the volume of red onions are produced. **(1).** • Other relevant comments may refer to size of the opportunity cost will depend on the shape of the PPC curve.	**4**

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Question	Answer	Marks
1(d)	**Assess whether 'a suggested retail price' is the best way of stabilising onion prices in the Philippines.** **Up to 3 marks maximum for the benefits and disadvantages of a maximum price. for each perspective.** • A maximum price (price ceiling) set below the equilibrium price can stop sellers from charging excessively high prices when supply is limited, especially during harvest failures or supply chain disruptions. • By capping prices, the government can ensure red onions remain affordable for lower-income households, stabilising demand and avoiding volatile consumer reactions to price spikes. • A legal price cap can reduce incentives for traders to hoard onions and sell them later at inflated prices, helping to keep the market stable. • It provides confidence to the public that the government is actively managing food inflation, which can stabilise expectations and reduce panic buying or price-driven speculation. **However** • If the maximum price is set below the market equilibrium, quantity demanded exceeds quantity supplied. This can lead to persistent shortages and long queues for red onions. • Suppliers may sell onions illegally at higher prices (above the ceiling) to profit from the excess demand, reducing the effectiveness of the price control. • Farmers may cut back on onion production if they cannot cover their costs or earn a reasonable profit at the capped price, worsening long-term supply. • Monitoring and enforcing the maximum price requires government resources. Without proper enforcement, the policy may fail to stabilise prices effectively. **If only the benefits OR problems of a maximum price are considered, then a maximum of 2 marks.** **Up to 3 marks of at least one alternative policy to stabilise onions prices in the Philippines.** • The government can provide subsidies to onion producers to lower their production costs, thereby increasing and helping meet demand at a lower price without the need for a price cap. • A buffer stock scheme could be introduced where excess stocks of onions could be bought during times of surplus and released during times of shortages. • The temporary removal of tariffs or controlled imports during periods of shortages, • Promotion of investment in irrigation, storage and distribution networks to reduce production and post-harvest losses.	**6**

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Question	Answer	Marks
1(d)	**If only the benefits OR problems of an alternatively policy are considered, then a maximum of 2 marks** **Up to 2 marks for evaluation** • That clearly considers whether or not 'a suggested retail price' is the best way of stabilising onion prices in the Philippines when compared to an alternative policy. • Comes to a reasoned conclusion. (reserve 1 mark) **No mark for evaluation can be awarded unless the candidate has considered the benefits and disadvantages of a maximum price and an alternative.**	

Question	Answer	Marks
1(e)	**Assess the extent to which the increase in onion price is likely to have affected all households equally in the Philippines.** **Up to 3 marks for explanation/analysis of why the increase in onion price is likely to have affected all households equally in the Philippines.** • Onions are widely used in Filipino cooking across all income groups, so a price increase impacts the food costs of most households. • Since onions are a basic necessity with few close substitutes (i.e. demand is price inelastic), all households tend to keep buying similar quantities despite price rises, spreading the impact evenly. • Onions may be sold at similar prices across markets, so households across different regions face similar price increases. • Due to cultural preferences and cooking practices, most households cannot easily switch to other ingredients, so they all experience the price rise similarly. **Up to 3 marks for explanation/analysis of why the increase in onion price is unlikely to have affected all households equally in the Philippines.** • Lower-income households spend a higher proportion of their income on basic food items like onions, so a price rise hits their budgets harder than wealthier households. • Not all households consume the same quantity of onions. Some may rely heavily on onions in daily cooking, while others use them less, affecting the impact of the price increase. • Wealthier households might afford substitutes or alternatives (e.g., other vegetables or flavorings), lessening the effect of onion price increases on their overall food costs. • Households in rural farming areas might grow their own onions or buy at lower prices, while urban households depend on market purchases, so the price increase affects urban consumers more. **Up to 3 marks maximum for each perspective, with an overall maximum of 4 marks.** **Up to 2 marks for evaluation** • That clearly considers **both** viewpoints. For example, although the price rise affects everyone, its burden is not distributed evenly across the Philippines. • Comes to a reasoned conclusion as to whether the price rise affects all households equally **(reserve 1 mark)** **No mark for evaluation can be awarded if only advantages or disadvantages are considered**.	**6**

Section B

Question	Answer	Marks
EITHER		
2(a)	**Semi-conductors are widely used in the production of many types of electronic goods such as smartphones. It has been estimated that the price elasticity of supply for semi-conductors is 0.2 in the short run and 0.8 in the long run.** **Explain what these estimates mean for producers of smartphones that use semi-conductors <u>and</u> consider the significance of the long run estimate.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** Meaning of price elasticity of supply (1) an accurate formula (1) an explanation of what is meant by price inelastic supply based on an increase in price leading to a proportionately smaller increase in quantity supplied. (1). **AO2 Analysis (max 3 marks)** Analysis of why the values may differ due to e.g., the time period, level of stock, changes in the production process etc. Up to 2 marks for each reason explained. **Maximum of 3 marks overall.** **AO3 Evaluation (max 2 marks)** An assessment of the significance of the long run estimate – e.g. possible shortages in the production of goods that require semi-conductors **(1)**; investment into improving supply chains **(1);** investment into expanding capacity **(1).**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

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Question	Answer	Marks
2(b)	**Assess the likely effects on resource allocation of a continuing increase in demand for semi-conductors.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** • An analysis of the impact of continuing increases in the demand for semi-conductors. For example, the rationing function of the price mechanism will result in rising prices for the semi-conductors to remove the excess demand; the incentive function – rising prices will encourage producers to investigate ways to increase production levels; the signaling function – rising prices may encourage more firms to enter the market. • However, the effects on resource allocation may depend on the availability of silicon, the costs of extraction, time lags and government legislation to limit environmental damage. • Accept any other reasonable analysis of the effects on resource allocation – e.g. a PPC approach where producers are likely to increase the allocation of scarce resources for semi-conductor production – thereby creating an opportunity cost in terms of potential output of "other goods." In addition, accept a correct analysis based on it may depend on the type of economy in question. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **AO3 Evaluation** That clearly analyses at both sides of the question and comes to a valid conclusion. **A one-sided response cannot gain any marks for evaluation.** **Please use a text box to show the levels applied and mark split e.g., L3 6 L1 2**	**12**
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

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Question	Answer	Marks
OR		
3(a)	**Explain what is meant by a merit good, why governments provide merit goods such as healthcare free of charge <u>and</u> consider why such provision may not always be successful.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** A merit good is thought to be desirable but is underprovided/underconsumed (1) due to information failure/a lack of awareness/better than is realised (1) By providing healthcare free of charge, the government encourages greater consumption and improves overall welfare (1). **AO2 Analysis (max 3 marks)** For example, an explanation that some healthcare services, such as vaccinations, act as public goods because they are non-excludable and non-rival meaning that they will not be provided by the private sector (1). Governments provide them to prevent under-provision and protect overall public health (1); Government provision removes financial barriers, ensuring fair access and reducing inequality (1). **AO3 Evaluation (max 2 marks)** • Up to 2 marks for evaluating whether or not government provision of healthcare free of charge may not always be successful. For example, if individuals continue not to see the benefits of healthcare, then providing it free of charge may not see an increase in its consumption (1); time, travel or waiting costs may discourage people from using free healthcare services despite no direct charge (1). **Please use a text box to show the mark split e.g., 3 3 1**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
3(b)	**Assess whether a charge made for healthcare at the point of use is likely to be more beneficial to consumers and providers than if healthcare is available to all free of charge.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** Analysis should focus on the extent to which this is beneficial to consumers and providers. For example charging a fee: • Discourages unnecessary or excessive use of healthcare services, helping to prevent resource wastage and long waiting times. • Generates funds that can be reinvested into improving healthcare quality and infrastructure, benefiting both consumers and providers in the long term • Reduces the financial strain on government budgets, allowing funds to be allocated to other public services or targeted subsidies for those in genuine need Considering the **problems**, for example charging fees: • Increase inequality in access as charging fees is likely to disproportionately affect low-income individuals • Some individuals may avoid seeking care due to cost, even when treatment is essential, which could lead to worsened health outcomes and higher long-term healthcare costs • Potential under-provision of certain types of care, particularly preventive services, as people may only seek care when they are severely ill and unable to delay treatment **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.	**12**

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Question	Answer	Marks
3(b)	**AO3 Evaluation** That clearly analyses and compares the extent to which charging for healthcare at the point of use is more beneficial to consumers and providers together with the associated problems and comes to a valid conclusion to answer the question. **A one-sided response cannot gain any marks for evaluation.**	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Section C

Question	Answer	Marks
EITHER		
4(a)	**Explain <u>two</u> causes of economic growth <u>and</u> consider the extent to which their impact can be measured.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** • Economic growth is the increase in the real value of goods and services produced in an economy over time **(1).** Explanation of two causes of protection – e.g. Increase in AD – higher real wages, direct tax cuts, lower interest rates; increases in LRAS – increased investment, increased productivity **(1+1).** **AO2 Analysis (max 3 marks)** • An explanation of how each cause increases economic growth (1+1). For example, reductions in income tax will reduce disposable income thereby increasing AD and economic growth. However, if high levels of job insecurity exists then the increase in consumption/AD/economic growth may be less (1). Alternatively, the ability to measure the impact will be affected by the size of the hidden/informal economy (1). **AO3 Evaluation (max 2 marks)** • Evaluation should consider the extent to which the causes can be measured – size of hidden/informal economy. • 1 mark reserved for a justified conclusion.	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

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Question	Answer	Marks
4(b)	**Assess the extent to which economic growth is always beneficial for the people and government in an economy.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** Potential **benefits** of increasing economic growth. For example: • Economic growth often leads to increased real GDP per capita, allowing consumers to enjoy more goods and services and improve their quality of life. • As output increases, firms typically need more workers, leading to more job opportunities and reduced unemployment. • Higher incomes and spending generate more tax revenue without raising tax rates, enabling governments to invest in public services like healthcare and education. • Sustained growth can boost investment and consumption as expectations about future income and profits rise. Potential **costs** of increasing economic growth include: • Economic growth can disproportionately benefit the wealthy, leading to a widening gap between rich and poor, with some groups not experiencing the same level of improvement. • Increased production and consumption associated with growth can lead to higher pollution levels, depletion of natural resources, and other environmental harm. • If growth is too rapid, it can lead to inflationary pressures, demand-pull inflation, and potential economic instability. • As economies grow, the demand for resources (such as raw materials, energy, and land) increases, which can lead to shortages, higher prices, and the over-exploitation of finite resources. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.	**12**

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Question	Answer	Marks
4(b)	**AO3 Evaluation** Requires an assessment of the benefits and costs of increased economic growth (which may refer to specific groups) which leads to a justified conclusion as to whether or not economic growth is always beneficial Accept all valid responses. **A one-sided response cannot gain any marks for evaluation.**	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

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Question	Answer	Marks
OR		
5(a)	**The terms of trade index for an economy changed from 105 to 110 in a given year.** **Explain <u>two</u> likely reasons for this change <u>and</u> consider the extent to which the change is likely to benefit the current account of the balance of payments of this economy.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** • An accurate definition of the terms of trade **OR** an accurate formula (1) • Understanding that there is likely to be an improvement in the terms of trade if export prices rise (1) relative to import prices (1). **AO2 Analysis (max 3 marks)** • Higher exports prices allow the country to receive a higher income from selling the same quantity of goods and services abroad. This increase in **export revenue** improves the current account balance **(1)**. • When the cost of importing goods decreases, the country can now import the same quantity of goods at a lower price, resulting in **lower import expenditure and an improvement in the current account balance (1)**. **MAX 2** if only benefits considered **AO3 Evaluation (max 2 marks)** • That assesses the extent to which an improvement in the terms of trade will benefit the balance of payments and reaches a conclusion as to whether this is of benefit to an economy **(1).** Reserve **1 mark** for a valid conclusion. **Please use a text box to show the mark split e.g., 3 3 1**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
5(b)	**Assess whether government policy can influence an economy's comparative advantage in a good or service.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** • Understanding of how government policy can influence an economy's comparative advantage in a good or service. For example: • • By investing **in education and training,** governments can improve the skills of the workforce, which can enhance productivity in certain industries. • Government support for **R&D** can lead to innovation, which might give a country a technological advantage in certain sectors. This can change the opportunity cost of producing a good or service, thereby influencing comparative advantage. • By investing in **infrastructure**, such as transportation networks, ports, and digital networks, governments can reduce the costs of production and distribution, making domestic industries more competitive. This can improve a country's ability to produce goods at a lower opportunity cost. • Understanding of potential problems for governments in influencing an economy's comparative advantage in a good or service: • Many government policies, such as investment in education, infrastructure, or research and development (R&D), take a long time to affect the opportunity cost of producing a good or service • Even if a government successfully creates a comparative advantage in a particular sector, **global competition** can erode that advantage. Other countries may adopt similar policies, or technological advancements elsewhere may outpace the country's efforts. • Government policies intended to enhance comparative advantage can have **unintended consequences** that harm other parts of the economy or create inefficiencies **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.	**12**

Question	Answer	Marks
5(b)	**AO3 Evaluation** Requires an assessment of the extent to which government policy can influence an economy's comparative advantage in a good or service which leads to a justified conclusion as to which perspective is most likely to prevail. Accept all valid responses. **A one-sided response cannot gain any marks for evaluation.**	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

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CAMBRIDGE
International Education

Cambridge International AS & A Level

ECONOMICS **9708/24**

Paper 2 AS Level Data Response and Essays **May/June 2025**

MARK SCHEME

Maximum Mark: 60

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 May/June 2025 series for most Cambridge IGCSE, Cambridge International A and AS Level components, and some Cambridge O Level components.

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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 descriptions 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.

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Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)

b DO credit alternative answers/examples which are not written in the mark scheme if they are correct

c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).

d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)

e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities

f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).

g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
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- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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Annotations guidance for centres

Examiners use a system of annotations as a shorthand for communicating their marking decisions to one another. Examiners are trained during the standardisation process on how and when to use annotations. The purpose of annotations is to inform the standardisation and monitoring processes and guide the supervising examiners when they are checking the work of examiners within their team. The meaning of annotations and how they are used is specific to each component and is understood by all examiners who mark the component.

We publish annotations in our mark schemes to help centres understand the annotations they may see on copies of scripts. Note that there may not be a direct correlation between the number of annotations on a script and the mark awarded. Similarly, the use of an annotation may not be an indication of the quality of the response.

The annotations listed below were available to examiners marking this component in this series.

Annotation	Use
	Correct point
	Incorrect point
	Unclear response
	Key information missing from response
	Indicates knowledge and understanding of the concepts and issues relating to the question.
	Indicates where the answer has demonstrated analysis.
	Indicates appropriate reference to the information provided
	Expansion of point already made in response
	Indicates where the answer has demonstrated evaluation
	Indicates where the answer has demonstrated particularly strong/justified evaluation
	For use on questions 2,3,4 and 5. Indicates where the response has reached Level 1 in the Mark Scheme, Table A
	For use on questions 2,3,4 and 5. Indicates where the response has reached Level 2 in the Mark Scheme, Table A
	For use on questions 2,3,4 and 5. Indicates where the response has reached Level 3 in the Mark Scheme, Table A
	Used when the benefit of the doubt is given in order to reward a response.
	Used when the answer or parts of the answer do not answer the question asked.
	Indicates that the page or content has been seen by examiner, but no credit given.

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Annotation	Use
TV	Used when parts of the answer are considered to be too vague to be given credit.

Assessment objectives

AO1 Knowledge and understanding
- Show knowledge of syllabus content, recalling facts, formulae and definitions.
- Demonstrate understanding of syllabus content, giving appropriate explanations and examples.
- Apply knowledge and understanding to economic information using written, numerical and diagrammatic forms.

AO2 Analysis
- Examine economic issues and relationships, using relevant economic concepts, theories and information.
- Select, interpret and organise economic information in written, numerical and diagrammatic form.
- Use economic information to recognise patterns, relationships, causes and effects.
- Explain the impacts and consequences of changes in economic variables.

AO3 Evaluation
- Recognise assumptions and limitations of economic information and models.
- Assess economic information and the strengths and weaknesses of arguments.
- Recognise that some economic decisions involve consideration of factors such as priorities and value judgements.
- Communicate reasoned judgements, conclusions and decisions, based on the arguments.

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Table A: AO1 Knowledge and understanding and AO2 Analysis

Use this table to give marks for each candidate response for AO1 Knowledge and understanding and AO2 Analysis for **Questions 2(b)**, **3(b)**, **4(b)** and **5(b)**.

Level	Description	Marks
3	• A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate. • The response clearly addresses the requirements of the question and explains economic issues, and fully develops these explanations. • Analysis is developed and detailed and makes accurate and relevant use of economic concepts and theories. Where necessary, there is accurate and relevant use of analytical tools such as diagrams and formulae, and these are fully explained. • Responses are well-organised, well-focused and presented in a logical and coherent manner.	**6–8**
2	• Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies. • The response addresses the general theme of the question and the relevant economic issues, with limited development. • Analysis is generally accurate with some development but little detail. Uses analytical tools such as diagrams and formulae where necessary. Use of these tools is partially accurate or not fully explained. • Responses are generally logical and coherent but are sometimes lacking in focus or organisation.	**3–5**
1	• A small number of relevant knowledge points are included and the response is limited by significant errors or omissions. • The response has little relevance to the question. • Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. • Responses show limited organisation of economic ideas.	**1–2**
0	No creditable response.	**0**

Table B: AO3 Evaluation

Use this table to give marks for each candidate response for AO3 Evaluation for **Questions 2(b)**, **3(b)**, **4(b)** and **5(b)**.

Level	Description	Marks
2	• Provides a justified conclusion or judgement that addresses the specific requirements of the question. • Makes developed, reasoned and well-supported evaluative comment(s).	**3–4**
1	• Provides a vague or general conclusion or judgement in relation to the question. • Makes simple evaluative comment(s) with no development and little supporting evidence.	**1–2**
0	No creditable response.	**0**

Section A Data response

Question	Answer	Marks
Follow the point-based marking guidance at the top of this mark scheme.		
1(a)	**Using the data in Fig. 1.1, describe the trend shown in the annual rate of economic growth in Malaysia over the period January 2019 to January 2022.** • Overall, the rate of economic growth has fallen **(1)** • Overall, a fluctuating trend **(1)** • Up to January 2021 the growth rate fell and then became negative **(1)** • Whereas from July 2021 to January 2022 it became positive **(1)** **Guidance:** The trend in the period needs to be described, not every change.	**2**
1(b)	**Explain what is meant by 'real GDP'.** • GDP refers to the total value of goods and services produced in an economy. **(1)** • Real GDP is GDP corrected for / taking into account the effects of inflation / price changes. **(1)** • Real GDP is Nominal GDP – rate of inflation. **(2)** **Max 2 marks**	**2**
1(c)	**Consider the extent to which the potential advantages of subsidies given to firms by the Malaysian government outweigh their potential disadvantages.** • Advantages include the reduction in firms' costs of production, which may increase their competitiveness, leading to an increase in sales and AD, reducing unemployment as AS and AD both increase. It may also reduce prices for consumers, increasing consumer surplus. (MAX 2 marks) • Disadvantages include payments to firms may be used to boost profits and not reduce costs; payments will be expensive for the government and could contribute to a budget deficit, may lead to inefficiency, may lead to overseas retaliation. (MAX 2 marks) **Max 3 marks overall** **Up to 1 mark for valid evaluation:** • Relevant evaluation which considers the extent to which the potential advantages exceed the potential disadvantages of subsidies, in the context of Malaysia, for example, overall, the potential disadvantages are greater as subsidies are a significant expense for the Malaysian government.	**4**

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Question	Answer	Marks
1(d)	**Assess how far external factors were responsible for economic growth in Malaysia over the period January 2019 to January 2022.** **Up to 3 marks** for explanation / analysis of the extent that external factors were responsible For example**,** the increase in exports, reaching an all-time high in the last quarter of 2021 may lead to economic growth **(1)**, Malaysia will benefit from an increase in the price of oil and gas leading to economic growth **(1)**, it will also benefit from an overall growth in demand from its major trading partners / overall global economic activity **(1)** **Up to 3 marks** for explanation / analysis of the extent that internal factors were responsible. For example, the use of domestic subsidies may be causing the increase in exports **(1)**, the policies to make markets more flexible may be the cause **(1)**, the high level of FDI and domestic investment due to government policy may be the cause **(1)** **Max of 4 marks overall for analysis (max 3 if factors are not clearly differentiated between internal/external)** **Up to 2 marks for evaluation** of how far external policies were responsible for economic growth in Malaysia during the period, **<u>compared</u> to** internal factors. **Reserve 1 mark for a justified conclusion.**	**6**

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Question	Answer	Marks
1(e)	**Assess the possible consequences of a falling rate of unemployment for Malaysia.** **Up to 3 marks** for explanation / analysis of the possible positive consequences of a falling rate of unemployment for Malaysia. For example, these may include an increase in overall income levels **(1)** which may also improve the overall standard of living for the Malaysian population **(1)**. This may also increase government tax revenues / reduce spending on welfare benefits **(1)** which may in turn be spent on improving infrastructure and spending on merit goods such as education and healthcare **(1)** Falling unemployment may also lead to an increase in overall output **(1)** which may lead to an increase in export opportunities **(1)** and increased investment by firms **(1)** **Up to 3 marks** for explanation / analysis of the possible negative consequences of a falling rate of unemployment for Malaysia. For example, due to rising aggregate demand **(1)** this may lead to demand pull inflation if aggregate supply cannot keep up **(1)**. As wages rise and resources become scarce **(1)** this may lead to cost push inflation **(1)**. It may also lead to a decline in labour productivity **(1)** Rising incomes may also lead to rising demand for imports **(1), which** may lead to a current account deficit **(1)**. **Max of 4 marks overall for analysis (Note: accept any reasonable generic suggestions as detailed knowledge of the Malaysian economy is not required)** **Up to 2 marks for evaluation** of the possible positive **and** negative consequences of a falling rate of unemployment on Malaysia based on the preceding analysis. **Reserve 1 mark for a justified conclusion.**	**6**

Question	Answer	Marks
2(a)	**With the help of a formula, explain the meaning of price elasticity of demand and consider the significance to a firm of having price elastic or price inelastic demand for its product.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and understanding (max 3 marks)** • It measures the responsiveness of changes in demand to changes in price **(1)** • Correct formula **(1)** • Meaning of price elastic **and** price inelastic in terms of the percentage / proportionate response of changes in demand to changes in price **(1)** **AO2 Analysis (max 3 marks)** • Analysis of the impact of rising **OR** falling prices on the demand for a firm's products when PED is inelastic **(1)** • Analysis of the impact of rising **OR** falling prices on the demand for a firm's products when PED is elastic **(1)** • Analysis of the effect of **both** rising **and** falling prices on the demand for a firm's products when PED is **both** elastic **and** inelastic **(3).** **AO3 Evaluation (max 2 marks)** That offers a valid judgement on the importance of the distinction between price elastic and price inelastic demand for determining the impact of price changes on the sales of a firm's products. 1 mark for assessing what a firm should do to influence demand/spending when demand is elastic. 1 mark for assessing what a firm should do to influence demand/spending when demand is inelastic.	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
2(b)	**Assess whether governments should always support the provision of merit goods in markets such as those for education or health care.** Use **Table A**: AO1 Knowledge and understanding and AO2 Analysis and **Table B: AO3** Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** • An understanding of what is meant by merit goods • An understanding of the reasons why governments should support the provision of merit goods, including: • The perceived benefits of merit goods and their underconsumption due to information failure / price etc., meaning that governments should support their provision e.g., through direct provision, subsidies, the provision of information etc. • **HOWEVER,** the reasons why governments should not always support the provision of merit goods include: • Government inefficiency, the opportunity cost of not spending money on alternative projects, the lack of government funding to finance this provision leading to a possible budget deficit. • Information failure may still exist. • Private provision may be possible and more efficient**.** **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and / or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider benefits/drawbacks etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.	**12**

Question	Answer	Marks
2(b)	**AO3 Evaluation** That clearly assesses whether governments should always support the provision of merit goods such as education and health care by considering the advantages **and** disadvantages of doing so and reaches a valid conclusion. **one-sided response cannot gain any marks for evaluation.** Accept all valid responses.	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

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Question	Answer	Marks
OR		
3(a)	**With the help of a diagram, explain the impact of introducing an effective minimum price of a product <u>and</u> consider the effect on the consumer surplus for that product.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and understanding (max 3 marks)** • For an accurately drawn supply and demand diagram **(1)** • Showing a minimum price above the equilibrium and the resultant increase in supply and fall in demand **(1)** • An explanation that this will lead to supply exceeding demand leading to a surplus in the market **(1)** **Max 3 marks** **AO2 Analysis (max 3 marks)** • An explanation of what is meant by consumer surplus **(1)** • Use of the diagram to clearly show **the fall** in consumer surplus **(1)** • An explanation to clearly explain why consumer surplus will fall **(1)** **Max 3 marks** **AO3 Evaluation (max 2 marks)** That clearly considers the overall effect on consumer surplus of introducing a minimum price (it will fall) but the extent of the fall will be affected e.g., by PED. **Reserve 1 mark for a justified conclusion.**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

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Question	Answer	Marks
3(b)	**Assess whether a minimum wage policy is the best way to redistribute income in an economy.** Use **Table A**: AO1 Knowledge and understanding and AO2 Analysis and **Table B: AO3** Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** • An understanding of what is meant by a minimum wage policy • An explanation of the benefits of using a minimum wage policy to **redistribute income**. These may include: • It may raise the relative wages of the lower paid, provides an incentive to enter the labour market, and may redistribute profits from employers to workers. • An explanation of the possible disadvantages of using a minimum wage policy to redistribute income. These may include: • It may lead to inflation so low-income earners may not benefit, it may cause unemployment, higher paid workers may be able to maintain differentials so income is not redistributed, it may not be enforced. • The policy MUST be compared to at least one other policy to redistribute income, for example the use of transfer payments, progressive income, inheritance and capital taxes and / or state provision of essential goods and services. The advantages and disadvantages of the chosen alternative/s must be analysed. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and / or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.	**12**

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Question	Answer	Marks
3(b)	**AO3 Evaluation** That clearly assesses the advantages and disadvantages of using a minimum wage policy to redistribute income in an economy **and** compares this to the advantages and disadvantages of using at least one other government policy and reaches a valid conclusion as to whether minimum wage policy is the best way to redistribute income in an economy. **A one-sided response cannot gain any marks for evaluation.** Accept all valid responses.	**12**
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Question	Answer	Marks
EITHER		
4(a)	**Explain why expenditure on education and training is a supply-side policy <u>and</u> consider why its impact on the general price level may differ between the short run and the long run.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and understanding (max 3 marks)** • Supply side policy consists of government policy tools designed to increase aggregate supply **(1)** • The effect is to shift the aggregate supply curve to the right **(1)** • Government spending on education and training should increase worker skills and productivity and therefore increase a country's productive capacity and therefore increase AS / shift the LRAS curve to the right **(1)** **AO2 Analysis (max 3 marks)** • In the short run, increased government expenditure will increase the level of AD which may lead to an increase in inflation and the general price level. **(up to 2 marks)** • In the long run, increased expenditure on education and training should increase productivity and productive capacity and the shift in LRAS should lower the general price level. **(up to 2 marks)** **AO3 Evaluation (max 2 marks)** • That offers an overall assessment as to whether expenditure on education and training will have a different impact on the price level in the long run compared to the short run. • **For example,** if the expenditure is ineffective and does not have the intended impact on productive capacity and productivity, this may simply increase the general price level. • **For example,** time-lags mean short-run impact is minimal as the policy will only take effect in the long-run. **Reserve 1 mark for a justified conclusion.**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
4(b)	**Assess whether the consequences of inflation in an economy are always negative.** Use **Table A**: AO1 Knowledge and understanding and AO2 Analysis and **Table B: AO3** Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** • An understanding of inflation • Explanation of possible **negative** consequences of inflation in an economy, for example, the uncompetitiveness of exports leading to a worsening of the current account of the balance of payments, shoe leather costs arising from searching for better returns, menu costs arising from continually changing prices, planning difficulties arising from the uncertainty caused by inflation and a redistribution of income, e.g. those on fixed incomes will lose out. • Explanation of possible **positive** consequences of inflation in an economy, such as an increase in borrowing arising from debt being less in real terms, an increase in the profits of firms, possibly leading to more workers being employed, and an increase in the value of assets, such as property **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and / or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **AO3 Evaluation** That clearly assesses whether the consequences of inflation are always negative by considering both the negative and positive consequences and reaches a valid conclusion as to whether the consequences are always negative. **A one-sided response cannot gain any marks for evaluation.**	**12**
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Question	Answer	Marks
OR		
5(a)	**With the help of a formula, explain the causes of an improvement in the terms of trade in an economy <u>and</u> consider whether such an improvement can ever be harmful to an economy.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and understanding (max 3 marks)** • For an accurate formula i.e., index of export prices / index of import prices **(1)** • An improvement is when the value / ratio increases **(1)** • An improvement is when export prices rise and / or import prices fall **(1)** **AO2 Analysis (max 3 marks)** For example: • An improvement in the terms of trade may be seen to be beneficial as more imports can be purchased from the same volume of imports (1) • However, an increase in export prices may lead to fewer exports in the long run (1) • Which may lead to a current account deficit which may be considered harmful (1) **AO3 Evaluation (max 2 marks)** That offers an overall assessment as to whether an improvement in the terms of trade can ever be harmful to an economy. **Reserve 1 mark for a justified conclusion.**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

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Question	Answer	Marks
5(b)	**Assess whether the depreciation of an exchange rate is always beneficial to an economy.** Use **Table A**: AO1 Knowledge and understanding and AO2 Analysis and **Table B: AO3** Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** • An understanding of what is meant by a depreciation of the exchange rate • Explanation of the potential **advantages** of the depreciation of an exchange rate: It can lead to an increase in a country's exports because the prices of these products are less than they were previously; this can help to reduce a current account deficit on an economy's balance of payments; an increase in exports can stimulate an increase in aggregate demand (AD). • Explanation of the potential **disadvantages** of the depreciation of an exchange rate: It will have the effect of making imports more expensive, both of finished products and of raw materials; if raw materials are more expensive, this will increase the cost of production of domestic firms, and this could bring about cost-push inflation. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and / or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.	**12**

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Question	Answer	Marks
5(b)	**AO3 Evaluation (max 4 marks)** That offers an overall assessment as to whether a depreciation in the exchange rate is always beneficial to an economy by assessing both the advantages and disadvantages of the depreciation and also considering the significance of PED values for both exports and imports and reaches a valid conclusion. **A one-sided response cannot gain any marks for evaluation.** Accept all valid responses	**12**
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

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