Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay **March 2020**

MARK SCHEME

Maximum Mark: 40

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.

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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 descriptors 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.

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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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Question	Answer	Marks	Guidance
1(a)(i)	**Using Fig. 1.1, how is the US balance of trade in goods in Q1 2018 different from that in Q1 2010?** There is an increased/greater/bigger **(1)** deficit **(1)**	**2**	Figures are not required, but if they are provided there must be an indication that this means that the balance of trade shows an increased deficit. If figures are correct, but no mention of 'deficit' then 0 marks. 'Deficit has worsened' is only worth 1 mark unless it is shown what this means in numerical terms.
1(a)(ii)	**Explain how China's imposition of tariffs of 25% on cars from the US might have contributed to the change you have identified.** The imposition of tariffs would raise the price of US imports into China leading to a contraction in the demand for US goods **(1)** this would contribute to a bigger deficit **(1)**	**2**	Many candidates will respond with the usual diagram of the impact of a tariff. This is not necessary for both marks, but there must be recognition that supply will fall and price will rise.
1(b)(i)	**Using Fig. 1.2, how has the value of the yuan against the US dollar changed between April and July 2018?** The value has depreciated/gone down **(1)**	**1**	Accept 'devalued' on this occasion because although technically incorrect it is sufficiently distinct from expressions that suggest that the value has gone up.
1(b)(ii)	**Identify and explain one factor that will determine the impact of this exchange rate change on China's balance of trade in goods.** For **one** factor identified **(1)** and explained **(up to 2 marks)** The own figure rule can be applied here. If the candidate states in 1(b)(i) that the exchange rate has *appreciated* then full marks are available for this question if the explanation is valid.	**3**	The most likely response from candidates is the price elasticity of demand for imports and exports (M-L condition: but this must be explained perhaps with reference to the J-curve). Other factors should be credited if valid. For example the change in the value of the exchange rate might be offset by changes in US incomes.

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Question	Answer	Marks	Guidance
1(c)	**Explain how, 'a robust US economy, a large fiscal deficit and a strong US dollar' could each contribute to a US trade deficit.** For explaining how each of the factors could affect the balance of trade negatively up to 2 marks **(3 x 2 marks)** If a relevant point is made but left undeveloped then award 1 mark. For the second mark, some elaboration of the identified point is required.	**6**	A 'robust US economy' suggests higher employment in the US and higher incomes leading to increased US demand for imports (and/or the diversion of exports to the home market). May get some reference to income elasticity of demand for imports. A 'large US fiscal deficit' suggests that there has been an increase in G and/or a fall in T raising aggregate demand that will lead to increased spending on imports. Possible increased spending by US government on Chinese goods. A 'strong US dollar' will lead to a rise in the price of US exports and a fall in the price of imports.
1(d)	**With reference to economic theory, discuss whether the US economy is likely to benefit overall from the trade war with China.** For clear recognition of the benefits derived from specialisation and free trade (the principle of comparative advantage could be implicit) **(1 mark)** For explanation of a possible benefit(s) to the US economy that might derive from the trade war **(Up to 2 marks)** For explanation of a possible cost(s) to the US economy that might derive from the trade war **(Up to 2 marks)** **Reserve 1 mark for a reasoned conclusion**	**6**	The relevant economic theory is the principle of comparative advantage. The trade war undermines this and confirms the idea that 'both countries will lose in a trade war'. Some industries might benefit, but consumers will lose and some might be left unemployed as their industries are denied access to China's market. Some might argue that if China is indeed engaged in unfair trade practices, the actions of the US government might force them to stop these and free trade could emerge and in this sense the US could enjoy overall benefit.

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Question	Answer	Marks	Guidance
2(a)	**Explain what determines the change in equilibrium price and equilibrium quantity of a good when there is a rise in incomes in an economy.** For **knowledge and understanding** of the concept of income elasticity of demand **(1 mark)** and how it is measured **(1 mark)** **(KU: up to 2 marks)** For **application** in terms of the impact upon equilibrium price and quantity in the case of a normal good **(2 marks)** For **application** in terms of the impact upon equilibrium price and quantity in the case of a necessary good **(2 marks)** For **application** in terms of the impact upon equilibrium price and quantity in the case of an inferior good **(2 marks)** **(APP: up to 6 marks)**	**8**	If the candidate identifies the correct movement of the demand curve in the case of each type of elasticity then 1 mark maximum if there is no reference to the impact on equilibrium price and equilibrium quantity
2(b)	**Discuss the effectiveness of any possible measures to ensure that food would be available to consumers in an economy where food supplies are frequently disrupted through drought.** **Up to 4 marks** for **analysis** of any **one** measure with due reference to the difficulties that are likely to arise At least **two** measures are required for full marks **(AN: up to 8 marks)** For **evaluative comment** on the relative effectiveness of each measure or consideration of intervention in general terms **with 1 mark reserved** for a reasoned conclusion **(EVAL: up to 4 marks)**	**12**	Candidates must discuss at least 2 measures with up to 4 marks for each, but may explain a more wide ranging number of measures. Candidates need to recognise that the problem is a lack of supply of food. Measures referred to might be to manage demand or supply. Price controls and rationing, importing foods from abroad might be short-term measures explained. Government organised stockpiling during years of good harvests. They all are associated with difficulties. In the long term measures might be taken to improve the supply of water for irrigation.

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Question	Answer	Marks	Guidance
3(a)	**The government raises taxes to provide a toll road bridge and streetlights in a country. Explain how an economist would classify each of these provisions.** For **knowledge and understanding** of the characteristics that allow the classification of goods i.e. excludability **(1 marks)** and rivalry in consumption **(1 marks)** **(KU: up to 2 marks)** For **application** that • classifies a toll road bridge as a private good **(3 marks)** • and streetlights as a public good **(3 marks)** **(APP: up to 6 marks)**	**8**	The classification relies upon whether the goods are excludable and rival in consumption. It does not matter how they are paid for. Reference to merit goods should still conclude that these are private goods in terms of excludability and rivalry.
3(b)	**Discuss the view that direct taxes are the fairest and the most effective way for governments to raise revenue.** **Up to 4 marks** for **analysis** that compares direct and indirect taxation in terms of **fairness** (with reference to regressive and progressive taxes). **Up to 4 marks** for **analysis** that compares direct and indirect taxation in terms of effectiveness. (with reference to issues such as revenue raising, disincentive effects etc) . **(AN: up to 8 marks)** For **evaluative comment** with **1 mark reserved** for a reasoned conclusion **(EVAL: up to 4 marks)**	**12**	Candidates should consider both fairness and effectiveness in their answers. There might be reference to the canons of taxation, but candidates may focus on one assessment of fairness or effectiveness in their answer. Canons of taxation that may be discussed include certainty, cost, convenience, transparency. Both types of taxation must be assessed in terms of the criteria for 4 marks. If a candidate only considers the fairness of direct taxes then award **3 maximum.**

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Question	Answer	Marks	Guidance
4(a)	**Explain using aggregate demand and aggregate supply diagrams the distinction between cost-push inflation and demand-pull inflation and explain one cause of each.** For **knowledge and understanding** and **application** of cost-push inflation as a shift to the left of the aggregate supply curve and for explanation of one cause of the shift **(2 marks for accurately labelled diagram and up to 2 marks for the explanation of the cause)** For **knowledge and understanding** and **application** of demand-pull inflation as a shift to the right of the aggregate demand curve **(2 marks for accurately labelled diagram)** and for the explanation of one cause of the shift **(2 marks for accurately labelled diagram and up to 2 marks for the explanation of the cause)**	**8**	Cost-push inflation is represented by a shift to the left of the aggregate supply curve. It could be caused by a decline in the exchange rate that increases the price of imported raw materials, a rise in the wage rate above any increases in productivity levels etc Demand-pull inflation is represented by a shift to the right of the aggregate demand curve. It could be caused by increased exports, increased government spending, etc
4(b)	**Discuss whether monetary policy measures are always effective in correcting a high rate of inflation.** For **analysis** of the way in which monetary policy is designed to cure inflation through measures to reduce aggregate demand and/or increasing the aggregate supply **(up to 4 marks) and** for an explanation of the likely effectiveness of these measures **(up to 4 marks)** **(AN: up to 8 marks)** For **evaluative comment** that considers whether the measures will 'always' be effective with **1 mark reserved** for a reasoned conclusion **(EVAL: up to 4 marks)**	**12**	Monetary policy must be deflationary – a reduction of the money supply, a rise in the rate of interest or a rise in the exchange rate. The aim is to control aggregate demand, but it might be ineffective if the components of aggregate demand are insensitive to the changes in the monetary indicators. Monetary policy measures might be designed to increase aggregate supply. Lower interest rates might increase capacity through stimulating investment in infrastructure, but this might counter monetary measures to curb demand-pull inflation. These measures might be used to raise the exchange rate to reduce cost-push pressures.

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