Cambridge Assessment International Education

# Cambridge International AS & A Level

**ECONOMICS** **9708/21**

Paper 2 Data Response and Essay **October/November 2021**

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 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.

## Social Science-Specific Marking Principles (for point-based marking)

**1 Components using point-based marking:**

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

**a** DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
**b** DO credit alternative answers/examples which are not written in the mark scheme if they are correct
**c** DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
**d** DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
**e** DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
**f** DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
**g** DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

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**2 Presentation of mark scheme:**

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

**3 Calculation questions:**

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

**4 Annotation:**

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 1(a) | **Explain how inflation can halve the 'real value' of money.**<br><br>• The real value is the *quantity* of products that can be bought for a certain amount of money **(1 mark)**<br>• If *prices double*, the quantity that can be bought will be halved **(1 mark)** | **2** | |
| 1(b) | **With the aid of a diagram, explain why 'rapid price rises encourage panic-buying by consumers, creating shortages that further increase inflation'.**<br><br>For an appropriate diagram that shows a further increase in inflation **(up to 2 marks)**<br><br>For an explanation of why rapid price rises encourage panic-buying by consumers, creating shortages that further increase inflation **(up to 2 marks)** | **4** | Candidates can adopt a micro or a macro approach:<br>• increase in demand<br>• excess demand created in short run<br>• price increases<br>• causes expectation of further price increases<br>• so more purchases<br>• leading to a price spiral |
| 1(c) | **With reference to <u>one</u> function of money explain why hyperinflation in Zimbabwe caused the country to abandon its currency in 2008.**<br><br>For an explanation of the potential impact of hyperinflation on **one** function of money:<br>• a medium of exchange **(up to 2 marks)**<br>• a unit of account/a measure of value **(up to 2 marks)**<br>• a store of value/a store of wealth **(up to 2 marks)**<br>• a standard for deferred payment **(up to 2 marks)**<br><br>**2 marks maximum**<br><br>1 mark for the identification of one function of money<br><br>1 mark for the explanation of how hyperinflation might impact on this function and cause the country to abandon its currency | **2** | Hyperinflation can prevent money serving as a medium of exchange when people lose confidence in money<br><br>Hyperinflation, as in Zimbabwe, can prevent money serving as a unit of account/a measure of value in an economy<br><br>Hyperinflation is likely to prevent money serving effectively as a store of value/a store of wealth because its real value, i.e. its purchasing power, will be reduced<br><br>Hyperinflation is likely to prevent money serving effectively as a standard for deferred payment because people will be reluctant to exchange anything on a credit basis if the value of money is rapidly falling |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 1(d) | **Using aggregate demand and aggregate supply analysis, discuss whether it is possible to use monetary policy to achieve <u>both</u> a high level of investment <u>and</u> a low rate of inflation.**<br><br>For an explanation of the use of monetary policy to achieve both a high level of investment and a low rate of inflation, using AD/AS analysis **(up to 3 marks)**<br><br>For an explanation of the limitations of monetary policy in achieving both a high level of investment and a low rate of inflation, using AD/AS analysis **(up to 3 marks)**<br><br>**5 marks maximum**<br><br>**Reserve 1 mark for a conclusion**<br><br>**6 marks maximum** | **6** | Monetary policy involves the use of changes in interest rates and/or changes in the money supply and/or changes in the exchange rate<br><br>If an expansionary policy is used to encourage a high level of investment, interest rates could be lowered<br><br>Such an approach is likely to increase the level of aggregate demand in an economy and this could lead to an increase in inflation if AD exceeds AS<br><br>However, investment could increase AS in the economy and contribute to a lower rate of inflation<br><br>The timeframe is important; AD increases will occur before the investment can increase AS and so it is likely that the short-run effect would be inflationary, but the long-run effect may not be<br><br>It may be possible to lower the interest rate without causing inflation if an economy has spare capacity; if the LRAS curve is horizontal, investment could be encouraged (AD shifting right) without inflation |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 1(e) | **Discuss whether everybody in an economy such as Venezuela would be worse off as a result of hyperinflation.**<br><br>For an explanation that some people in an economy could be worse off as a result of a high rate of inflation **(up to 3 marks)**<br><br>For an explanation that some people in an economy could be better off as a result of a high rate of inflation **(up to 3 marks)**<br><br>**5 marks maximum**<br><br>**Reserve 1 mark for a conclusion**<br><br>**6 marks maximum** | **6** | Possible negative consequences of a high rate of inflation/hyperinflation:<br>• it erodes the real value of money<br>• it reduces individuals' purchasing power<br>• it makes a country's exports uncompetitive<br>• it creates a redistribution of income, with those on fixed incomes badly affected<br>• menu costs<br>• shoe leather costs<br>• it creates uncertainty in an economy<br><br>Possible positive consequences of a high rate of inflation/hyperinflation:<br>• if prices rise by more than costs, it can increase firms' profits<br>• this can encourage firms to expand, leading to a reduction in the level of unemployment in an economy<br>• borrowers will gain from inflation because the debt will be less in real terms |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 2(a) | **With the aid of a diagram, compare what happens to an economy's resources to cause a movement along its production possibility curve with what happens to an economy's resources to cause a shift of its production possibility curve.**<br><br>For correct diagram:<br>Axes correctly labelled: Good A and Good B or equivalent (e.g. capital goods and consumer goods or agricultural products and manufactured products) **(1 mark)**<br><br>PPC correctly drawn, touching both axes **(1 mark)**<br><br>**KU: 2 marks maximum**<br><br>Application of PPC in terms of a movement along a curve **(up to 3 marks)**<br><br>Application of PPC in terms of a shift of a curve **(up to 3 marks)**<br><br>**APP: 6 marks maximum** | **8** | The shift of the PPC can be to the right or to the left or both<br><br>A movement along a PPC shows different combinations of outputs that can be produced from the given resources; this movement along a PPC from one point to another will involve a re-allocation of those resources<br><br>A shift of a PPC, say to the right, comes about as a result of an increase in the quantity and/or quality of resource/s, leading to an expansion in the productive capacity or potential output of an economy, allowing more of one/both goods to be produced |

| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 2(b) | **Discuss whether the advantages of a transition from a planned economy to a market economy always outweigh the disadvantages.**<br><br>**For Analysis**<br><br>Analysis of the advantages of a transition from a planned economy to a market economy **(up to 4 marks)**<br><br>Analysis of the disadvantages of a transition from a planned economy to a market economy **(up to 4 marks)**<br><br>**AN: 8 marks maximum**<br><br>**For Evaluation**<br><br>For exercising some judgement on whether the advantages of a transition from a planned economy to a market economy always outweigh the disadvantages **(up to 4 marks)**<br><br>**Reserve 1 mark for a conclusion**<br><br>**EV: 4 marks maximum** | **12** | Advantages of a transition from a planned economy to a market economy:<br>• existence of price mechanism<br>• prices operate as signals to indicate consumer preferences<br>• private sector ownership/decision-making with no or very little government intervention<br>• competition between firms can lead to greater efficiency<br><br>Disadvantages of a transition from a planned economy to a market economy:<br>• some products will be under-provided and under-consumed<br>• some products will be over-provided and over-consumed<br>• some products will not be provided or consumed at all<br>• there will be consequences of information failure<br><br>In addition to the market failures outlined above, there could also be negative consequences of a market economy, including:<br>• a higher level of unemployment<br>• a higher level of inflation |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 3(a) | **With the aid of a diagram, explain the consequences for consumers and producers of introducing a minimum price in the market for a product.**<br><br>**For Knowledge and Understanding**<br><br>For correct diagram:<br>Axes correctly labelled: P/Q **(1 mark)**<br><br>Minimum price shown above equilibrium in diagram (demand and supply curves need to be correctly labelled) **(1 mark)**<br><br>**KU: 2 marks maximum**<br><br>**For Application**<br><br>Consequences for <u>consumers</u> of the establishment of a minimum price in a market **(up to 3 marks)**<br><br>Consequences for <u>producers</u> of the establishment of a minimum price in a market **(up to 3 marks)**<br><br>**APP: 6 marks maximum** | **8** | Consequences for <u>consumers</u> of introducing an effective minimum price in the market for a product:<br>• consumers will need to pay a higher price compared to the price that would have been charged where demand and supply in a market were in equilibrium<br>• this will discourage the consumption of the product by consumers<br>• this will be beneficial for consumers if the product is a demerit good<br><br>Consequences for <u>producers</u> of introducing an effective minimum price in the market for a product:<br>• the minimum price will help producers to increase their incomes<br>• there will be an excess supply that consumers do not buy at the higher minimum price<br>• government action may be required to buy up this excess supply or to restrict production |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 3(b) | **Discuss whether decisions made by a business are more likely to be influenced by knowledge of the price elasticity of demand for its product or by knowledge of the price elasticity of supply of its product.**<br><br>Analysis of the usefulness of knowledge of price elasticity of demand to a business **(up to 4 marks)**<br><br>Analysis of the usefulness of knowledge of price elasticity of supply to a business **(up to 4 marks)**<br><br>**AN: 8 marks maximum**<br><br>For exercising some judgement on whether decisions made by a business are more likely to be influenced by knowledge of the price elasticity of demand for its product or by knowledge of the price elasticity of supply of its product **(up to 4 marks)**<br><br>**Reserve 1 mark for a conclusion**<br><br>**EV: 4 marks maximum** | **12** | Potential usefulness of PED:<br>• it can be helpful in giving a business an indication of the extent to which a change in price may affect revenue<br>• this will show that to increase revenue, the price of an elastic good should be reduced and the price of an inelastic good should be increased<br>• however, to be able to make appropriate calculations, a businessman will need to take into account the availability of substitutes, the width of the definition of the product, the amount spent on the product and the time period under consideration<br><br>Potential usefulness of PES:<br>• it can be helpful in giving a business an indication of the extent to which a change in the price of a product can lead to a change in the quantity supplied of a product<br>• it can help a business to make decisions about how much stock to hold<br>• it can help a business decide on the extent of spare capacity to provide for<br>• it can help a business decide on the factors of production it is going to need<br><br>Note: No marks for KU of PED and PES |

| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 4(a) | **With the aid of a diagram, explain how a central bank intervenes to maintain a fixed exchange rate when the economy is experiencing a current account deficit on its balance of payments.**<br><br>For correct diagram:<br>Axes correctly labelled: Exchange rate or price of one currency in terms of another/Q of currency **(1 mark)**<br><br>Demand and supply curves correctly labelled **(1 mark)**<br><br>**KU: 2 marks maximum**<br><br>Explanation that a CA deficit causes downward pressure on the exchange rate **(up to 3 marks)**<br><br>Explanation of the intervention of a central bank to maintain the exchange rate **(up to 3 marks)**<br><br>**APP: 6 marks maximum** | **8** | CA deficit means that demand for imports exceeds foreign demand for exports, so domestic demand for foreign currency exceeds foreign demand for the domestic currency. This will put downward pressure on the exchange rate<br><br>If the value of a currency is about to fall, a central bank will increase demand by:<br>• buying the domestic currency, using their foreign currency reserves<br>• and/or increasing interest rates |

| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 4(b) | **Discuss whether expenditure-reducing policies are likely to reduce the current account deficit on the balance of payments for an economy with a floating exchange rate.**<br><br>Analysis of potential success of expenditure-reducing policies in reducing the current account deficit on the balance of payments for an economy with a floating exchange rate **(up to 4 marks)**<br><br>Analysis of the limitations of expenditure-reducing policies in reducing the current account on the balance of payments for an economy with a floating exchange rate **(up to 4 marks)**<br><br>**AN: 8 marks maximum**<br><br>For exercising some judgement on whether expenditure-reducing policies are likely to reduce the current account deficit on the balance of payments for an economy with a floating exchange rate **(up to 4 marks)**<br><br>**Reserve 1 mark for a conclusion**<br><br>**EV: 4 marks maximum** | **12** | Expenditure-reducing policies are actions taken by a government to reduce the total level of spending in an economy<br><br>They are designed to lead to:<br>• a fall in imports<br>• and/or a rise in exports<br><br>Examples can include:<br>• raising interest rates<br>• reducing money supply<br>• increasing taxes<br>• reducing public spending<br><br>Possible limitations can include:<br>• there may still be a strong demand for imports<br>• resources may not be released for exports |

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**Social Science-Specific Marking Principles**
**(for point-based marking)**

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- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
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**4 Annotation:**

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
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**ASSESSMENT OBJECTIVES**

| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 1(a) | **Calculate import expenditure as a percentage of total demand in India in quarter 1 2019**.<br><br>18.5% **(1 mark)** | **1** | Method of calculation is not required, only the final answer. Accept 18.5 |
| 1(b)(i) | **The Indian government promised that it would cut income tax to ensure greater purchasing power for consumers.**<br><br>**Explain how economists would measure the impact of a cut in income tax upon the demand for different goods such as scooters and smartphones.**<br><br>For recognition that they would use the income elasticity of demand **(1 mark)** because this measures the response of demand for a good to a change in income **(1 mark)** | **2** | For the first mark, all that is required is identification of the measure<br><br>For the second mark, this must explain what is being measured and/or provide a formula |
| 1(b)(ii) | **With reference to the data, explain whether the impact of the income tax cut is likely to be the same on the demand for scooters and the demand for smartphones.**<br><br>For an **explanation** that, according to the data, scooters show a decline in demand as incomes are rising, meaning they are inferior goods **(1 mark)**<br><br>**Whereas** smartphones show a rise in demand as incomes are rising, meaning they are normal or luxury goods **(1 mark)** | **2** | Candidates need to explain that the impact will vary according to the nature of each type of good and apply it to the case of scooters and smartphones. The data suggest that there is 'continuing growth of incomes'. The data also state that scooter sales are down, yet sales of smartphones have been growing faster than incomes are growing<br><br>It can be concluded from the data that scooters are inferior goods and smartphones are normal or luxury goods<br><br>(This would be sufficient for both marks) |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 1(c) | **Using the information, identify <u>one</u> policy that could be considered a supply-side measure and explain how this policy could make Indian businesses more competitive.**<br><br>For an identification of a valid supply-side measure that could make Indian businesses more competitive **(1 mark)**<br><br>For an explanation of how this will make businesses more competitive **(up to 2 marks)**<br><br>The 3rd mark must refer specifically to 'more competitive'. For example, one policy is to reduce business taxes (1) which will provide more available money to invest in new technology (1) which will in turn improve quality of goods/services and/or allow prices to be reduced, therefore making the business more competitive (1) | **3** | Supply-side measures mentioned in the extract include cutting income taxes, cutting business taxes and improving infrastructure. However, any valid supply-side measure that might make Indian businesses more competitive is acceptable<br><br>Any policy chosen as a supply-side measure should be explained as a supply-side tool rather than demand-side to gain any credit at all, even for identification. For example, cutting income taxes should not be credited if it is discussed in terms of a boost to consumption/demand, but only if discussed, for example, as increasing/ improving the labour force |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 1(d) | **Discuss whether the advantages of cutting interest rates in the Indian economy would outweigh the disadvantages.**<br><br>For an identification of the impact of the cut in interest rates upon any component of aggregate demand **(1 mark)**<br><br>For an explanation of how this will create possible advantages for India's economy **(up to 2 marks)**<br><br>For an explanation of how this will create possible disadvantages for India's economy **(up to 2 marks)**<br><br>For an evaluative comment on whether the advantages will outweigh the disadvantages **(1 mark)** | **6** | Cutting interest rates will have a number of effects. There should be an increase in consumption and investment expenditure, and this will increase aggregate demand. In addition, the impact will be an outflow of foreign currency and a fall in the exchange rate. This should stimulate net exports and again aggregate demand will increase. The increase in aggregate demand will stimulate output and employment<br><br>However, a disadvantage is that demand-pull inflation will occur, and this has internal and external consequences for India's economy<br><br>In evaluation, candidates may refer to the possible impact on LRAS due to possible additional investment. This may, of course, obviously offset any inflationary pressure |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 1(e) | **Consider whether roads and other items of infrastructure in India would be better provided by the private sector or by the government in India.**<br><br>For an explanation of why some infrastructure either could only or may be better provided by the government **(up to 3 marks)**<br><br>For an explanation of why some infrastructure may be better provided by the private sector **(up to 3 marks)**<br><br>**5 marks maximum**<br><br>**Reserve 1 mark for a reasoned conclusion** | **6** | Reasons why some infrastructure may be better provided by the government may include accurate explanation of:<br>• provision of public goods, i.e. those with characteristics of non-rivalry and non-excludability, e.g. street lighting<br>• quasi-public goods, e.g. roads and bridges<br>• free rider problem<br>• merit goods<br>• scale of investment needed<br><br>Reasons for private sector provision may include:<br>• they are private goods and why, therefore, profit motive applies leading to better efficiency<br>• government budget restrictions<br>• opportunity cost<br><br>Note: explanations must be accurate, and credit must not be given to answers that simply assert all government funded infrastructure refers to public goods |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 2(a) | **Use a diagram(s) to explain how a production possibility curve can be used to show opportunity cost and why such a curve is usually drawn with increasing opportunity costs.**<br><br>For **knowledge and understanding** showing a diagram of a production possibility curve with correctly labelled axes **(up to 2 marks)**<br><br>And **application** that explains how a movement along the curve illustrates opportunity cost. What opportunity cost is with reference to the products in the diagram(1), for showing a movement along the curve and the impacts on the output of the different products on the diagram (1) and explaining how this demonstrates opportunity cost (1) **(up to 3 marks)**<br><br>And an explanation of why increasing opportunity costs are expected, curve must be concave and the significance explained (1), increasing opportunity costs clearly demonstrated on the diagram (1) and explained, e.g. because resources cannot be easily switched between products (1) **(up to 3 marks)** | **8** | Clearly the candidate only needs to draw one diagram to answer this question<br><br>However, if the only diagram used shows a straight line PPC, then the maximum mark must be 5 as it cannot be used to answer the final part of the question<br><br>Note: candidates may not follow the sequence described in this mark scheme, e.g. opportunity cost may be explained in the context of increasing opportunity cost, i.e. not separately. However, provided this is explained using a valid diagram, i.e. a concave PPC, then both marks **must** be awarded |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 2(b) | **Discuss whether the principle of comparative advantage concludes that a movement to free trade will always result in an overall benefit for an economy.**<br><br>For **analysis** that explains how the principle of comparative advantage justifies free trade in terms of an increase in overall output/consumption possibilities that will benefit an economy/ies **(up to 4 marks)**<br><br>For **analysis** that suggests why the shortcomings of the principle of comparative advantage might make it less useful and therefore free trade might not be beneficial for an economy/ies **(up to 4 marks)**<br><br>**8 marks maximum**<br><br>For **evaluative comment** that assesses the relative strengths of each approach (**up to 3 marks**)<br><br>And leads to a reasoned conclusion whether the principle of comparative advantage does suggest that a movement to free trade will always result in an overall benefit for an economy **(1 mark)**<br><br>**4 marks maximum** | **12** | The analysis here needs to show how free trade can lead to overall benefit for an economy but also that this might not be the case<br><br>Several approaches are acceptable: some might argue that transport costs might negate the benefits of trade or that the exchange rate is not favourable. Others might argue that a movement to free trade might lead to structural adjustments that bring costs to the economy. Some might argue that as specialisation takes place resources are re-allocated and opportunity costs might rise<br><br>Candidates may suggest reasons for protectionism as a counter argument – this is also acceptable<br><br>Note: there are no KU marks awarded in part (b) for merely explaining/defining terms or phrases used within the question |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 3(a) | **Explain what is meant by consumer surplus and use diagrams to assess the impact on consumer surplus when an indirect tax is imposed on a good with price-elastic demand compared with the impact when the demand is price-inelastic.**<br><br>For **knowledge and understanding** of consumer surplus, the difference (1) between the price a consumer is willing to pay for a product and its market price/price actually paid (1) **(up to 2 marks)**<br><br>And **application** using a diagram to show the impact of an indirect tax on the consumer surplus when the demand for a good is price-elastic. An accurately labelled diagram that clearly shows a flatter/elastic demand curve and the shift to the left of the supply curve (1), the impact on the price and quantity (1), and the fall in consumer surplus (1) **(up to 3 marks)**<br><br>And **application** using a diagram to show the impact of an indirect tax on the consumer surplus when the demand for a good is price-inelastic. An accurately labelled diagram that clearly shows a steeper/inelastic demand curve and a shift to the left of the supply curve, and the impact on price and quantity (1). The impact on consumer surplus should be clearly shown and compared with that of a price-elastic good (1) and possible reasons for the difference, e.g. degree of substitutability, addictive nature of the good, etc. (1) **(up to 3 marks)** | **8** | The comparison could be reversed, i.e. the candidate may first consider the price-inelastic good with the price-elastic good. This should be equally rewarded |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 3(b) | **A government is considering whether to adopt a policy of maximum price legislation in the market for food or to provide food subsidies to alleviate hunger in a period of food shortages.**<br><br>**Discuss whether maximum price legislation or food subsidies are more likely to alleviate hunger under these circumstances.**<br><br>For **analysis** that explains the advantages and disadvantages of maximum price legislation **(up to 4 marks)**<br>(**3 marks maximum** for an analysis that just considers either the advantages or the disadvantages)<br><br>For **analysis** that explains the advantages and disadvantages of food subsidies **(up to 4 marks)**<br>(**3 marks maximum** for an analysis that just considers either the advantages or the disadvantages)<br><br>**8 marks maximum**<br><br>For **evaluative comment** that compares the relative strengths and weaknesses of each approach in alleviating hunger under these circumstances **(up to 3 marks)**<br><br>And leads to a reasoned conclusion whether maximum price legislation or food subsidies are more likely to alleviate hunger under these circumstances **(1 mark)**<br><br>**4 marks maximum** | **12** | Maximum price legislation is imposed to keep the price of food low so that those on low incomes can afford to buy food. The impact, however, is to reduce the supply of food and create excess demand. Informal markets and queuing are likely to follow, and rationing might be necessary<br><br>Food subsidies will reduce the price of food and increase the supply of food, but the impact depends upon the elasticity of demand of food. The effects might only be felt in the long term. The low prices might encourage hoarding of food. There are also possible opportunity costs involved as well as overall pressure on the government budget<br><br>Subsidies may be ineffective in times of famine/supply chain crises, etc.<br><br>Note: there are no KU marks awarded in part (b) for merely explaining/defining terms or phrases used within the question |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 4(a) | **Explain what is meant by inflation and, using diagrams, show how it can arise both as a result of a shift in the aggregate demand curve and a shift in the aggregate supply curve.**<br><br>For **knowledge and understanding** of inflation defined as a continuous/ sustained rise (1) in the general/average level of prices **–** a simple reference to price level is acceptable if it is clear from the rest of the answer that this refers to **all** prices and not just the price level of one product (1) **(up to 2 marks)**<br><br>And **application** that uses a diagram to show that inflation can be caused by a shift to the right of the aggregate demand curve. For an explanation why AD might increase (1), an accurately labelled diagram that shows the rightwards shift in AD and resulting increase in the general price level (1), and clearly explains that inflation occurs **due to this excess in aggregate demand** (1) **(up to 3 marks)**<br><br>And **application** that uses a diagram to show that inflation can be caused by a shift to the left of the aggregate supply curve. For an explanation why AS may fall (1), an accurately labelled diagram that shows the leftwards shift in AS and resulting increase in the general price level (1), and clearly explains that inflation occurs **due to this decrease in aggregate supply** (1) **(up to 3 marks)** | **8** | Do not reward 'micro' diagrams showing S/D or P/Q<br><br>Axes should show general/average price level and output/GDP, etc. However, if it is clear from the written response that the candidate understands that it is an impact on general or average prices, then benefit of doubt can be given if the Y axis simply refers to P or prices and everything else on the diagram is accurate<br><br>Reasons why AD may increase include a rise in C, I, G, X or a fall in M<br><br>Reasons why AS may fall include a rise in costs, tax, etc. |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 4(b) | **Discuss whether the domestic effects of inflation are more serious than the external effects for an economy.**<br><br>For **analysis** of the domestic effects of inflation **(up to 4 marks)**<br><br>For **analysis** of the external effects of inflation **(up to 4 marks)**<br><br>**8 marks maximum**<br><br>For **evaluative comment** that assesses the relative seriousness of the internal and external effects **(up to 3 marks)**<br><br>And leads to a reasoned conclusion as to which effect is likely to be the most serious for an economy **(1 mark)**<br><br>**4 marks maximum** | **12** | The domestic effects include a haphazard redistribution of income, a fall in savings and productive investment, menu and shoe leather costs<br><br>The external effects include a rise in the price of exports and a fall in the relative price of imports with implications for the current account of the balance of payments, the exchange rate and capital flows<br><br>If any part of the answer confuses domestic effects with external effects, then this part should **not** be rewarded. However, parts that are accurate should be rewarded<br><br>Note: there are no KU marks awarded in part (b) for merely explaining/defining terms or phrases used within the question |

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Cambridge Assessment International Education

# Cambridge International AS & A Level

**ECONOMICS** **9708/23**

Paper 2 Data Response and Essay **October/November 2021**

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 2021 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.



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**PUBLISHED**

## 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:<br><br>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:<br><br>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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**Social Science-Specific Marking Principles**
**(for point-based marking)**

**1 Components using point-based marking:**

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

**a** DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
**b** DO credit alternative answers/examples which are not written in the mark scheme if they are correct
**c** DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
**d** DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
**e** DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
**f** DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
**g** DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

**2 Presentation of mark scheme:**

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

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**3 Calculation questions:**

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

**4 Annotation:**

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 1(a) | **Use the data in Fig. 1.1 to describe how the contribution to real output growth of the different components of aggregate demand in China has changed from 2010 to 2017.**<br><br>Award 1 mark for any **two** of the following:<br><br>• Lower contribution of investment expenditure over the period<br>• Relatively stable contribution in consumption expenditure<br>• In 2010, net exports were negative but by 2017 they were positive / however, over the period they have fluctuated between positive and negative **(2 marks)** | **2** | It is not enough to simply quote figures – some measure of change in contribution is needed, i.e. increase, decrease, no discernible change, etc. |
| 1(b)(i) | **What relationship might you expect between the rate of growth in real output and sales of new cars in an economy?**<br><br>There is likely to be a positive correlation / would be expected to be a similar pattern / trend between the rise in GDP growth and the change in private car sales **(1 mark)** | **1** | |
| 1(b)(ii) | **Consider whether the evidence in Fig. 1.1 and Table 1.1 supports this relationship.**<br><br>It is broadly consistent (1)<br>Highest and lowest rates of growth correspond (2010 and 2017 respectively) (1)<br>There is positive growth in all years for both real output and sales of new cars, but rates of growth do not always match (1)<br>Growth rate is more consistent than growth in car sales throughout (1) **(2 marks)** | **2** | 1 mark to be awarded for each accurate statement up to a maximum of 2 marks |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 1(c) | **State <u>one</u> protectionist measure that may be adopted by the US in a trade war with China and explain what effect this would have on consumers and producers in the US.**<br><br>Various possibilities including:<br>• Tariff, quota, regulations (maximum of 1 mark for identifying one measure)<br>• Increases prices of imported goods for consumers (1) and raises costs of production for producers due to higher imported raw material costs (1) increases demand for domestic producers (1)<br>**(3 marks)** | **3** | Accept any other valid impacts on consumers and producers, but 1 mark max. for each and **both** must be considered for full marks |
| 1(d) | **Discuss whether cuts in direct taxes would increase the demand for all types of consumer goods in China.**<br><br>Award 1 mark for recognising that a cut in direct taxes may increase demand for consumer goods due to a rise in disposable income (1)<br><br>Up to 2 marks for explanation of why a cut in direct taxes would increase demand for normal/luxury with a positive YED value consumer goods<br><br>Up to 2 marks for an explanation of why a cut in direct taxes will not lead to an increase in demand for inferior/negative value consumer goods<br><br>**Up to a maximum mark of 5 for analysis**<br><br>**Reserve 1 mark for a reasoned conclusion** | **6** | Alternative ways of expressing disposable income are acceptable and should be rewarded, e.g. more spending power, more money in the pockets of consumers, etc. |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 1(e) | **Discuss whether increasing domestic consumption is the best way for China to maintain the growth in real output at the current rate 'over the next few years'.**<br><br>Analysis of the advantages and disadvantages of increasing domestic consumption to maintain the growth in real output (up to 3 marks) **Max. 2 if only advantages or disadvantages are considered**<br><br>Analysis of the advantages and disadvantages of an alternative way/ ways, i.e. increased I or X (up to 3 marks). **Max. 2 if only advantages or disadvantages are considered**<br><br>**Up to a maximum mark of 5 for analysis**<br><br>**Reserve 1 mark for a reasoned conclusion** | **6** | Increasing domestic consumption will increase AD and output. This can be done through reducing direct or indirect taxes. The increased spending benefits the Chinese economy through increased employment and can be more certain than having to rely on external factors such as the global economy or US trade policy to generate growth. Care must be taken to not increase the rate of inflation as AD increases<br><br>Alternative policies could be increasing investment or export-led growth |

| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 2(a) | **Explain how the fundamental economic problem is addressed in a planned economy and in a market economy.**<br><br>**For knowledge and understanding** of fundamental economic problem, scarce resources (1) but unlimited wants (1) **(up to 2 marks)**<br><br>**And application that explains** how this problem is addressed in a planned economy. Central planning, government allocation of resources, welfare, etc. may be discussed **(up to 3 marks)**<br><br>And further **application** how this problem is addressed in a market economy. The role of the price mechanism, e.g. rationing, signalling, interaction of demand and supply, etc., may be discussed **(up to 3 marks)** | **8** | The fundamental economic problem is tackled by means of market forces in a market economy. In a planned economy it is in the hands of government to ensure that resource allocation is equitable and possible |
| 2(b) | **Discuss the view that in a mixed economy the only role of government should be to provide public goods and the supply of merit goods should be left to the private sector.**<br><br>**Analysis** of the reasons why public goods are provided by the government and not the private sector **(up to 4 marks)**<br><br>**Analysis** of the reasons why merit goods may be provided by the private sector **and/or** the government **(up to 4 marks)**<br><br>**8 marks maximum**<br><br>For an **evaluation** of whether the only role of government in a mixed economy is to provide public goods and that merit goods should be left to the private sector **(up to 4 marks)**<br><br>**Reserve 1 mark for a valid conclusion** | **12** | Merit goods such as health provision, education and childcare are usually provided by both private and public sectors in a mixed economy. When provided by the private sector, a charge is usually but not always made at the point of use<br><br>Government provision is funded through taxation; consumers will be charged a subsidised price or no charge at all. Much depends upon efficiency and how governments view the benefits of merit goods provision<br><br>Without the involvement of government, some merit goods may be underprovided – **may be used as an evaluative comment**<br><br>Note: there are no KU marks awarded in part (b) for merely explaining/defining terms or phrases used within the question |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 3(a) | **Using the concept of price elasticity of demand, explain why increasing the price of the product is:**<br><br>**(i) a bad idea for a firm producing a product that constitutes a large proportion of household income, and**<br><br>**(ii) a good idea for a firm producing a product that constitutes a small proportion of household income.**<br><br>**For knowledge and understanding**, meaning of PED (1) plus an accurate formula (1) **(up to 2 marks)**<br><br>**And application:**<br>For explanation of the effects on revenue where PED is elastic (i). For a product that constitutes a large proportion of household income this means that the PED will most likely be elastic (1) which means (1) so revenue is likely to fall (1) **(up to 3 marks)**<br><br>For explanation of the effects on revenue where PED is inelastic (ii). For a product that constitutes a small proportion of household income this means that the PED is likely to be inelastic (1) which means (1) so revenue is likely to rise (1) **(up to 3 marks)** | **8** | Where PED is elastic, an increase in price will lead to less revenue<br><br>A firm with an inelastic PED will experience an increase in its revenue if it increases the price of its product<br><br>Note: simple explanations of the impact of elasticity should not be credited, e.g. an increase in price leads to a large fall in demand/no change in demand. The answer must refer to % or proportional changes |

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| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 3(b) | **Discuss whether cross elasticity of demand or income elasticity of demand is likely to be more useful in assisting a firm in its pricing decisions.**<br><br>For an **analysis** of price changes on the market for substitutes and complements (**up to 4 marks but a max. of 3 if only complements or substitutes are considered**)<br><br>For an **analysis** of price changes on normal/luxury goods and inferior goods when incomes change **(up to 4 marks but a max. of 3 if only normal/luxury or inferior goods are considered)**<br><br>**8 marks maximum**<br><br>For an **evaluation** of which of the two measures is likely to be most useful to the firm in its pricing decisions **(up to 4 marks)**<br><br>**Reserve 1 mark for a conclusion** | **12** | XED and YED should only be analysed in the context of their usefulness in assisting a firm in its pricing decisions<br><br>Note: there are no KU marks awarded in part (b) for merely explaining/defining terms or phrases used within the question |
| 4(a) | **Explain how inflation is measured and why a rising rate of inflation may be of concern to consumers and producers.**<br><br>**For knowledge and understanding** of what is meant by inflation and how it is measured. Inflation is a sustained increase in the (general) price level (1) and is normally measured by the CPI or equivalent index (1) **(up to 2 marks)**<br><br>**And application** that explains the problems for consumers (e.g. loss of purchasing power if on fixed income, erosion of real value of savings). 1 mark per explained problem **(up to 3 marks)**<br><br>And further application that explains the problems for producers (e.g. menu costs, difficulty in making long-term decisions such as investment). 1 mark per explained problem **(up to 3 marks)** | **8** | Inflation occurs when there is a rise in the general price level in an economy. It is usually measured by the annual change in a Consumer Prices Index (CPI). A rising rate of inflation is of concern depending on its extent and how this compares with any stated target<br><br>Reference to fixed income earners, menu costs, shoe leather costs, export competitiveness and business confidence are relevant<br><br>**At least two problems for each should be explained and one problem well explained can gain 2 marks.** |

| Question | Answer | Marks | Guidance |
|---|---|---|---|
| 4(b) | **Discuss whether a policy of increasing interest rates is the best way of controlling a rising rate of inflation in an economy.**<br><br>For **analysis** of the advantages and disadvantages of a policy of increasing interest rates to control inflation. **(Up to 4 marks but 3 marks max. if only advantages or disadvantages are considered)**<br><br>For **analysis** of the advantages and disadvantages of at least one other policy used to control inflation. **(Up to 4 marks but 3 marks max. if only advantages or disadvantages are considered)**<br><br>**8 marks maximum**<br><br>For an **evaluation** as to which is likely to be the best policy to control inflation **(up to 4 marks)**<br><br>**Reserve 1 mark for a valid conclusion** | **12** | There are various policies for controlling a rising rate of inflation, one of which is increasing interest rates. This policy is expected to reduce consumption and investment by firms whilst increasing savings. The effectiveness though depends upon the rate of inflation and the time it takes for increased interest rates to have an impact. Fiscal and supply-side policies are alternative methods of control<br><br>Note: there are no KU marks awarded in part (b) for merely explaining/defining terms or phrases used within the question |

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