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CAMBRIDGE
INTERNATIONAL EXAMINATIONS

NOVEMBER 2002

GCE Advanced Subsidiary Level

MARK SCHEME

MAXIMUM MARK : 40

SYLLABUS/COMPONENT :9708 /2

ECONOMICS
(DATA RESPONSE AND ESSAY (CORE))

UNIVERSITY of CAMBRIDGE
Local Examinations Syndicate

1 a) i) Downward sloping demand curve (1), correct labels (1) [2]

ii) Price and quantity demanded have an inverse relationship (1)
normal 1989-93 or 1993-4 (1) not normal 1994-5 (1) [3]

b) i) Formula or 4%/10% (1), (-).4(2) [2]

ii) Inelastic (1), lack of substitutes (1), habit (1) or 1 reason explained fully (2) [3]

c) Negative externalities meaning- general (1), precise (2) examples
e.g. pollution, passive smoking, healthcare costs, fire costs (1) or alternatives
1 per identification [4]

d) Operation of tax (1) Leaves choice to consumer, raises revenue, targeted but is regressive, ineffective and encourages evasion,(up to 4 per side).
Comparison may be made against alternatives e.g. a ban or education. Both sides needed for maximum. [6]

Section B

2 **a) Explain the link between the basic economic problem and opportunity cost.** **[8]**

Limited resources and unlimited wants mean that scarcity will always exist. Scarcity involves choice which means the sacrifice of the next best alternative where opportunity cost comes in.

Knowledge of the terms	up to 3 marks
Explanation of the terms	up to 3 marks
Explanation of the linkage	up to 2 marks

b) Discuss whether planning has any role to play in the allocation of resources in a modern, mixed economic system. **[12]**

Modern economies are to varying extents mixed in nature. Resource allocation is influenced both by the private and public sectors. Recent developments suggest the superiority of market over planned economies. The demise of planning may be explained in terms of ineffective resource allocation because of planning failures and inefficiencies. Mixed systems however employ some degree of regulation or planning to correct market failures and improve social welfare.

Knowledge of mixed economy and resource allocation	up to 3 marks
Explanation of the nature of a mixed economy	up to 3 marks
Analysis of the role of planning in a mixed economy	up to 3 marks
Discussion of the role of planning in a mixed economy	up to 3 marks

3 a) Explain how the international value of a currency is determined in a floating exchange rate system. **[8]**

The price will be set by the operation of demand and supply forces in forex markets. These forces are influenced by trade performance, capital flows, speculative flows and possible government action. Changes linked to relative interest rates, confidence, competitiveness etc will shift the curves and affect price.

Recognition of price determination by demand and supply	up to 3 marks
Understanding of the influences on demand and supply	up to 3 marks
Explanation of changes in exchange rate	up to 2 marks

b) Discuss whether an appreciation in its exchange rate is to the advantage of an economy. **[12]**

An appreciation will mean more expensive exports and cheaper imports. This will affect the balance of payments, terms of trade, employment levels, cost levels and confidence in the currency. The effect will depend on the elasticities and time period involved. The links need to be explained and the benefit or drawback of the outcome examined. This might include effects on inflation, living standard growth and the need for government intervention.

Recognition of the price effects of an appreciation	up to 3 marks
Explanation of the results of an appreciation	up to 3 marks
Analysis of the benefits of an appreciation	up to 3 marks
Discussion of the drawbacks of an appreciation	up to 3 marks

4 a) **Explain, with examples, the terms public good and merit good.** **[8]**

Public goods when provided for one person are available to others. They have the properties of non rivalry and non excludability. Examples are defence, street lighting and law and order. They are not supplied by the market system. Merit goods are those which provide society with a greater benefit than enjoyed by the individual consumer. They are under-consumed through imperfect knowledge. They usually provide positive externalities and include education and health.

General statement	1 mark	
Example	1 mark	(X2)
Explanation of the nature	up to 2 marks	

b) **Discuss how a government might increase the provision of public and merit goods.** **[12]**

Public goods might be provided directly by the government and financed through the tax system or borrowing. Issues to be considered include the level of provision and the effects of financing e.g. equity and efficiency issues. Merit goods might be subsidised or supplied directly. Information might be provided or compulsion introduced. Issues might include opportunity cost and effectiveness.

Recognition of methods	up to 3 marks
Explanation of the operation of methods	up to 3 marks
Analysis of the impact of the methods	up to 3 marks
Discussion of the methods	up to 3 marks