CAMBRIDGE
INTERNATIONAL EXAMINATIONS

NOVEMBER 2001

ADVANCED SUBSIDIARY LEVEL

MARK SCHEME

MAXIMUM MARK : 40

SYLLABUS/COMPONENT : 8708/2

ECONOMICS
(DATA RESPONSE AND ESSAY)

UNIVERSITY of CAMBRIDGE
Local Examinations Syndicate

1 a (i) Totals larger (1), deficit not surplus (1), goods deficit > services surplus (1), goods total ↓, services total ↑(1)

Any 2 **[2]**

(ii) Trade in goods easier or more traditional (1), greater comparative advantage in services, explanation of services strength or goods weaknesses (2) **[3]**

b (i) Government expenditure, I.P.D., transfers, net property income

Any 1 **[1]**

b (ii) £9390m (total sufficient) **[1]**

c (i) Worsen (1), export prices rise reducing exports (1), import prices fall increasing imports (1). Credit reverse J curve approach and Marshall-Lerner. **[3]**

c (ii) For 1996-8
Position for goods worsens confirming (1), position for services improves contradicting (1), current balance worsens after lag (1), comment on relative elasticity or time lag or other relevant points (1). Candidates are likely to consider 1996-8 but 1993 also acceptable. **[4]**

d Meaning of tariff (1).
In favour: avoid harm to confidence or need to deflate and may raise revenue, cut outflow of currency and boost employment.
Against: inflationary, against comparative advantage, ineffective with inelastic demand, breach of trade obligations, deficit covered elsewhere and retaliation possible.
Up to (4) marks for clear explanation with (1) more for comment/evaluation.
Full marks requires both sides be considered. List = maximum (2). **[6]**

2 a *Price mechanism is the centre-piece with demand and supply influences at work. Consumers aim to maximise satisfaction while producers aim at profit maximisation. Changes in demand and supply send signals about resource allocation through price changes. Resources transfer to those areas offering higher rewards and leave those where rewards are falling. The operation depends upon the assumptions of the model.* **[8]**

Level 3	Detailed account working through changes with clear assumptions	(7-8)
Level 2	Understanding of adjustment within system	(4-6)
Level 1	Basic knowledge of the price system	(1-3)

b *Governments intervene to correct market failure and promote consumer welfare. Market failure includes externalities, non-provision of public and merit goods, the existence of demerit goods, price instability and the breakdown of competition, others may be suggested. The methods used can include taxation, subsidies, direct provision of goods and service and prohibitions. They can be judged by their effectiveness and drawbacks.* **[12]**

Level 3	Analysis of the need for and methods used in government action	(9-12)
Level 2	Understanding of the link between market failure and relevant policies	(5-8)
Level 1	Knowledge of the idea of market failure	(1-4)

3 a *The meaning of money and its functions of medium of exchange, unit of account, store of value and standard of deferred payment link to the ease with which specialisation, trade and long term planning can take place. These contribute to efficiency and higher standards of living found in modern economies.* **[8]**

Level 3	Explanation of the contribution of the functions of money to operation	(7-8)
Level 2	Understanding of the functions of money	(4-6)
Level 1	Knowledge of the concept of money and/or its functions	(1-3)

3 b *Changes are measured by price indices. The problems include their comprehensiveness, the accuracy of weighting, the collection of data, the frequency of changes in data, the effects of quality changes and the suitability for purpose. These can be mitigated by frequent updating, willingness to spend on data collection, a range of alternative measures and appropriate interpretation. Inaccuracy causes problems in interpreting and responding to the current position for individuals, firms and governments.* **[12]**

Level 3	Discussion of the problems and their significance	(9-12)
Level 2	Explanation of the problems	(5-8)
Level 1	Understanding of the features of a price index	(1-4)

4 a *The concepts relate changes in quantity demanded to own price and income respectively. This can be shown by definition or formula. PED normally has a negative value and YED a positive value reflecting the response to a change in the variable.* **[8]**

Level 3	Comparison of the two	(7-8)
Level 2	Clear understanding of one concept to (5), both to (6)	(4-6)
Level 1	Basic knowledge of one to (2) or both concepts to (3)	(1-3)

4 b *PED can be used to set pricing policy with reference to the effect upon revenue of price changes. YED might indicate the need for changes in production levels, or products, or markets depending upon positive or negative values. Caution may be needed in using the concepts based on their accuracy, reliability and the ability to predict behaviour.* **[12]**

Level 3	Discussion of uses and limitations in application	(9-12)
Level 2	Explanation of use linked to values of estimates	(5-8)
Level 1	Identification of the uses of the two concepts	(1-4)