Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **October/November 2019**

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.

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GENERIC MARKING PRINCIPLE 1:

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- 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)	**Describe, using Fig. 1.1, the immediate impact of demonetisation on India's M1 money supply.** • it fell **(1 mark)** • from about 28 trillion rupees to about 20 trillion rupees OR by about 8 trillions of rupees **(1 mark)**	**2**	Candidates can either write that it has fallen from about 28 to about 20 or that it has fallen by 8 to gain the second mark, but with either answer there must be an explicit reference to trillion rupees as this is how the vertical axis is labelled in Fig. 1.1.
1(a)(ii)	**Explain a possible reason why India's M1 money supply increased early in 2017, as shown in Fig. 1.1, after the most used bank notes were withdrawn from circulation.** • Many of the Indian population may have opened bank accounts **(1 mark)**; to deposit the 500 and 1000 rupee notes before they were no longer valid **(1 mark)**. **OR** • The Indian monetary authorities may have increased the supply of smaller denomination notes **(1 mark)**; to offset the fall in the money supply **(1 mark)**.	**2**	The question asks for the explanation of 'A possible reason'. The marks cannot be split across more than one possible reason. The information given to candidates says that this is the total supply of notes and coins in circulation plus deposits in bank accounts. Hence the explanation must be for an increase in either cash or bank account balances.
1(b)	**Explain whether a cheque should be regarded as money.** • a cheque is a method of payment / a means of facilitating a transaction / transfers money from one account to another **(1 mark)** • however, it is not a form of money as it is not always acceptable **(1 mark)**	**2**	A cheque can be used as a means of payment for goods and services, but it is not the same as money because a cheque is not always acceptable. It is an instrument instructing a financial institution to pay a specific amount of money from a particular transactional account held in a person's name with that institution. 'No' by itself does not gain a mark as the question requires an explanation. If a candidate states that a cheque should be regarded as money – **0 marks**.

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Question	Answer	Marks	Guidance
1(c)	**Explain how the Indian government's decision to withdraw the two most used bank notes is likely to affect the use of cash as a store of value in India over time.** • explanation of the function of money as a store of value or wealth **(up to 2 marks)** • explanation of how the Indian government's decision is likely to affect the use of cash as a store of value in India over time **(up to 2 marks)**	**4**	Quantities of cash can be held over a period of time and stores value by transferring purchasing power from the present to the future. The function of money as a store of value is likely to reduce at first, given that the two most used notes were withdrawn from circulation, but over time it will have less of an effect. The store of value depends upon the banknotes retaining their real worth. The short-notice removal of large denomination banknotes will have reduced peoples' confidence in holding them as a store of value since they may lose value almost instantly if not cashed in within the deadline. Smaller banknotes would be unlikely to be withdrawn so could continue as a store of value. However, these would be much less convenient (too bulky and harder to store) so would not be a perfect substitute. This use of banknotes as a store of value is liable to decline, although in the long-run people may forget or downgrade the risk.

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Question	Answer	Marks	Guidance
1(d)	**Explain the possible impact of demonetisation on the Indian government's fiscal policy.** Explanation of the possible impact of demonetisation on India's fiscal policy **(up to 4 marks)** • a smaller informal economy and a larger formal economy • would enable the authorities to better understand the fiscal situation • currently only 1% of workers pay income tax • more people are likely to be brought within the tax structure • tax revenue may increase • the Indian government will be able to increase public expenditure	**4**	
1(e)	**Discuss whether demonetisation in India is likely to be inflationary.** • for an explanation that it is likely to be inflationary **(up to 3 marks)** • for an explanation that it is **not** likely to be inflationary **(up to 3 marks)** **5 marks maximum** for the explanation Plus **1 mark** for a conclusion	**6**	It could be inflationary if the government's increased tax revenue is used to stimulate aggregate demand in the Indian economy, but it depends on whether the government spends the tax revenue. However, if the wages of employees are paid directly into bank accounts, it may reduce the extent of liquidity in the economy, reducing any inflationary threat. Also, if some people are more fearful of the future of the economy, they may be more cautious in their spending patterns, again dampening down inflation. Credit reference to Quantity Theory of Money (although not on AS syllabus): the immediate impact is that the money supply goes down, when it will not be inflationary, but there will be an eventual increase in the money supply as people open bank accounts (as shown in Fig. 1.1), which could be inflationary.

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Question	Answer	Marks	Guidance
2(a)	**Explain, with the help of a diagram, how a free market would react if a minimum price which had been set above the equilibrium is removed.** For correct diagram: • axes correctly labelled: P/Q **(1 mark)** • market equilibrium shown **(1 mark)** **(KU: up to 2 marks)** • minimum price shown above equilibrium in diagram **(1 mark)** • reference to the existence of excess supply **(1 mark)** • explanation in terms of the process whereby a minimum price set above the equilibrium is removed. **(up to 4 marks)** **(APP: up to 6 marks)**		• The guaranteed minimum price or price floor, set above the equilibrium, would be removed • This would lead to the excess supply disappearing • The market would revert to an equilibrium position, leading to a fall in price with an increased quantity traded • There would neither be an excess supply nor an excess demand in the free market: the quantity demanded will increase and the quantity supplied will reduce, so eliminating the excess • A market clearing position would be established • The impact on the producer revenue will depend on the elasticities of demand and supply • Consumer surplus will increase

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Question	Answer	Marks	Guidance
2(b)	**Discuss, with the use of examples, the extent to which a supermarket could make use of the concept of income elasticity of demand in relation to the different types of goods being sold when there was an increase in consumer incomes.** • analysis in relation to normal goods, using appropriate examples **(up to 3 marks)** • analysis in relation to inferior goods, using appropriate examples **(up to 3 marks)** • analysis in relation to necessity goods, using appropriate examples **(up to 3 marks)** **(AN: up to 8 marks)** • assessing the **extent** to which a supermarket could make use of the concept of income elasticity of demand in relation to the different types of goods being sold when there was an increase in consumer incomes **(up to 3 marks)**; plus a concluding comment **(1 mark)** **(EV: up to 4 marks)**		YED is the percentage change in the quantity demanded of a product divided by the percentage change in incomes. For a normal good, the YED will be positive for normal goods, i.e. as consumer incomes rise, the demand for products will rise. For an inferior good, the YED will be negative for inferior goods, i.e. as consumer incomes rise, the demand for products will fall. If there is an increase in consumer incomes, a supermarket is likely to stock more normal goods and fewer inferior goods. Necessity goods have a positive YED, but it is rather low, e.g. less than one (inelastic). If there is an increase in incomes, there is unlikely to be very much of an effect on supermarkets in terms of the stocking of necessity goods.

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Question	Answer	Marks	Guidance
3(a)	**Explain, with the help of a diagram, the effect and incidence of a subsidy in a market for essential transport.** For correct diagram: • axes correctly labelled: P/Q **(1 mark)** • market equilibrium shown **(1 mark)** **(KU: up to 2 marks)** • shift of supply curve to the right **(1 mark)** • lower price and higher quantity shown **(1 mark)** • explanation in terms of incidence in relation to the impact of different elasticities **(up to 2 marks)** • explanation in terms of incidence in a market for essential transport where demand is likely to be relatively inelastic **(up to 2 marks)** **(APP: up to 6 marks)**	**8**	The effect of introducing a subsidy in a market for essential transport is that the lower price is likely to increase the demand for the transport, making it more affordable, especially for those on lower incomes. The extent of this increase will depend on the price elasticity of demand for transport, as will the incidence of the subsidy, i.e. the eventual distribution of the advantage of a subsidy. The demand for essential transport is likely to be relatively price inelastic.

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Question	Answer	Marks	Guidance
3(b)	**Discuss, with the use of examples, whether a government should directly provide certain goods and services in an economy.** • analysis of reasons for a government to directly provide certain goods and services in an economy, using appropriate examples **(up to 4 marks)** • analysis of reasons for a government **not** to directly provide certain goods and services in an economy, using appropriate examples **(up to 4 marks)** **(AN: up to 8 marks)** • assessing whether a government is justified in directly providing certain goods and services in an economy – public goods have to be provided by the government as these otherwise would not be provided at all **(up to 3 marks)**; and a concluding comment **(1 mark)** **(EV: up to 4 marks)**	**12**	Reasons for: • To enable benefits in terms of economies of scale if a large firm is created, lowering cost and possibly price • Justifiable where the goods and services are public goods • To encourage consumption of merit goods • To take account of externalities, both positive and negative • Justifiable if high levels of capital expenditure are required • Justifiable in the case of a natural monopoly, avoiding a wasteful duplication of resources • Possible strategic argument • Prevention of private sector monopoly power Reasons against: • Lack of incentive to be efficient and innovative • There may be an absence of competitive pressure • Political, not economic, decision

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Question	Answer	Marks	Guidance
4(a)	**Explain, with the help of a diagram, the difference between what causes (i) a movement along an aggregate supply curve and (ii) a shift in an aggregate supply curve.** For correct diagram: • axes correctly labelled: price level, GDP/real output **(1 mark)** • AS/AD correctly labelled **(1 mark)** **(KU: up to 2 marks)** • explanation of a movement along an AS curve **(up to 3 marks)** • explanation of a shift in an AS curve **(up to 3 marks)** **(APP up to 6 marks)**	**8**	Movement along an AS curve: • this is caused by a change in the price level; it could also be caused by a change in the AD curve and there is then a movement along an AS curve to restore the equilibrium position Shift in an AS curve: • this is caused by any reason other than a change in the price level, e.g. a change in the costs of factors of production, a change in the taxes on firms, a change in the productivity/quality of inputs or a change in the quantity of resources

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Question	Answer	Marks	Guidance
4(b)	**Discuss whether supply-side policies are likely to be effective in increasing employment in an economy.** • analysis of potential benefits of supply-side policies to increase employment in an economy, using appropriate examples **(up to 4 marks)** • analysis of potential limitations of supply-side policies to increase employment in an economy, using appropriate examples **(up to 4 marks)** **(AN: up to 8 marks)** • assessing whether supply-side policies are likely to be effective in increasing employment in an economy – it is possible that such policies might actually increase unemployment **(up to 3 marks)**; and a concluding comment **(1 mark)** **(EV: up to 4 marks)**	**12**	Possible benefits of supply-side policies: • Privatisation of firms to make them more efficient, leading to an increase in employment • Increased spending on education and training to increase labour productivity and so increase employment • Lower corporate taxes can leave firms with more money to spend on employing more workers • Subsidies may be provided, encouraging firms to increase employees • Policies to make the labour market more flexible may lead to an increase in employment • Policies to encourage competition, leading to an increase in employment • Financial support to encourage spending on R&D, leading to an increase in employment Possible limitations of supply-side policies: • May be expensive to implement • Can take a long time to take effect, e.g. policies on education and training • Privatisation could actually lead to an increase in unemployment.

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1(a)(i)	**Suggest two reasons that would explain why Ethiopia's current account balance differs from its balance of trade in goods and services in 2015 as shown in Table 1.1.** • reference to the balance of profits, interest and dividends (primary income balance) **(1 mark)** • reference to the balance of current transfer payments (secondary income balance) **(1 mark)** The terms 'primary income balance' and 'secondary income balance' are not yet used regularly in all centres so these terms are not required for both marks available. It is essential however that the candidate makes reference to at least one item from each category to score both marks.	**2**	The current account balance and the trade balance differ because of primary and secondary income balances. The primary balance refers to the balance of profits, interest and dividends. The secondary balance mainly refers to the balance of current transfer payments. The candidate should show knowledge of both categories, so if only profits, interest and dividends is referred to with no reference to components of the secondary income balance, this only gains 1 mark. If the candidate uses the terms 'primary income balance' and 'secondary income balance', but is clearly confused on what these mean, e.g. reference to capital flows, then 1 mark maximum.
1(a)(ii)	**Explain one possible impact on Ethiopia's balance of trade in goods and services of operating the new railway line to Djibouti.** For an explanation that the cost of exporting **and**/**or** importing goods should fall **(1 mark)** and that this • could have a 'positive' effect on the balance of trade in goods and services if the new railway line results in exports becoming greater than imports **(1 mark)** **OR** • could have a 'negative' effect on the balance of trade in goods and services if the new railway line results in exports becoming less than imports **(1 mark)** **OR** • could have no effect on the balance of trade in goods if the new railway line results in exports becoming equal to the imports **(1 mark)**	**2**	It is clear from the data that both the cost of transporting freight, and the time it takes to reach the port, will be significantly reduced. Cutting the travel time/cost should lead to an increased volume of international trade. Although the mark scheme states that candidates should explain that the 'cost' of exporting goods has fallen, accept alternatives such as, 'time', 'convenience', 'ease'. The impact upon the balance of trade can only be assessed after consideration of the impact upon both import expenditure and export expenditure. Candidates who only consider the effect upon imports or exports have not fully assessed the overall impact upon the balance of trade in goods and services and will not gain both marks.

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Question	Answer	Marks	Guidance
1(b)	**Identify <u>two</u> ways in which China's economy would benefit from the building of infrastructure in Ethiopia.** For identification of any **two** benefits e.g. • inflow of profits to China • reduction in unemployment **(2 @ 1 mark)**	**2**	It is essential that the benefits identified relate to China's economy. An inflow of profits for example will benefit China's balance of payments. There will also be more employment, higher incomes, the reduction of excess capacity in the steel industry and so on. Identification without explanation can gain both marks, however there may be a need to be clear why the identified point is beneficial, e.g. a candidate might state that China's currency might appreciate. This might be a benefit but might also be a disadvantage. If there is doubt that the effect is beneficial it needs to be clarified.
1(c)	**Use a production possibility curve to explain the opportunity cost that Ethiopia would face if it did not have access to help from China in building new infrastructure.** For an accurate PPC with appropriate choices on the axes **(1 mark)**; that demonstrates the opportunity cost of choosing infrastructure or consumption/living standards **(1 mark)**. For a clear **explanation** of the opportunity cost of using internal resources rather than Chinese funds in terms of the sacrifice of living standards that would be required **(up to 2 marks)**. If the candidate is discussing incorrect choices in the diagram and the resulting explanation but it is clear that they are correctly demonstrating an accurate understanding of what opportunity cost means (i.e. the cost of giving up the next best alternative) either on the diagram or in the resulting explanation then the response may be given a **maximum mark of 1 only.**	**4**	The context of the text makes it clear that a large number of the Ethiopian population are living in 'extreme poverty'. This means that the infrastructure without external help could only be developed through sacrifice of current living standards. The production possibility curve would show infrastructure or an example of infrastructure e.g. railways (accept capital goods) and consumer goods on the axes. The accompanying explanation should refer to the choice between developing the infrastructure and the opportunity cost of a reduction in consumption if Chinese funds are not available. A candidate may explain that not investing in infrastructure will incur a cost in terms of lost production. This is represented by a shift to the left of the PPC. This is incorrect because this does not accurately describe opportunity cost in terms of the sacrifice entailed in choosing between infrastructure and consumer goods. This approach could still score one mark for an accurate diagram.

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Question	Answer	Marks	Guidance
1(d)	**Consider whether a road network, such as that upgraded in Ethiopia with government funds, should be classified as a public good.** • explaining two characteristics of public goods: non-excludability **(1 mark)**; non-rivalry in consumption **(1 mark)** • applying these characteristics to the upgraded road network and concluding that the network is **not** a public good **(up to 2 marks)**	**4**	The upgraded road network cannot be classified as a public good because it is excludable and rival in consumption. Non-rejectability is not relevant in the case of a road network. If a candidate explains that a road network is a quasi-public good, not a public good this is an acceptable approach and can gain full marks if explained well.

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Question	Answer	Marks	Guidance
1(e)	**Use aggregate demand and aggregate supply analysis to discuss how output, employment and prices might be affected by the development of infrastructure in Ethiopia.** • spending on infrastructure will shift the aggregate demand curve to the right **(1 mark)** • development of infrastructure will shift the aggregate supply curve to the right **(1 mark)** • **discussion of the impact** upon output, employment and prices that considers the relative change in both aggregate demand and aggregate supply **(up to 4 marks)** If only the impact of a shift in either AD or AS (but not both) is discussed then, because the relative change is not considered, **2 marks maximum**	**6**	The effect of the improved infrastructure will increase both aggregate demand and aggregate supply. The impact upon output, employment and prices depends upon where the curves intersect and whether there is unused capacity in the economy. Candidates need to recognise this when explaining the impact upon each economic indicator. Accept answers that suggest that the spending on the new railway can increase as a result of more consumption expenditure as more are employed to build the new infrastructure, or increased investment as businesses are encouraged to invest more as the expectation of profits increase, or increased net exports as the new railway results in more exports. However, do not reward answers that argue that consumption will increase as a result of lowered prices due to improved efficiency/lowered costs of transport, etc. as this would not lead to a shift in AD merely a movement along the curve. Candidates should be credited for effective use of appropriate diagrams; however, the question does not ask for a diagram so full marks are available even if no diagram is provided. For full marks, the impact on output, employment and prices must be discussed.

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Question	Answer	Marks	Guidance
2(a)	**Explain, with the help of a diagram, the process through which the equilibrium price and equilibrium quantity of a good changes when there is an improvement in the technology underlying the production of that good.** • accurate **diagram** showing the demand and supply of a good **(1 mark)** • with equilibrium market price and quantity **(1 mark)** **(KU: up to 2 marks)** • explanation that an improvement in technology will shift the supply curve to the right **(1 mark)**; because more can be produced at each price / the same quantity can be produced at lower costs/price **(1 mark)** • accurate **diagram** showing a shift to the right of the supply curve **(1 mark)**; and the resulting fall in equilibrium price and rise in equilibrium quantity **(1 mark)** • explanation of the **process** that drives price down and quantity to rise to re-establish equilibrium **(up to 2 marks)** **(APP: up to 6 marks)**	**8**	When there is an improvement in technology the supply curve will shift to the right, this causes an excess supply and as a result, equilibrium market price will fall, and equilibrium quantity will rise. The candidate may provide two diagrams. One to show equilibrium price and quantity and one to show the impact of a shift in the supply curve to the right which results from the improvement in technology. It is possible however to show knowledge and understanding and application of the key points on one diagram. If clearly drawn and labelled this could be awarded the full 4 diagram marks. For a diagram to be considered 'accurate' it must have appropriate labels. To be awarded marks for the process that explains how equilibrium is re-established the candidate must explain that price falls because of an excess supply in the market and the fall in price leads to an extension or rise in equilibrium quantity demanded.

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Question	Answer	Marks	Guidance
2(b)	**Discuss the problems in applying supply-side policies in an economy and assess whether these problems can be overcome.** • explanation the general aims of supply-side policy and the specific aims of at least two supply-side measures **(up to 4 marks)** • explanation of the problems encountered in implementing supply-side policies **(up to 4 marks)** **(AN: up to 8 marks)** • evaluation assessing whether the problems can be overcome **(up to 3 marks)**; and a concluding comment **(1 mark)** **(EV: up to 4 marks)**	**12**	The general aim of supply-side policy is to shift the aggregate supply curve to the right. The candidate needs to show an understanding of at least two supply side measures and the difficulties in implementing them. Possible measures that could be explained are wide ranging. These include: Improved training of labour, reductions in personal and/or business taxes, deregulation of markets, privatisation, subsidisation of investment, etc. The problems in implementation could be general or specific to the measures explained although the better answers are likely to focus on the problems associated with the specific measures explained. General problems include the cost and the long time period required to increase supply.

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Question	Answer	Marks	Guidance
3(a)	**Explain how knowledge of the price elasticity of demand for a good can help businesses to assess the impact of price changes upon their total revenue.** • states what price elasticity of demand measures **(1 mark)** • accurate formula **(1 mark)** **(KU: up to 2 marks)** • accurate explanation of the meaning of relatively price elastic demand **(1 mark)**; and the link between changes in the price of elastic goods and changes in total revenue **(1 mark)** • accurate explanation of the meaning of relatively price inelastic demand **(1 mark)**; and the link between changes in the price of inelastic goods and changes in total revenue **(1 mark)** • accurate explanation of the meaning of unitary price elastic demand **(1 mark)**; and the link between changes in the price of unitary elastic goods and changes in total revenue **(1 mark)** **(APP: up to 6 marks)**	**8**	Price elasticity of demand measures the response of demand to a change in price. An 'accurate explanation' will refer to relative % changes in price and quantity demanded e.g. in the case of goods that are relatively price elastic a % change in price will lead to a greater % change in quantity. If the candidate uses more vague terms to express the relationship between changes in price and changes in quantity demanded such as, 'price changes, and demand changes to a greater extent', then 1 mark maximum in each case. It must be clear that the candidate understands the relationship between % changes in price and % changes in quantity. Effective use of diagrams that explain the relationship between changes in price, the value of elasticity and changes in total revenue can be awarded 2 marks if it is clear that the candidate understands the concept of elastic/inelastic/unitary elastic.

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Question	Answer	Marks	Guidance
3(b)	**'Since the demand for a demerit good such as cigarettes is price inelastic, a tax on the product is a waste of time. What is needed is better awareness amongst consumers of the negative effects of smoking cigarettes'. Discuss this view.** • analysis that explains why there will not be a significant reduction in consumption of demerit goods when indirect taxes are imposed if the demand is price inelastic **(up to 4 marks)** • analysis that explains that since the consumption of demerit goods is due to information failure an awareness campaign can be used to decrease demand **(up to 4 marks)** **(AN: up to 8 marks)** • evaluation that considers the overall impact of the indirect tax **(up to 3 marks)**; and a concluding comment on whether this is 'a waste of time' **(1 mark)** **(EV: up to 4 marks)**	**12**	This discussion relates to whether a tax on cigarettes is a 'waste of time' because the demand for cigarettes is price inelastic. The discussion also requires a consideration of policies to create better awareness amongst consumers. If the demand for a demerit good is price inelastic, the imposition of an indirect tax will not significantly reduce its consumption. The demand for demerit goods needs to be reduced. This could be done by using the revenue gained from an indirect tax to fund an awareness campaign. This will result in the demand curve for cigarettes shifting to the left. Diagrams are not required, but award credit if these are used effectively to support the explanation. Evaluative comment might suggest that the taxation is not a waste of time because it will reduce smoking to some extent. Others might suggest that revenue from the taxation could be used to fund the awareness campaign.

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Question	Answer	Marks	Guidance
4(a)	**Explain how the terms of trade of an economy will be affected by changes in that economy's exchange rate.** • states what the terms of trade measures **(1 mark)** • an accurate formula of the terms of trade index **(1 mark)** **(KU: up to 2 marks)** • a rise in an economy's exchange rate means that there is a fall in the price of imports **(1 mark)**; and a rise in the price of exports **(1 mark)**; and that this will lead to a rise (accept 'improvement') in the terms of trade **(1 mark)** • a fall in an economy's exchange rate means that there is a rise in the price of imports **(1 mark)**; and a fall in the price of exports **(1 mark)**; and that this will lead to a fall (accept 'deterioration') in the terms of trade **(1 mark)** **(APP: up to 6 marks)**	**8**	The terms of trade measures the relationship between changes in the price of an economy's exports and changes in the price of its imports. The formula needs to express the idea that we are measuring the ratio between changes in export prices and changes in import prices. This could be in the form of an index or more loosely a simple ratio between the two. The meaning of a rise in an economy's exchange rate is that more foreign currency can be bought with a given unit of that economy's currency. The meaning of a fall in an economy's exchange rate is that less foreign currency can be bought with a given unit of that economy's currency. If the exchange rate rises this will lead to a rise in the terms of trade. If the exchange rate falls, this will lead to a fall in the terms of trade.

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Question	Answer	Marks	Guidance
4(b)	**Discuss, using examples, whether an expenditure-reducing or an expenditure-switching policy is the more effective response in economies faced with a deficit on the current account of the balance of payments.** • analysis explaining **how** an expenditure-reducing policy can correct a deficit in the current account **(up to 3 marks)**; with reference to a disadvantage of this approach **(1 mark)** • analysis explaining **how** an expenditure-switching policy can correct a deficit in the current account **(up to 3 marks)**; with reference to a disadvantage of this approach **(1 mark)** **(AN: up to 8 marks)** • evaluative comment comparing the advantages and disadvantages of the two approaches **(3 marks)**; conclusion on which is the more effective **(1 mark)** **(EV: up to 4 marks)**	**12**	Candidates need to be able to explain how expenditure-reducing and expenditure-switching can correct a deficit in the current account of the balance of payments and explain at least one disadvantage of each. Expenditure-reducing policies are designed to reduce the general level of demand in an economy. These include: • Contractionary fiscal policies • Contractionary monetary policies One disadvantage is that the reduction in aggregate demand leads to unemployment, etc. Expenditure-switching policies are designed to change expenditure from imports to domestic goods and services or to increase exports. These include: • Import controls • Export subsides • Competitive devaluation/depreciation One disadvantage is that consumer choice is restricted.

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Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/23**

Paper 2 Data Response and Essay **October/November 2019**

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 Table 1.1, compare the rate of inflation for China and India between 2012 and 2015.** • very mild increase for China (6%); much greater for India (25%) • rate of increase more variable for India **up to 2 marks** for a developed point or accept two separate undeveloped points for **1 mark** each	**2**	To score both marks available here the candidate must manipulate the data to provide a **comparison**. If the data is simply repeated then no marks are scored.
1(a)(ii)	**Explain two possible reasons why the CPI might not be an accurate measure of inflation in a BRICS economy such as India.** • identifies of a valid reason **(1 mark)** • explains of why this means that the CPI might not be an accurate measure of inflation **(1 mark)** **1+1 marks** per reason and explanation, for **2** reasons	**4**	Each reason must be explained to gain both marks. Possible reasons include: • a large informal economy, not all transactions are monetarised • some transactions may be illegal/not recorded • problems of collecting meaningful data on expenditure patterns • there may be a large subsistence economy in India

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Question	Answer	Marks	Guidance
1(b)	**Explain one possible aggregate demand reason and one possible aggregate supply reason for the differing rates of inflation in the BRICS economies since 2012.** • identifies one factor that will change aggregate demand and cause a rise in the rate of inflation in a BRICS economy **(1 mark)** • explains why this will cause the rate of inflation to be different to other BRICS economies (**1 mark)** • identifies one factor that will change aggregate supply and cause a rise in the rate of inflation in a BRICS economy **(1 mark)** • explains why this will cause the rate of inflation to be different to other BRICS economies **(1 mark)**	**4**	All the economies in Table 1.1 experience continuous inflation over the period but the rates differ, with China's rate being the lowest. Inflation can be caused for example by an increase in aggregate demand not matched by an increase in aggregate supply or a fall in aggregate supply greater than the fall in aggregate demand. Aggregate Supply reasons include the effects of a currency depreciation leading to rising import prices, a fall in supply of essential raw materials and above inflation wage increases. Aggregate Demand reasons include any causes of an increase in AD such as falling interest rates that stimulate consumption and investment expenditure, increases in government spending or a rise in net exports. For full marks the answer must be framed in the context of differing rates of inflation in the economies shown.
1(c)(i)	**Using Fig. 1.2, describe how China's terms of trade changed from the high point in 2015 to the end of 2016.** • for stating that the terms of trade have deteriorated / worsened / fallen **(1 mark)** • for valid use of the data in Fig. 1.2 to describe the change **(1 mark)**	**2**	China's terms of trade have deteriorated as shown by a fall in the terms of trade index. Candidates may calculate the % fall in the terms of trade (21%) or they might state that it has fallen by approx. 24.5 index points. Simple reference to the data without interpretation fails to score the mark for description.

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Question	Answer	Marks	Guidance
1(c)(ii)	**Explain one possible reason for this change.** • a fall / deterioration in the terms of trade means a fall in export prices relative to import prices **(1 mark)** • explains **one** possible reason for the fall **(1 mark)**	**2**	Possible reasons include: • depreciation of currency • fall in demand for exports • increased price of imported raw materials
1(d)	**With the help of the information, discuss what is likely to be the most important factor that will determine how successfully India can compete with China when trading in world markets.** • analysis that makes valid use of the data to explain the importance of the factor(s) **(up to 4 marks)** • comment and conclusion on why the factor chosen is the 'most important' **(up to 2 marks)** **Maximum 2 marks** if a valid factor is chosen that makes no use of the information provided	**6**	The answer needs to consider one or more factors that are likely to determine how successfully India can compete with China. These might include the relative rates of inflation, changes in the terms of trade of each economy or quality of product. A full answer needs to go on to make some evaluative judgement on why this should be considered the most important factor and arrive at a conclusion.

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Question	Answer	Marks	Guidance
2(a)	**It has been reported that the world demand for chocolate is increasing at a time when the supply of cocoa beans, the raw ingredient required to produce chocolate, is not as large as expected.** **Explain, with the help of a diagram, the likely effects of these changes on the world market for chocolate products.** • accurate **diagram** showing demand and supply curves for chocolate **(1 mark)** • with equilibrium price and quantity **(1 mark)** **(KU: up to 2 marks)** • a separate diagram (or a development of the simple supply and demand diagram) showing that there will be a shift to the left of the supply curve for chocolate **(1 mark)**; as a result of the fall in the supply of cocoa beans and a rise in **price (1 mark)** • a separate diagram (or a development of the simple supply and demand diagram) showing that there will be a shift to the right of the demand curve for chocolate **(1 mark)**; as a result of the increased demand for chocolate and a rise in price **(1 mark)** • elaboration that considers the overall impact on the market price and quantity of the two changes together **(up to 2 marks)** **(APP: up to 6 marks)**	**8**	A simple market demand and supply diagram is required showing a shift to the right of the demand for chocolate. This will show an increase in price and an increase in the quantity traded. For elaboration for example, the rise in price of the two changes will be determined by the extent of the shifts in demand and supply and factors such as the relative elasticities of supply and demand. Since the increase in demand and the decrease in supply have an opposite impact upon the equilibrium quantity, this is clearly indeterminate.

Question	Answer	Marks	Guidance
2(b)	**Very high consumption of chocolate can lead to health problems such as obesity and diabetes, especially amongst young children in developed economies.** **Discuss what is likely to be the most effective policy to reduce these problems.** • explains **one** policy to reduce these problems with due reference to the strengths and weaknesses of this policy **(up to 4 marks)** • explains (at least) **one** further policy to reduce these problems with due reference to the strengths and weaknesses of the(se) policy(ies) **(up to 4 marks)** **(AN: up to 8 marks)** • evaluation that compares the policies to arrive at a conclusion on which is 'most effective' **(up to 3 marks)**; and a conclusion of which is 'most effective' **(1 mark)** **(EV: up to 4 marks)**	**12**	One policy would be to increase the sales tax on chocolate and reduce the tax on healthier substitutes such as sugar free sweets. Another method would be to run an information campaign, say on social media, to warn of the consequences of excessive sugar consumption. The evaluation should make some judgement the relative effectiveness of such policies, given the addictive nature of chocolate.

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Question	Answer	Marks	Guidance
3(a)	**In March 2017, the Indian government announced a new five year programme of investment in the country's nationalised railway system.** **Explain, with the help of an aggregate demand and aggregate supply diagram, how this investment is likely to affect India's output, prices and employment.** • a diagram with correctly labelled axes showing aggregate demand and aggregate supply **(1 mark)** • with equilibrium price level and national output **(1 mark)** **(KU: up to 2 marks)** • shows the effect of an increase in investment upon aggregate supply and the impact on output, prices and employment **(up to 2 marks)** • shows the effect of an increase in investment upon aggregate demand and the impact on output, prices and employment **(up to 2 marks)** • elaboration that shows the impact on output, prices and employment of the combined effects of the changes in aggregate demand and aggregate supply **(up to 2 marks)** **(APP: up to 6 marks)**	**8**	The AD/AS diagram should show a shift to the right of AD, assuming no change in AS. It should therefore be recognised that this is due to the increase in the 'I' component of AD. Investment in railways is likely to shift both AS as well and hence affect output, prices and employment. In turn, there should be an explanation of how this will increase employment in the railway construction industry and subsequent wider impact on job creation.

Question	Answer	Marks	Guidance
3(b)	**Discuss whether a nationalised or a privatised system is likely to generate a better market for rail travel.** • analysis that considers the advantages and disadvantages of state provision of rail transport **(up to 4 marks)** • analysis that considers the advantages and disadvantages of private provision of rail transport **(up to 4 marks)** **(AN: up to 8 marks)** • evaluative judgement that makes clear which is likely to best at providing new investment funding **(up to 3 marks)** with a conclusion **(1 mark)** **(EV: up to 4 marks)**	**12**	This question requires an answer that looks at whether such investment is best provided by the government or the private sector within the context of enterprise and opportunity cost. The cases for nationalisation and privatisation should be analysed with particular focus on the provision of funds for new investment but also in the broader sense of public vs market provision.
4(a)	**Explain the likely causes of a deficit on the current account of the balance of payments for an economy that relies heavily on agricultural products.** • meaning of the current account of the BoP **(1 mark)** • meaning of a deficit (imports > exports) **(1 mark)** **(KU: up to 2 marks)** • explains one reason that might cause a deficit in the current account of the balance of payments **(up to 2 marks)** • explains (at least) one further reason that might cause a deficit in the current account of the balance of payments **(up to 2 marks)** • elaboration that relates the deficit to dependence on agricultural products **(up to 2 marks)** **(APP: up to 6 marks)**	**8**	Possible causes that might be explained include: • A higher rate of inflation in an economy than in other trading economies • Decline in competitiveness of an economy's industry because of lack of innovation • A rise/fall in the exchange rate with due reference to elasticities • An increase in trade barriers

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Question	Answer	Marks	Guidance
4(b)	**The largest economy in the world, the United States (US), records a persistent deficit on its current account of the balance of payments.** **Discuss what is likely to be the most effective way to reduce this deficit.** • explains **one** policy to reduce the deficit with due reference to the strengths and weaknesses of this policy **(up to 4 marks)** • explains (at least) **one** further policy to reduce this deficit with due reference to the strengths and weaknesses of the(se) policy(ies) **(up to 4 marks)** **(AN: up to 8 marks)** • Evaluative judgement that compares the effectiveness of the policies **(up to 3 marks)**; conclusion regarding which is 'most effective' **(1 mark)** **(EV: up to 4 marks)**	**12**	Policies could be a range of expenditure switching policies such as competitive depreciation of the currency, tariffs, quotas and so on Or expenditure reducing policies such as tax rises, cuts in government spending or deflationary monetary policy such as a rise in the rate of interest, or tighter control the money supply The candidate needs to refer to the strengths and weaknesses of the policies and these need to be compared to arrive at a conclusion on which is likely to be most effective.

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