Cambridge International AS & A Level

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ECONOMICS **9708/22**

Paper 2 Data Response and Essay **March 2017**

MARK SCHEME

Maximum Mark: 40

Published

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Question	Answer	Marks	Guidance
1(a)(i)	The United States (1 mark)	**1**	
1(a)(ii)	Services, or Invisibles (1 mark) Primary income (or Investment income, or Interest, Profits and Dividends) (1 mark) Secondary income or Transfers (1 mark)	**3**	If the candidate provides details on one component e.g. interest, profits and dividends this is not considered as three components and can score 1 mark maximum.
1(b)	For identification of a relevant factor (1 mark) For explanation of this factor (1 mark) (2 marks maximum per factor) Please use the textbox to show the allocation of marks to each part of the question.	**4**	The factors include: • the price elasticity of demand for China's exports to, and imports from, Vietnam: i.e. whether the Marshall-Lerner condition is satisfied • the time period under consideration i.e. the J-Curve • the price elasticity of supply of China's exports • whether the devaluation of the Dong offsets the devaluation of the yuan • tariffs, quotas and other forms of protectionism if these are increased or imposed in response to the devaluation of the yuan • the relative rates of inflation in Vietnam and China

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Question	Answer	Marks	Guidance
1(c)	For a diagram: 1 mark for correct shift of curve and 1 mark for the change in equilibrium price **and** quantity (up to 2 marks) and explanation (1 mark) of the expected help as a result of subsidies for all Vietnamese goods. **(Up to 3 marks)** For a diagram: 1 mark for correct shift of curve and 1 mark for the change in equilibrium price **and** quantity (up to 2 marks) and explanation (1 mark) of the expected help as a result of the boycott of Chinese goods. **(Up to 3 marks)** No diagram: 2 marks maximum Please use the textbox to show the allocation of marks to each part of the question.	**6**	The diagram should show an increase in the supply of Vietnamese goods as a result of the subsidy and a fall in their price. An explanation should also accompany this diagram. The diagram should show a decrease in the demand for Chinese goods or an increase in demand for Vietnamese goods in the case of a boycott. A diagram showing both an increase in supply and a decrease in demand for Chinese goods/increase in demand for Vietnamese goods is an acceptable approach.

Question	Answer	Marks	Guidance
1(d)	For a clear understanding of the Principle of Comparative Advantage with due reference to lower opportunity cost. (1 mark) For application of the Principle of Comparative Advantage: • showing how the principle can be used to justify support for infant industries (Up to 3 marks) • showing how the principle does not justify support for industries that lack the required potential (Up to 3 marks) **(4 marks maximum for application)** If the candidate justifies support without reference to the principle of comparative advantage then 2 maximum for application For a reasoned conclusion with reference to the principle of comparative advantage (1 mark) Please use the textbox to show the allocation of marks to each part of the question.	**6**	The Principle of Comparative Advantage states that countries should specialise in the production of those goods that they can produce at the lowest opportunity cost. Those goods that have the 'potential to compete' could be considered as infant industries and they are the ones that could develop the lowest opportunity cost. Economic theory suggests that these industries should be supported.

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Question	Answer	Marks	Guidance
2(a)	For **knowledge and understanding** of • public goods in terms of non-excludability and non-rivalry (Up to 2 marks) and • private goods in terms of excludability and rivalry in consumption (Up to 2 marks) For **application** showing why profit can be made in the supply of private goods (Up to 3 marks) but not in the supply of public goods because of the free-rider problem that means that a price cannot be charged (Up to 3 marks). **(4 marks maximum for application)**	**8**	Public goods, in contrast to private goods, are non-excludable and non-rival (and non-rejectable). As a result if they were provided by the private sector there would be the free-rider problem meaning that no profit could be made from their provision.
2(b)	For **analysis**: • explaining how maximum prices might work to increase provision with due reference to the strengths and weaknesses of this approach. (Up to 6 marks) • explaining how education campaign might work to increase provision with due reference to the strengths and weaknesses of this approach. (Up to 6 marks) **(8 marks maximum for analysis)** For **evaluation** assessing which is the most effective in increasing consumption with due reference to the strengths and weaknesses explained in the analysis. (Up to 3 marks) and providing a reasoned conclusion (1 mark)	**12**	Merit goods are under-consumed because of incomplete information. The question relates to the under-consumption of merit goods and successful answers will focus upon the way in which policies can increase consumption as required. References to price are only relevant as they relate to the quantity consumed. Maximum prices set the price of the merit good below equilibrium so that the merit good becomes more affordable. This will make consumers more willing to buy, but a shortage will develop so quantity consumed will actually fall unless the government takes further action such as subsidising production. Education campaigns are designed to improve information and as a result increase the demand for the merit good, raising price and leading to an extension in supply. The weakness of this method is that these campaigns tend to be expensive and they may not be successful if poorly designed.

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Question	Answer	Marks	Guidance
3(a)	For **knowledge and understanding** of the concept of price elasticity of supply For an accurate formula (Up to 2 marks) (If no formula then allow 1 mark for an understanding of what the concept measures) For some elaboration e.g. distinction between elastic and inelastic (Up to 2 marks) (4 marks) For **application** to show the reasons for the inelasticity of supply of a product. For any one factor explained (Up to 3 marks) So at least 2 factors explained required for full marks for application. **(4 marks maximum for application)**	**8**	The supply of a product might be inelastic because: • it has a long production period • There are few available to supply from stock • There is a shortage of resources required to produce it • The time period under consideration is also relevant and can exacerbate the above
3(b)	For **analysis** of measures that might be taken by businesses to increase the elasticity of supply • For explaining any one way in which businesses might attempt to increase the elasticity of supply and an assessment of the strengths and weaknesses of this approach (Up to 6 marks) **(8 marks maximum for analysis)** For **evaluation** assessing whether the measures taken are likely to be successful with due reference to the strengths and weaknesses explained in the analysis. (Up to 3 marks) and reaching a conclusion on whether **any** are likely to be successful (1 mark)	**12**	Candidates should consider the causes of inelasticity and suggest ways in which businesses might attempt to counteract each one. For example, they might increase stocks so that supply can be increased form stock when prices rise. Evaluative comment might be that this is expensive and impractical for certain products. Another method is increasing the required resources for example training labour. Again this might prove expensive and be impractical if the economy is at full employment. Since this relates to businesses rather than government subsidies or other government policies are not relevant. Measures that increase the quantity supplied rather than the elasticity of supply should not be credited.

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Question	Answer	Marks	Guidance
4(a)	For **knowledge and understanding** of what is used as money in a modern economy (Up to 4 marks) For a statement of what money is in terms of general acceptability in settlement of debt (1 mark) For an explanation of what acts as money in a modern economy. Cash and bank deposits. (Up to 3 marks) No reference to bank deposits maximum of 2 marks. For **application** showing how an increase in the money supply can cause inflation. (4 marks)	**8**	Candidates should make reference to cash and bank deposits. There should be some understanding of the various forms of near money. The Quantity Theory of Money is not necessary but can be credited. Candidates should describe how an increase in the money supply can trigger spending and cause demand-pull inflation.
4(b)	For **analysis** that explains • The internal consequences of inflation (Up to 6 marks) • The external consequences of inflation (Up to 6 marks) **(8 marks maximum for analysis)** For **evaluation** assessing the circumstances under which the internal consequences might be more serious for an open economy (3 marks) and including a conclusion regarding whether this is likely to occur (1 mark) (4 marks maximum)	**12**	The internal consequences include the haphazard re-distribution of income, the negative impact upon savings and investment, shoe-leather costs and menu costs. The external consequences are that the goods of the economy that experiences inflation will become uncompetitive with consequences for that economy's balance of payments and exchange rate. The external consequences might be less serious if the rate of inflation in an economy is lower than that in competitor nations. Also, the impact of the inflation might be offset by a decline in the exchange rate.

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