Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay **October/November 2017**

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.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the October/November 2017 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

® IGCSE is a registered trademark.

© UCLES 2017

Question	Answer	Marks	Guidance
1(a)	2010 to June 2013 **(1 mark)** June 2015 to December 2015 **(1 mark)**	**2**	Allow benefit of doubt to those candidates who identify the dates when prices have fallen e.g. June 2013 even if it is not clear that they understand that prices have fallen over a period.
1(b)	For identification of a relevant category of spending **(1 mark)** and for an accompanying explanation that oil is a component of this category of spending and this has contributed to the falling prices of the chosen category shown in the data. **(1 mark)**	**2**	The two categories of spending that could be used are 'Fuel, Light and Water Charges' and 'Transport and Communication'. Reference to either could gain the marks available if explained. Both have oil as components and 'tumbling oil prices' have reduced both categories of spending and contributed to downward pressure on prices.
1(c)	For identifying 'Food' as the category that has the greatest impact upon real incomes **(1 mark)** because this category has the highest weight attached **(1 mark)** and together with the price change **(1 mark)** will lead to a decrease real incomes **(1 mark)** **(4 maximum)** Allow credit for the argument that 'Fuel, Light and Water' shows the biggest fall in price **(1 mark)** and that this will increase real incomes **(1 mark).** **(2 maximum)**	**4**	'Real income' is money income adjusted for price changes. It expresses how many goods and services that a given money income can buy. The impact of price changes on real income is determined by two factors. One is the year on year price change and the other is the weight attached to each category of spending. In terms of the data, "Fuel etc' has the greatest price change, but its weight is much less than 'Food'. 'Food' has the highest year on year price increase and it also has the highest weight attached. When the extent of the price change and the weight attached to the categories of spending are examined it is clear that food price changes have the greatest impact upon real incomes. In order to score full marks it is necessary to provide a full explanation of the reason that this category of spending has the highest impact upon real incomes.

© UCLES 2017

Question	Answer	Marks	Guidance
1(d)	For an example of what is meant by expansionary monetary policy. One example of expansionary monetary policy is acceptable, for example a cut in interest rates. **(1 mark)** For an **explanation** of how expansionary monetary policy is expected to increase the components of aggregate demand. **Up to 2 marks** (2 max) for **each** component of aggregate demand **(Up to 3 marks)** For evaluative comment upon why expansionary monetary policy may not increase prices **(1 mark)** and with valid reference to the Japanese economy **(1 mark)**. Credit aggregate demand and supply diagrams showing the shift in aggregate demand that illustrate the extent of the price rise. **(Up to 2 marks)**	**6**	Expansionary monetary policy is action taken to increase the money supply, reduce the rate of interest or improve access to credit facilities. It is intended to increase consumption and investment expenditure. In addition, it will lead to a fall in an economy's exchange rate, which will increase net exports. Whether an expansionary monetary policy will cause inflation depends firstly upon how sensitive each category of spending is to the change in monetary aggregates and secondly whether the increased spending can be matched by an increase in aggregate supply. This depends upon the relationship between aggregate demand and aggregate supply. In terms of Japan, whether prices will increase depends upon factors referred to in the data. E.g. weak wage growth, bad weather and low confidence amongst consumers.

© UCLES 2017

Question	Answer	Marks	Guidance
1(e)	For **explaining** who would lose from a higher rate of inflation **(Up to 4 marks)** For **explaining** who would gain from a higher rate of inflation **(Up to 4 marks)** A list of those who would lose **(1 max)** and those who would gain **(1 max) 2 maximum.** **(5 marks maximum)** **Reserve 1 mark for a conclusion**	**6**	Some would gain and some would lose from a rise in the rate of inflation. For example, those on fixed incomes would lose as would creditors if the rate of interest charged was below the rate of inflation. Businesses would suffer menu costs and consumers would face shoe-leather costs. Exporters would lose competitiveness if the higher rate of inflation exceeds that of competitors in overseas markets. Domestic producers would lose if the higher rate of inflation resulted in a rise in cheaper imports. Those who would gain might include those who are in strong trade unions, creditors, and producers who would enjoy increased profits as prices rise. So from this perspective some would gain and some would lose from a rise in inflation in the Japanese economy. Some might argue however that all would benefit from a healthier Japanese economy with a higher, but still manageable rate of inflation.

© UCLES 2017

Question	Answer	Marks	Guidance
2(a)	For **Knowledge and Understanding:** For an understanding of what income elasticity measures without a formula or with an inaccurate formula **(1 mark)** For an accurate formula **(2 marks)** **2 marks maximum** For **Application (and knowledge and understanding):** For stating that a normal/luxury good has a positive coefficient **(1 mark)** and explaining why this occurs with reference to the change in income and change in quantity demand. **(1 mark)** **(Up to 2 marks)** For stating that an inferior good has a negative coefficient **(1 mark)** and explaining why this occurs with reference to the change in income and the change in quantity demand. **(1 mark)** **(Up to 2 marks)** For explaining why a necessary good has a low, positive coefficient **or** why a luxury good has a high positive coefficient with reference to the % change in income and % change in quantity demand. **(Up to 2 marks)**	**8**	In order to score well here candidates need a good understanding of the concept of income elasticity of demand. They then need to apply the concept to distinguish between normal, necessary and inferior goods.

© UCLES 2017

Question	Answer	Marks	Guidance
2(b)	For **Analysis:** That explains how an understanding of price elasticity might benefit producers which might include reference to the strengths and/or weaknesses of this measure. **(Up to 4 marks)** That explains how an understanding of income elasticity might benefit producers which might include reference to the strengths and/or weaknesses of this measure. **(Up to 4 marks)** **8 marks maximum** Credit reference to the production of agricultural goods, but this is not essential for full marks. For **Evaluation:** That exercises some judgement in considering which type of elasticity would be most beneficial for a producer. This must make use of the analysis that is offered. There must be a conclusion for full marks. **4 marks maximum**	**12**	Both price elasticity and income elasticity would be useful for the producer of agricultural goods. Price elasticity would inform a producer of the impact of price changes upon total revenue. Income elasticity would inform the producer of the appropriate goods to produce as incomes change. For example, if incomes are falling the producer might plant agricultural products with negative elasticity. Evaluative comment might comment on the fact that price elasticity would have a more immediate effect whereas income elasticity is of more long-term benefit to producers because it takes time for the new crops to be harvested.

© UCLES 2017

Question	Answer	Marks	Guidance
3(a)	For **Knowledge and Understanding and Application of a movement along a PPC:** For an accurately labelled diagram **(1 mark)** that shows a movement along a PPC curve representing a change in the composition of output **(1 mark)**. **(Up to 2 marks)** And explaining that this might be **caused** by government direction in a centrally planned economy or through the operation of market forces in a free market economy. **(Up to 2 marks)** **4 marks maximum** For **Knowledge and Understanding and Application of a shift in a PPC** For an accurately labelled diagram that shows a shift in a PPC curve **(1 mark)** and that this means that more (or less) of both goods can be produced **(1 mark)** **(Up to 2 marks)** And explaining that this could be **caused** by a change in the quantity and/or quality of resources or a change in technology. **(Up to 2 marks)** **4 marks maximum**	**8**	Candidates need to provide appropriate diagrams that show the difference between the two changes. They then need to explain that a shift in the curve could be caused by a change in the factors available to an economy or a change in technology. The movement along the curve represents a change in the composition of goods produced. The decision to change this composition could be a result of market forces or through government policy.

© UCLES 2017

Question	Answer	Marks	Guidance
3(b)	**For Analysis:** That explains how resources are allocated in centrally –planned economies including the strengths and weaknesses of this system. **(Up to 4 marks)** That explains how resources are allocated in free market economies including the strengths and weaknesses of this system. **(Up to 4 marks)** **8 marks maximum** **For Evaluation:** That exercises some judgement in considering which type of economy would have more benefit. This must make use of the analysis that is offered. There must be a conclusion for full marks. **4 marks maximum**	**12**	In a centrally planned economy the price mechanism does not exist. Central and regional planning committees allocate resources. In free market economies resources are allocated by the market mechanism with a very limited role for the government. The weaknesses of each system often lead to the conclusion that the mixed economy is most beneficial.

Question	Answer	Marks	Guidance
4(a)	For **Knowledge and Understanding:** A brief description of the four components is required. 1 mark for each component. **(Up to 4 marks)** For **Application:** Showing how for example inflation in an economy or changes in comparative advantage could cause a deficit. Allow any valid cause. **(Up to 4 marks for any possible cause explained)** **4 marks maximum**	**8**	Candidates need to provide a brief explanation of each component of the current account. There are four components. Balance of goods, services, income (primary) and transfers (secondary). There are a number of possible causes of a deficit. These include inflation in an economy at a rate that exceeds the rate of inflation amongst competitors, shifts in comparative advantage. A decline in the demand for an economy's exports and in some countries remittances might have an influence. The erection of trade barriers might also cause a deficit.

© UCLES 2017

Question	Answer	Marks	Guidance
4(b)	For **Analysis:** Explaining how expenditure-reducing policies operate to remove a deficit which might include reference to the strengths and weaknesses of this approach. **(Up to 4 marks)** Explaining how expenditure-switching policies operate to remove a deficit which might include reference to the strengths and weaknesses of this approach**.** **(Up to 4 marks)** **8 marks maximum** **For Evaluation:** That exercises some judgement in considering which method is preferable. This must make use of the analysis that is offered. There must be a conclusion for full marks. **4 marks maximum**	**12**	Expenditure reducing policies reduce total spending in an economy. This means that spending on imports will fall. In addition, producers will divert resources to exports if the home market is depressed. Such policies can be exercised through fiscal or monetary policy. These policies can be effective but result in a reduction in employment and output in the economy. Expenditure switching policies shift spending from overseas to domestic products. Methods include tariffs, quotas, export subsides and competitive devaluation. These policies distort market forces and might provoke retaliation and a trade war.

© UCLES 2017

Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/23**

Paper 2 Data Response and Essay **October/November 2017**

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.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the October/November 2017 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

® IGCSE is a registered trademark.

© UCLES 2017

Question	Answer	Marks	Guidance
1(a)	The price of rice fell **(1 mark)** by 10.2% **(1 mark)**	**2**	If the calculation is completed, but only ±10.2%, 1 mark only. Need to state clearly that the price has fallen for the second mark.
1(b)	For a supply and demand diagram that shows a shift to the right of the supply curve **(1 mark)** and the fall in price and increase in quantity **(1 mark)** because the firm enjoys a fall in costs **(1 mark)**	**3**	The diagram should show a supply and demand diagram that is correctly labelled. The label could show all three commodities or just one that signifies how all are affected. It will show a shift to the right of the supply curve together with a fall in price. The explanation should state that the curve shifts to the right because the subsidy results in a fall in costs.
1(c)	For explaining that a minimum price set above equilibrium will raise price **(1 mark)** and support the income/revenue/profit of the farmers **(1 mark).** **(Up to 2 marks)** For explaining that the minimum price can only be maintained if the government can manage the surplus that will arise. **(Up to 2 marks)** For evaluative comment upon the likelihood that the government can sustain the minimum price in the long run. **(1 mark)**	**5**	It is expected that candidates will answer this question through an appropriate use of a diagram. This diagram is likely to show a minimum price above the equilibrium price. This will of course create a surplus of rice in the market. The surplus will need to be purchased by the government to maintain the equilibrium. The price will be sustained if the government can continue to purchase the surplus. If not the existence of the surplus will put downward pressure upon the price and black markets will break out. The question does not state that a diagram is necessary so an answer that does not contain a diagram can still score full marks.

© UCLES 2017

Question	Answer	Marks	Guidance
1(d)	For a clear understanding that comparative advantage is based upon different opportunity cost **(1 mark)** and this leads to specialisation and trade **(1 mark).** **(Up to 2 marks)** For explaining that comparative advantage depends upon factor endowment **(1 mark)** and for application drawn from the data that indicates that Thailand and Vietnam should specialise in rice. **(1 mark)** **(Up to 2 marks)**	**4**	The text contains information to suggest that the factor endowments in Thailand and Vietnam favour rice production. This underpins the law of comparative advantage that suggests that specialisation should be based upon the lowest opportunity cost.
1(e)	For an analysis of the advantages of removing controls **(Up to 3 marks)** For an analysis of the disadvantages of removing controls **(Up to 3 marks)** **5 maximum** Reserve 1 mark for a conclusion. **6 maximum**	**6**	Removing controls on the rice market should see the price of rice falling in some countries and rising in others as free market forces come into operation. Some rice farmers may become unemployed, but consumers will benefit as their real incomes increase. If resources are allocated to their most efficient location there will be a rise in welfare in the world.

© UCLES 2017

Question	Answer	Marks	Guidance
2(a)	For **Knowledge and Understanding:** For understanding of what is meant by price elasticity of demand **(1 mark)** For an incorrect formula or no formula 1 max For an accurate formula **(Up to 2 marks)** For understanding what is meant by 'relatively inelastic'**.** **(2 marks)** **4 marks maximum** **For Application:** To show how a number of factors cause the demand for a product to be inelastic (If only one factor then 2 max) **(Up to 4 marks)** **4 marks maximum**	**8**	Candidates will require a good understanding of the concept of price elasticity of demand. They need to also have knowledge of the factors that influence the elasticity of demand for a good. A good will be relatively inelastic in demand if it has few substitutes, is habit forming, is bought infrequently and is only a small proportion of income. To gain the marks for 'relatively inelastic', It is not enough to simply state that inelastic is 'less than 1'. This can only be awarded one mark. For the second mark it is necessary to explain how this coefficient arises. For example, the % change in quantity is less than the % change in price.
2(b)	For **Analysis:** For an explanation of how knowledge of the price elasticity of demand could be useful for governments with reference to the strengths and weaknesses of this measure. **(Up to 4 marks)** For an explanation of how knowledge of the income elasticity of demand could be useful for governments with reference to the strengths and weaknesses of this measure. **(Up to 4 marks)** **8 marks maximum** **For Evaluation:** That exercises judgement in considering which elasticity might be more useful for governments. This must include a conclusion. **(Up to 4 marks)** **4 marks maximum**	**12**	Knowledge of the price elasticity of demand will allow governments to see the impact of price changes that come about when indirect taxes and subsidies are imposed upon goods. Knowledge of income elasticity will help governments to know how regions are affected during recessions according to the products that the region specialises in.

© UCLES 2017

Question	Answer	Marks	Guidance
3(a)	For **Knowledge and Understanding:** For an accurate ppc diagram with increasing opportunity costs showing military goods on one axis and some other appropriate category of goods on the other. E.g. merit goods **(Up to 2 marks)** For illustration showing that a movement along the ppc **(1 mark)** means an opportunity cost in terms of the next best alternative forgone. **(1 mark)** **(Up to 2 marks)** **4 marks maximum** For **Application:** For a clear explanation that the 'increasing opportunity costs' means that the opportunity cost is rising as resources are re-allocated to the production of more military goods. **(Up to 2 marks)** For a clear explanation of why opportunity costs will rise as resources are re-allocated to produce more military goods **(Up to 2 marks)** **4 marks maximum**	**8**	Candidates need to provide a diagram of a ppc showing military goods on one axis and other products for example, consumer goods or merit goods on the other. They then need to go on to show how more spending on military goods will result in less spending on the alternative. In the process they will need to demonstrate a clear understanding of opportunity cost. The ppc should be drawn with a convex curve to illustrate increasing costs.

© UCLES 2017

Question	Answer	Marks	Guidance
3(b)	**For Analysis:** That explains how the growth of an economy can result from the application of supply-side policies **(Up to 4 marks)** For an explanation of why supply-side policies might not work **(Up to 4 marks)** **8 marks maximum** **For Evaluation:** That exercises judgement in considering whether supply-side policies are likely to be most ineffective/effective in generating growth. This must include a conclusion. **(Up to 4 marks)** **4 marks maximum** Please use the textbox to indicate how many marks have been awarded to each part of the question. E.g.:– 1,4,2 Please make sure that the total mark recorded in SCORIS matches the marks shown in the textbox	**12**	Growth of an economy is often represented by an outward shift of a ppc. An 'increase in growth' could also be represented by a shift onto a ppc from a position within the curve. Both interpretations are acceptable and either approach could gain full marks. 'Supply side policies' refers to any policies that have the aim of increasing aggregate supply. They range from tax cuts to incentivise labour, support for R&D, investment in infrastructure and in human capital. Whether they are effective depends upon the ability of government to finance supply-side policies, the time period before they can generate growth and the responsiveness of labour to supply-side initiatives. Any policy is acceptable as long as it focuses on increasing aggregate supply.

© UCLES 2017

Question	Answer	Marks	Guidance
4(a)	For **Knowledge and Understanding:** For an explanation of how the exchange rate is determined in a freely floating exchange rate system. **(Up to 2 marks)** For a diagram showing a depreciation of the currency as the demand falls and/or the supply rises as a result of the inflation. **(Up to 2 marks)** **4 marks maximum** For **Application:** For an explanation of the causes of a fall in the demand and/or a rise in the supply of a currency due to high inflation **(Up to 4 marks)** **4 marks maximum**	**8**	A freely floating exchange rate is determined by the free forces of the supply and demand for the currency in the foreign exchange market. A high rate of inflation could lead to a decline in the exchange rate because the goods and services produced by an economy become uncompetitive. The demand for the currency falls as the demand for exports fall and the supply of the currency rises as imports rise as their relative price falls.
4(b)	For **Analysis:** That explains the advantages of a freely floating exchange rate system **(Up to 4 marks)** That explains the disadvantages of a freely floating exchange rate system **(Up to 4 marks)** **8 marks maximum** **For Evaluation:** That exercises judgement in considering the circumstances under which a freely floating rate (or fixed rate) would be preferable. This must include a conclusion. **(Up to 4 marks)** **4 marks maximum**	**12**	A freely floating exchange rate system has the advantage that there is an automatic adjustment mechanism to the external accounts. A deficit on the current account of the balance-of payments for example, will be replaced with a surplus. It has several disadvantages however including the possibility of imported inflation, capital flight and it can create uncertainty for those involved in international trade. Whether a free floating system is preferable depends to an extent upon the economic climate. If there are high rates of inflation in the world then fixed exchange rates become difficult to maintain. The self- adjusting mechanism of a floating exchange rate is likely to be preferred.

© UCLES 2017