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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary and Advanced Level

MARK SCHEME for the November 2004 question papers

9708 ECONOMICS

9708/02 Paper 2 Data Response and Essay (Core), maximum raw mark 40

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.

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Local Examinations Syndicate

Grade thresholds taken for Syllabus 9708 (Economics) in the November 2004 examination.

	maximum mark available	minimum mark required for grade:		
		A	B	E
Component 2	40	26	23	16

The thresholds (minimum marks) for Grades C and D are normally set by dividing the mark range between the B and the E thresholds into three. For example, if the difference between the B and the E threshold is 24 marks, the C threshold is set 8 marks below the B threshold and the D threshold is set another 8 marks down. If dividing the interval by three results in a fraction of a mark, then the threshold is normally rounded down.

November 2004

GCE AS/A LEVEL

MARK SCHEME

MAXIMUM MARK: 40

SYLLABUS/COMPONENT: 9708/02

ECONOMICS
Paper 2
Data Response and Essay (Core)

UNIVERSITY of CAMBRIDGE
International Examinations

1 (a) Suggest two steps a country might take to open its economy to freer international trade (2)

Import approach: reduction of tariffs (1), abolition of quotas (1), reduction of subsidies (1), agreement to rules on trade in services, GATS (1), join WTO, FTA, EU (1)

Export approach: raise productivity (1), provide information (1)

Inward capital approach: tax concessions to mncs (1), improved infrastructure (1)

Any two possibilities showing removal of obstacle to trade.

(b) (i) Explain why the comparative advantage of Japan and China differs (4)

Japan's is based on high technology (1), this is the result of advanced methods/knowledge/history (1), China's is based on low labour costs (1) this is the result of population size/economic development/history (1)

(ii) Compare the importance of international trade to the two countries. (4)

Data approach: Total trade is more important to Japan in total value (1), $802bn v. $465bn (1)

but bigger for China as a % of GDP(1) 42% v. 16% (1),

current account surplus for both countries (1), this is larger in value for Japan (1) visible surplus smaller for Japan as % of GDP(1) 2.5% v. 3%(1).

Any two points with supporting evidence or 4 identifications

Applied approach: general benefit of trade (1),

Different types of benefit up to 2 marks

Comment reflecting the different positions of the two countries up to 4 marks

(c) Comment on the inflation figures for the two countries (4)

Japan's is lower (1), for both periods (1), Japans price level is falling, deflation (1), both are lower in 2000 than their 10 year average (1), China's has fallen more (1), both are relatively low (1).

Any 4 valid observations or 2 observations with comment on significance.

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(d) Discuss whether China offers an economic threat or opportunity to Japan. (6)

Opportunities

It provides a market for exports to boost employment, a cheap source of imports to cut the cost of living, an opportunity to invest abroad to maintain competitiveness and yield income, potential competition to spur efficiency and an economy that might be complementary to Japan's.

Threats

The outflow of investment may cut Japanese employment and reduce domestic investment, cheap imports may cost Japanese jobs, future development of technology may make China a serious long-run competitor in high tech products.

Max four for each side with 2 additional points for judgement to a max of 6

2 (a) Explain how inflation affects the functions of money. [8]

Inflation is a sustained rise in the general price level. Money serves as a medium of exchange, a unit of account, a store of wealth and a standard of deferred payment. Inflation will undermine these functions. Fast changing prices affect it as a unit of account and a store of wealth, while hyper-inflation may lead to barter. The extent may depend upon the rate of inflation. The impact may be more immediate upon the wealth and deferred payment functions as real values fall.

Knowledge of the terms	up to 3 marks
Explanation of the functions and effects	up to 5 marks

(b) Discuss the view that inflation is always a major problem. [12]

Inflation is a problem because of its effects on the efficient operation of the market system, international competitiveness, economic confidence and the distribution of income. Hyper-inflation can destroy an economy. Inflation may produce deflationary action from government and T.U. action to protect real incomes. It is not always a major problem, this depends upon its absolute and relative level, whether it is anticipated or unanticipated and whether it is controllable. Recent experience suggests that inflation is no longer the problem it was and that deflation may be a concern.

Knowledge of the effects of inflation	up to 4 marks
Explanation of the harmful effects of inflation	up to 4 marks
Discussion of benign inflationary situation	up to 4 marks

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3 (a) Explain the difference between elastic, inelastic and fixed supply. [8]

Elasticity of supply measures the responsiveness of quantity supplied to changes in price and is measured by the elasticity formula. The three cases relate to values >1, <1 and 0 reflecting the degree of change. The values can be shown by the nature of the supply curve.

Knowledge of the definition and formula	up to 3 marks
Understanding of the values	up to 3 marks
Illustration of the different values	up to 2 marks

(b) Discuss whether the elasticity of supply of manufactured goods is likely to be greater than the elasticity of supply of agricultural goods. [12]

Elasticity of supply is influenced by levels of stocks, excess capacity, ease of entry to the industry, mobility of factors, the length of the production process and the time period involved. For farming it may be more difficult to hold stocks, less easy to enter the industry, take longer to carry out production and bring excess capacity into play. This suggests that supply may be more inelastic in agriculture. The nature of the product may make supply equally inelastic for some manufacturing.

Knowledge of the influences on elasticity	up to 3 marks
Explanation of the operation of the influences on elasticity	up to 3 marks
Discussion of the two different industries	up to 6 marks

4 (a) Explain the meaning of public good and private good. [8]

A private good once used by one consumer or firm is not available to others. This covers most consumer and capital goods. Public goods have non-rivalry and non-excludability so may encounter the 'free rider' problem. Private goods can be supplied for profit by the market system while public goods, such as defence and street lighting, are provided by the government and funded through taxation.

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

(b) Discuss whether economic actions by individuals always result in a net benefit to society. [12]

Actions by individuals should be in their own interests and maximise their own benefit. This may contribute to maximisation of benefit to society through the incentives of the market system. The government has a role in promoting social welfare. Actions with positive externalities give a greater benefit to society than to the individual. Some actions may have harmful side-effects or negative externalities which make the cost to society greater than to the individual. Producers may be unwilling to supply some goods and services e.g. merit and public goods which society values.

Understanding of private motivation and public interest	up to 4 marks
Analysis of the benefits of individual actions	up to 4 marks
Discussion of the harm of individual actions	up to 4 marks

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