Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **October/November 2022**

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 2022 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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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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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)	**Explain how 'a product's price acts as a signal of its scarcity'.** For a reference to a situation where there are limited resources to satisfy unlimited wants and needs and so price rations the available resources among competing buyers (1 mark) For a development in terms of a rising demand for a product, relative to its supply, will push up prices and act as an incentive to increase the quantity; the existence of scarcity giving rise to the need to make choices between the different uses that can be made of the scarce resources (1 mark) **2 marks maximum**	**2**	
1(b)	**Explain one possible reason why the Government of Iran may have decided to raise the minimum price of fuel in 2019.** For an identification of one possible reason (1 mark) For a more developed explanation of one possible reason (1 mark) **2 marks maximum**	**2**	**Possible reasons could include:** • the need to reduce the demand for fuel; an increase in the price could be effective if the PED for fuel is elastic • this could benefit the country's current account on the balance of payments if a substantial amount of fuel is imported, although Iran does have a large amount of crude oil reserves • this will encourage producers to increase the supply of fuel which will help them to increase their profits • an increase in producer profits could lead to a substantial increase in government revenue from the taxes on profits • if subsidies have been reduced, the money saved could be reallocated

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Question	Answer	Marks	Guidance
1(c)	**Explain, with the help of a diagram, how an effective minimum price would affect the market for a basic food, such as rice in Haiti.** For an explanation of the effect of a minimum price in a market (Up to 2 marks) For a correctly drawn and labelled diagram to show the operation of a minimum price in a market for a basic food, such as rice in Haiti (Up to 2 marks) **4 marks maximum**	**4**	**Effective minimum price:** • a minimum price in a market is where a price floor is established • to be effective, this needs to be above the equilibrium price • the equilibrium price in a market would be higher than would be the case if there was no government intervention • farmers are therefore guaranteed these prices • this is likely to have a positive effect on their incomes • it could lead to excess supply/surplus • this could lead to the possibility of food rotting in warehouses **Diagram:** • One mark for correctly labelled P, Q, D and S • One mark for showing a minimum price line above the equilibrium, for showing a price higher than the equilibrium price and for showing the change in quantity

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Question	Answer	Marks	Guidance
1(d)	**'Governments use stocks to smooth fluctuations in the price of a commodity like cocoa'.** **Consider whether government action to smooth fluctuations helps the workings of the price mechanism.** For an explanation of how government action to smooth price fluctuations may help the workings of the price mechanism (Up to 3 marks) For an explanation of how government action to smooth price fluctuations may not help the workings of the price mechanism (Up to 3 marks) **5 marks maximum** **Reserve 1 mark for a conclusion** **6 marks maximum**	**6**	**Government action might help the workings of the price mechanism:** • it can help to stabilise a market • stocks can be used to smooth fluctuations in the price of commodity, such as cocoa, avoiding/reducing large price variations • a government could buy stocks when there was an excess supply of a product in the market • a government could sell stocks when there was an excess demand for a product in the market **Government action might not help the workings of the price mechanism:** • it could distort the market by not allowing prices to reflect changes in the conditions of demand for, and supply of, a product • the consideration of how such action by a government might not help the workings of the price mechanism can be discussed in relation to the different functions of the price mechanism, i.e. rationing, signalling and the transmission of preferences

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Question	Answer	Marks	Guidance
1(e)	**Discuss whether maximum price controls will always be effective in controlling inflation.** For a discussion of the **advantages** of using maximum price controls to control inflation (Up to 3 marks) For a discussion of the **disadvantages** of using maximum price controls to control inflation (Up to 3 marks) **5 marks maximum** **Reserve 1 mark for a conclusion** **6 marks maximum**	**6**	**The advantages of establishing a maximum price in a market in the form of a price ceiling:** • the price will be lower than what would otherwise be the case if there was no government intervention • this would lead to a lower rate of inflation in an economy • this helps the poor afford the necessities of life • these could include essential foodstuffs, housing rents and transport • specific examples given include the price of foodstuffs, including bread in Benin and rice in Haiti **The disadvantages of establishing a maximum price in a market in the form of a price ceiling:** • lower prices could stimulate demand-pull inflation • the creation of a shortage as a result of the excess demand created in the market • hoarding • black/illegal markets which can charge relatively high prices • queuing or rationing • if the controls are not effective, it will not control inflation

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Question	Answer	Marks	Guidance
2(a)	**Explain <u>two</u> factors that will determine the price elasticity of demand for a particular brand of car and how this price elasticity of demand may change over time.** **For Knowledge and Understanding:** For a correct definition of price elasticity of demand For a correct formula of price elasticity of demand. (Up to 2 marks) **2 marks maximum** **For Application:** Application of **one** factor affecting the PED for a particular brand of car, taking into account how this may change over time. (Up to 3 marks) Application of a **second** factor affecting PED for a particular brand of car, taking into account how this may change over time. (Up to 3 marks) **6 marks maximum**	**8**	**Definition of PED:** the measurement of the extent to which a change in price leads to a change in quantity demanded **Formula of PED:** percentage change in the quantity demanded of a product divided by the percentage change in the price of a product. **Factors affecting PED:** • the availability and price of substitutes: the market contains many firms and so PED for a particular brand of car is likely to be relatively elastic • the price of the product relative to income: the higher the relative proportion of income accounted for by a particular brand of car, the more elastic the PED is likely to be, although this could change over time as incomes rise • loyalty: if consumers have a strong loyalty to a particular brand of car, this will tend to make PED relatively inelastic • need or want: the degree to which a particular brand of car is seen as a necessity or a luxury • the time period: the PED for any particular brand of car is likely to increase over time, so it is more likely to be relatively elastic in the LR than in the SR

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Question	Answer	Marks	Guidance
2(b)	**Discuss whether knowledge of price elasticity of demand or income elasticity of demand would be of greater use to a business that produces cars.** **For Analysis:** Analysis of the usefulness of knowledge of the **price elasticity of demand** to a business that produces cars. (Up to 4 marks) Analysis of the usefulness of knowledge of the **income elasticity of demand** to a business that produces cars. (Up to 4 marks) **8 marks maximum** **For Evaluation:** For exercising some judgement on whether knowledge of price elasticity of demand or income elasticity of demand would be of greater use to a business that produces cars.(Up to 4 marks) **Reserve 1 mark for a conclusion** **4 marks maximum**	**12**	**The usefulness of knowledge of price elasticity of demand:** • the business will be able to predict the effect of a change in the price of a car on demand reasonably accurately • if demand is price elastic, a fall in price will lead to an increase in revenue • if demand is price inelastic, a fall in price leads to a decrease in revenue • if PED is unitary elastic, a change in price will not lead to a change in revenue **The usefulness of knowledge of the income elasticity of demand:** • the business will benefit from knowing about the effect of changes in income in an economy, e.g. as incomes increase, production can shift from a basic car • knowledge of YED will enable the business to plan for the future, e.g. having the resources to meet demand • increases in income in an economy may lead the business to produce better and more luxurious cars with more features and functions (luxuries have a YED of more than 1 and so the business will be able to know whether to produce more luxury goods)

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Question	Answer	Marks	Guidance
3(a)	**Explain, with the use of a diagram(s), how the production possibility curve of an economy could be affected by a decrease in the quantity of labour available, but an increase in its quality.** **For Knowledge and Understanding:** For knowledge and understanding of the production possibility curve of an economy. (Up to 2 marks) **2 marks maximum** **For Application:** For a diagram and explanation of how a decrease in the **quantity** of labour would shift the PPC to the left. (Up to 3 marks) For a diagram and explanation of how an increase in the **quality** of labour would shift the PPC to the right. (Up to 3 marks) **6 marks maximum**	**8**	**Production possibility curve:** • a PPC is based on a two-product economy • a PPC shows the range of combinations of two products that may be produced if the existing level of resources in an economy is being fully utilised **A decrease in the quantity of labour:** • this would lead to a reduction in the productive potential of an economy (1) **Diagram:** • correct labelling of axes and PPC drawn in such a way that it touches both axes (it can be straight or curved) (1) • the PPC shifts to the left (1) **An increase in the quality of labour:** • this would lead to an increase in the productive potential of an economy (1) **Diagram:** • correct labelling of axes and PPC drawn in such a way that it touches both axes (it can be straight or curved) (1) • the PPC shifts to the right (1)

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Question	Answer	Marks	Guidance
3(b)	**Discuss whether supply side policies will be successful in increasing the quantity and quality of the factor enterprise in a modern economy.** **For Analysis:** Analysis of the potential **advantages** of supply side policies in increasing the quantity and quality of the factor enterprise in a modern economy. (Up to 4 marks) Analysis of the potential **limitations** of supply side policies in increasing the quantity and quality of the factor enterprise in a modern economy. (Up to 4 marks) **8 marks maximum** **For Evaluation:** For exercising some judgement on whether supply side policies will be successful in increasing the quantity and quality of the factor enterprise in a modern economy.(Up to 4 marks) **Reserve 1 mark for a conclusion** **4 marks maximum**	**12**	**Potential advantages of supply side policies:** • lower taxes could encourage people to become entrepreneurs • higher expenditure on education and training/reskilling could improve the quality of the factor enterprise, making entrepreneurs more innovative and more willing to take a risk • deregulation could lead to laws being reduced to make the setting up of an enterprise easier • financial support from the government would enable more enterprises to survive and to stay in business **Potential limitations of supply side policies:** • the effects of supply side policies can take a long time to show, e.g. training • some entrepreneurs might become too dependent on government support and so become inefficient • the policies will not guarantee that all enterprises will be successful • a policy of privatisation might actually reduce the quantity of the factor enterprise needed • questionable whether enterprise can be taught/trained

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Question	Answer	Marks	Guidance
4(a)	**Explain, with the use of a diagram(s), <u>two</u> factors that could bring about a depreciation in the value of a country's exchange rate in a freely floating exchange rate system.** **For Knowledge and Understanding:** For a correct explanation of a floating exchange rate system (1 mark) For a correct diagram showing a floating exchange rate system (1 mark) **2 marks maximum** **For Application:** Explanation of **one** factor that could bring about a depreciation in the value of a country's exchange rate in a freely floating exchange rate system. (Up to 3 marks) Explanation of a **second** factor that could bring about a depreciation in the value of a country's exchange rate in a freely floating exchange rate system. (Up to 3 marks) **6 marks maximum**	**8**	**Definition of a floating exchange rate system:** • one in which the exchange rate is determined by the intersection of the demand for a currency and the supply of a currency or not fixed by the government **Diagram:** • vertical axis needs to indicate that it is the price of a currency rather than any price in order for the diagram to be given a mark, assuming that D and S are correctly labelled **Factors that could bring about a depreciation:** • a decrease in the demand for a currency, e.g. if fewer exports are sold • an increase in the supply of a currency, e.g. if more imports are bought • lower interest rates • a higher rate of inflation compared with trading competitors because exports will be less competitive • a deficit in the balance of payments on current account will contribute to a depreciation

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Question	Answer	Marks	Guidance
4(b)	**Discuss whether protectionist policies would be the most effective way to correct a current account deficit on the balance of payments in an economy.** **For Analysis:** The potential **advantages** of protectionist policies to correct a current account deficit on the balance of payments in an economy. (Up to 4 marks) The potential **limitations** of protectionist policies to correct a current account deficit on the balance of payments in an economy. (Up to 4 marks) **8 marks maximum** **For Evaluation:** For exercising some judgement on whether protectionist policies would be the most effective way to correct a current account deficit on the balance of payments in an economy. (Up to 4 marks) **Reserve 1 mark for a conclusion** **4 marks maximum**	**12**	**Potential advantages of protectionist policies:** • tariffs would make imports more expensive and discourage the consumption of them • quotas would restrict the volume of imported products • embargoes would place a complete ban on certain imported products • excessive administrative burdens ('red tape') would make it much more difficult to actually get products into a country • export subsidies would help to make domestic products more price competitive in international markets **Potential limitations of protectionist policies:** • tariffs may not be very effective if the demand for the imported products is relatively price inelastic • some quotas may not be that restrictive • an embargo could lead to retaliation • there may be ways of getting round the excessive administrative burdens • the effect of export subsidies would depend on the PED for the products and could also lead to retaliation

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- 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).

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- marks are awarded when candidates clearly demonstrate what they know and can do
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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 …).
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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.
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- 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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PREPARATION FOR MARKING

1 Make sure that you have completed the relevant training on http://training.cie.org.uk and have access to the RM Assessor Guide.
2 Make sure that you have read and understand the question paper, which you can download from https://support.rm.com/ca
3 Log in to RM Assessor then mark and submit the required number of practice and standardisation scripts once they are available.
   a The practice scripts are annotated by the senior examiners with comments (use the toggle comments button) and marking annotations to help you understand how the mark scheme is being applied.
   b The standardisation scripts test your application of the mark scheme. You need to mark them to the required accuracy in order to be approved for marking live scripts. You may be asked to re-mark them, or to mark a second sample, if you do not meet the standard on your first attempt.
4 Once approved, you can mark live scripts, and you will continue to receive feedback from your Team Leader (TL).

MARKING PROCESS

1 Mark strictly to the FINAL mark scheme, applying the criteria consistently and the general marking principles outlined on the previous page.
2 If you are in doubt about applying the mark scheme, consult your TL.
3 Mark at a steady rate through the marking period. Do not rush, and also do not leave too much until the end. If you anticipate a problem in meeting the deadline, contact your TL and the Examiners' Helpdesk.
4 You will email a brief report on the performance of candidates to your TL by the end of the marking period. Please note particular strengths seen in answers and common errors or weaknesses. Constructive comments on the paper, mark scheme or procedures are also useful.

MARKING SPECIFICS

1 How to deal with crossed out work and multiple answers:
   a If a candidate crosses out an answer and provides an alternative response to that same question, then mark the work which is not crossed out.
   b If a candidate crosses out an answer and does not make another attempt, you must attempt to mark the crossed out work and award marks appropriately. This must also be done even if the candidate has gone on to answer an alternative optional question in Section B.
   c For the avoidance of doubt, all of a candidate's answers, crossed out or not, optional or not, must be marked. The only work which is not to be marked is something that has been crossed out and replaced by new work for that exact same question.
2 There is 'no response' (NR) award, as well as a zero marks award. Only award NR if there is nothing at all written in answer to that question (which is often but not always the case for optional questions), OR if there is a comment which does not relate in any way to the question (e.g. 'can't do' or 'don't know' etc), OR if there is a mark such as a dash or question mark which isn't an attempt at the question. You can use the [#] or [/] key as a shortcut for NR. However, if there is any attempt at the question which does not score, including copying the question onto the Answer Booklet, then a mark of 0 must be awarded whether this work is crossed out or not.
3 Always check every page in every response, including additional objects. Every page requires some form of annotation to show you have seen it.

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4 Sometimes a candidate mislabels their answers. They may, for example, have written '3(a)' in the margin, but the answer given is clearly to question 4(a). In this case, use the mark scheme for 4(a) and award the mark against the mark box for 4(a). Then add a text box comment to the response and put something like: 'this is 4a'.

ANNOTATIONS

Any script you mark may be seen or reviewed by your TL, another TL, the Principal Examiner, Cambridge staff or the candidate's Centre. Annotation will make it clear how you arrived at the mark that you have awarded. The following annotations are used in marking this paper and should be used by examiners wherever appropriate.

Annotation	Use or meaning
KU	Relevant economic knowledge and understanding used to help answer the question here (see AO1).
APP	Relevant application of economic concepts to the given question or context is shown here (see AO2)
AN	Relevant economic analysis of the situation in the question is demonstrated (see AO3).
EE	Relevant, effective evaluation of the issues in the question is given here (see AO4).
✓	Correct and relevant point made in answering the question.
BOD	Benefit of the doubt given. The point has not been made quite correctly, completely or precisely, but is nearly there and the intention is clear.
^	Omission mark. A term, a label, a line on a graph, an example, etc, required to make the point correctly has been missed out of the response.
×	Incorrect point or error made.
TV	Too vague. This part of the response is not precise enough to be worth any credit.
?	The point being made is unclear or confused.
IR	Irrelevant response – this work is not helping the candidate to answer the given question.
SEEN	This work has been noted by the examiner, but there is nothing of any credit here.
highlighter	Used to indicate something of significance, or referred to by another annotation or comment.

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[T] (text box)	A catch-all, when you need to give more detail or explanation. Please note that teachers who request a script can read your comments. For the Essay there may be a requirement to show part marks in a text box – see the detailed mark scheme.

ASSESSMENT OBJECTIVES

The skills listed below are what we expect candidates to be able to do. The marks in the mark scheme reward candidates who demonstrate these skills, so they are helpful to keep in mind if you have any doubts as to whether or not something is worthy of credit.

AO1 Knowledge and understanding	Demonstrate knowledge and understanding.
AO2 Application	Interpret and apply knowledge and understanding to information presented in written, numerical or graphical form.
AO3 Analysis	Analyse economic issues and arguments, using relevant economic concepts, theories and information, and communicate conclusions in a clear, reasoned manner.
AO4 Evaluation	Critically evaluate economic information, arguments, proposals and policies, taking into consideration relevant information and economic principles and distinguishing facts from hypothetical statements and value judgements.

SECTION B

Examiners please note: for the essays there are **two** marks to be entered in RM Assessor for **2(b)**, **3(b)** and **4(b)** rather than one. You will be required to enter

- a mark out of **8** for **analysis** in a mark box labelled **AN**, and
- a mark out of **4** for **evaluation** in a mark box labelled **EV**.

This will make it clearer how you have arrived at the marks awarded, and also means that RM Assessor will do the addition rather than examiners needing to do it themselves.

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Question	Answer	Marks	Guidance
1(a)	**Identify one possible cause of the decline in world export prices of maize.** For the identification of one possible cause **(1 mark)**	**1**	Extract 1 contains possible causes. These include supply factors such as large global supplies and good harvest prospects from South America and demand factors such as lower demand for maize from the biofuel and animal feed industries. **The cause identified does <u>not</u> have to be confined to the data. Any valid demand or supply factor is acceptable provided it identifies why demand or supply may change.**
1(b)	**Explain one change in a factor of demand that would lead to maize prices rising in Malawi despite the increase in domestic production.** For identification of any appropriate demand factor **(1 mark)** And for an explanation of why this could lead to a rise in maize prices in Malawi**,** i.e., this may lead to demand (shifting to the right and therefore) exceeding supply / a shortage. **(1 mark)**	**2**	Any appropriate demand factor can be accepted. Change in tastes, rise in income, rise in the price of a substitute etc. The explanation may be supported by a diagram but do not reward an unexplained diagram for the second mark.
1(c)	**With reference to extract 2 explain two reasons why maize prices are rising in Zimbabwe despite the fall in the world export price of maize.** For identification of a reason **(1 mark)** and for explanation of how this will cause prices of maize to rise **(1 mark)**	**4**	Extract 2 states that the two reasons are 'sustained weakness in Zimbabwe's currency' and the 'sharply reduced harvest'. These need to be identified and explained. **Only accept valid reasons contained in extract 2 that explicitly refer to Zimbabwe. The explanation should develop into why this reason will cause the price of maize to rise in Zimbabwe.** **Relevant diagrams should only be rewarded if used as part of the explanation.**

Question	Answer	Marks	Guidance
1(d)	**Explain, with the help of a diagram, how a rise in the minimum price of maize in Malawi will encourage production.** For a fully accurate S and D diagram that clearly shows a **rise** in the minimum price of maize **and** the increase in supply **(2 marks)** **OR** For a fully accurate S and D diagram that clearly shows the **introduction** of a minimum price of maize **and** the increase in supply **(1 mark max)** For an accompanying explanation that clearly explains that there has been a **rise** in the minimum price of maize and that this should increase its production because it will encourage farmers to produce more maize. **(1 mark)**	**3**	Two marks are available for an accurate diagram showing a movement upward (rise) of the guaranteed price and the extension in supply. The diagram must be accurately labelled. There must be an explanation that accompanies the diagram that clearly explains this is a rise in the minimum price rather than the introduction of a minimum price for full marks. If the diagram does not make it clear that this is a rise in the minimum price then a **maximum** of one mark should be awarded overall.

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Question	Answer	Marks	Guidance
1(e)	**Discuss, with the help of a diagram, whether a subsidy on maize production will always benefit both the producers of maize and poorer households in Zimbabwe equally.** For an accurately labelled diagram that shows the shift to the right of the supply curve and the fall in equilibrium price that benefits the consumer **(1 mark)** **and** the rise in price received by the producer **(plus 1 mark)** **and** for an evaluative comment that refers to and accurately explains the significance of at least one measure of elasticity on the benefit to the producer and / or the consumer. **(1 mark)** **and** reaches a justified conclusion that benefit may / may not be enjoyed equally. **(1 mark)**	**4**	The diagram should show a shift to the right of the supply curve and a fall in price-benefitting consumers and the payment to producers shown as the vertical distance between the new supply curve and the old supply curve at the new price. For both marks for the diagram, the impact on the price paid by the consumer and the effective price received by the producer must be clearly shown. The answer just requires a brief explanation that the extent of the benefit to producers and consumers depends mainly on PED e.g. if it is elastic then producers will gain more and if inelastic, consumers will. May also depend on PES and consumers gain more when PES is more elastic and vice versa. Justified conclusion needed for final mark

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Question	Answer	Marks	Guidance
1(f)	**Discuss whether maximum prices on staple foods such as maize are likely to be effective in providing food for poorer households in Zimbabwe.** For an explanation that a maximum price on the market for maize is intended to keep the price low / affordable for poorer households **(1 mark)** For an explanation of the problems/ consequences caused in the market by the introduction of a maximum price for maize **(up to 3 marks)** For an evaluation as to whether such problems/ consequences can be overcome leading to a reasoned conclusion **(reserve 1 mark for the conclusion)** **(up to 2 marks)**	**6**	The imposition of the maximum price will lead to a shortage of maize in the market. In the absence of equilibrium price another method of distributing maize will need to be found. This might lead to queuing, first come first served or illegal markets. A rationing system might alleviate the problems. **Although a diagram is likely to be used, this is not a requirement of the question and marks cannot be allocated specifically. The use of a diagram if accurate <u>and</u> correctly explained may be used in the explanation and rewarded accordingly.**

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Question	Answer	Marks	Guidance
2(a)	**In many economies, the use of cash is declining as people use contactless payments that transfer funds directly between bank deposits.** **Explain what represents money in a modern economy and how the use of contactless payments without the use of cash will affect the functions of money.** For **knowledge and understanding** of what represents money in a modern economy: narrow measure/ cash **(1 mark)** and broad measure/ bank deposits/ savings **(1 mark)** **up to 2 marks** For application to explain how contactless payments may be included within in the definition of money e.g. it is just another method of moving bank deposits and / or replaces cash in exchange for goods / services (1) and relies on e.g. mobile phone technology / apps /use of debit / credit cards without use of a personal identification number (PIN) (1) **up to 2 marks** For further application of how this affects the functions of a minimum of **two** functions of money (maximum of 3 marks per function discussed). **up to 4 marks**	**8**	Money is made up of cash and the deposits of various types in financial institutions. Whether these deposits can fulfil all of the functions of money depends upon the extent of the liquidity of the deposit. Candidates need to identify at least two of the functions of money from means of exchange, store of value, unit of account and standard of deferred payment. The application must discuss whether or not the functions are affected by the use of contactless payments and why. For example, the means of exchange function may be affected by access to technology, the store of value function may be affected if people need to keep more money on deposit, the standard of deferred payments function may be affected by credit cards and the use of bank overdrafts. Accept any reasonably well-argued response.

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Question	Answer	Marks	Guidance
2(b)	**Discuss whether an expansionary monetary policy will be successful in correcting deflation** For **analysis** of how expansionary monetary policy may be used to stimulate the components of aggregate demand to correct deflation / increase the price level. **N.B** if only **one** component of AD is addressed then **maximum** mark of **3** **(Up to 4 marks)** For **analysis** of the reasons why expansionary monetary policy may not be successful in correcting deflation / increasing the price level. **N.B** if only **one** reason is explained then **maximum** mark of **3** **(Up to 4 marks)** For evaluation that clearly considers whether or not expansionary monetary policy will be successful in correcting deflation by taking into account how it may be used and the circumstances in which it may not be successful **(up to 3 marks)** that leads to a reasoned conclusion on whether such a policy is likely to be successful **(1 mark)** **(Up to 4 marks)**	**12**	Candidates need to refer to appropriate expansionary monetary policies such as reducing the rate of interest, increasing the money supply and may also refer to a devaluation of the exchange rate. The impact on any one or more components of aggregate demand should also be referred to. Problems may include a lack of consumer and business confidence, the overall situation of the economy including the existing level of interest rates etc. Evaluation could take into account the PED of exports and imports. **There are no KU marks awarded in part (b) for merely explaining / defining terms or phrases within the question.**

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Question	Answer	Marks	Guidance
3(a)	**Explain how a production possibility curve can be used to demonstrate scarcity, choice and opportunity cost.** For **knowledge and understanding** of a production possibility curve **(Up to 2 marks)** e.g. a curve that shows the maximum level of output that an economy can achieve (1) given its current level of resources / technology (1) For application that demonstrates a clear understanding of what is meant by scarcity (1) and explains how this would be shown on a PPC (1) For application that demonstrates a clear understanding of what is meant by choice (1) and explains how this would be shown on a PPC (1) For application that demonstrates a clear understanding of what is meant by opportunity cost (1) and explains how this would be shown on a PPC (1)	**8**	Candidates are likely to provide a diagram **although this is not essential** if it is clear that the basis of a PPC is understood. If a diagram is used to demonstrate knowledge and understanding without an accompanying explanation then this is acceptable BUT it must be correctly labelled as 2 different goods (i.e., not X and Y or P and Q) and the curve itself must touch both axes for both marks. Scarcity is shown through the PPC as a production frontier and not a position outside the curve. Choice must be shown as a **movement along the curve.** Opportunity cost is shown as the next best alternative foregone as one product is sacrificed to produce the alternative. A diagram may be used to demonstrate scarcity, choice and opportunity cost but **must** be accompanied by appropriate explanation to gain marks. However, a diagram is **not** essential. The application for scarcity, choice and opportunity cost must be clearly separated.

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Question	Answer	Marks	Guidance
3(b)	**Discuss the difficulties that might be encountered when adopting supply side policies to expand the productive capacity of an economy and consider whether these difficulties can be overcome.** For an **analysis** of how supply side policies may be used to expand the productive capacity of an economy and the difficulties encountered in adopting them. N.B. if only **one** policy and **one** difficulty is discussed then **maximum** of **3** marks. **(up to 4 marks)** For an **analysis** of possible methods of overcoming these difficulties in adopting supply side policies to expand the productive capacity of an economy N.B. if only **one** method is discussed then **maximum** of **3 marks.** **(up to 4 marks)** For an **evaluation** of the likely success of adopting supply side policies to expand the productive capacity of an economy taking into account the difficulties encountered **(up to 3 marks)** that leads to a reasoned conclusion **(1 mark)** **(up to 4 marks)**	**12**	Candidates need to show good understanding of a range of supply side policies that may expand the productive capacity of an economy and specifically, they should be aware of the difficulties associated with such policies including the cost and the potentially long time period before they come into effect. It is essential that candidates consider whether these difficulties can be overcome. For example, in developing economies there may be a shortage of funds that might be overcome through inward investment from abroad. **There are no KU marks awarded in part (b) for merely explaining / defining terms or phrases within the question.**

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Question	Answer	Marks	Guidance
4(a)	**An economy adopts a freely floating exchange rate.** **Explain how this economy's exchange rate is likely to be affected when its inflation rate is much higher than inflation rates in its trading partners.** For **knowledge and understanding** of the meaning an exchange rate i.e., the price of one currency in terms of another currency **(1) and** of a freely floating exchange rate i.e. it is determined by market forces of demand and supply for the currency **(1)**, is not fixed by the government **(1)**. **(Maximum of 2 marks)** For **application** that explains the effect of the lower overseas inflation rates as a rise in demand for imports **(1)** which will increase the supply of the domestic currency **(1)** and will lead to a fall / depreciation in the exchange rate **(1)** **(Up to 3 marks)** For **application** that explains the effect of the lower overseas inflation rates as a fall in demand for exports **(1)** which will reduce the demand for the domestic currency **(1)** and will also lead to a fall/ depreciation in the exchange rate **(1).** **(Up to 3 marks)**	**8**	Candidates need to demonstrate knowledge of the impact of varying inflation on exports and imports and the effect on the foreign exchange market. Allow the first KU mark if the answer gives an example of the price of one currency quoted against another one

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Question	Answer	Marks	Guidance
4(b)	**Discuss the advantages and disadvantages that result from a rise in an economy's terms of trade and consider whether a rise is likely to be of overall benefit to an economy.** For **analysis** that explains the advantages of a rise in the terms of trade **N.B** if only **one** advantage is discussed then **maximum** mark of **3** **(Up to 4 marks)** For **analysis** that explains the disadvantages of a rise in the terms of trade **N.B.** if only **one** disadvantage is discussed then **maximum** mark of **3** **(Up to 4 marks)** For **evaluative comment** on whether the advantages are likely to overcome the disadvantages and be of overall benefit to an economy **(Up to 3 marks)** that leads to a reasoned conclusion on whether the rise is likely to be of overall benefit. **(1 mark).**	**12**	Candidates will need to provide sound analysis of the impact of a rise in the terms of trade. Advantages include the fall in the relative price of imports means that the standard of living will rise. Also, the lower price of imports mean that imported raw materials will fall in price and this will result in lower input costs. Disadvantages include a loss of competitiveness in international trade that might lead to unemployment in the domestic economy both from a fall in the demand for exports but also as a result in the increased demand for imports. Evaluative comment might refer to the significance of elasticities in determining the outcome. If the candidate is clearly confusing the terms of trade with the balance of trade or the budget balance throughout the answer, then 0 marks must be awarded. **There are no KU marks awarded in part (b) for merely explaining / defining terms or phrases 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 2022**

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 2022 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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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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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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ANNOTATIONS

Any script you mark may be seen or reviewed by your TL, another TL, the Principal Examiner, Cambridge staff or the candidate's Centre. Annotation will make it clear how you arrived at the mark that you have awarded. The following annotations are used in marking this paper and should be used by examiners wherever appropriate.

Annotation	Use or meaning
KU	Relevant economic knowledge and understanding used to help answer the question here (see AO1).
APP	Relevant application of economic concepts to the given question or context is shown here (see AO2)
AN	Relevant economic analysis of the situation in the question is demonstrated (see AO3).
EE	Relevant, effective evaluation of the issues in the question is given here (see AO4).
✓	Correct and relevant point made in answering the question.
BOD	Benefit of the doubt given. The point has not been made quite correctly, completely or precisely, but is nearly there and the intention is clear.
^	Omission mark. A term, a label, a line on a graph, an example, etc, required to make the point correctly has been missed out of the response.
×	Incorrect point or error made.
TV	Too vague. This part of the response is not precise enough to be worth any credit.
?	The point being made is unclear or confused.
IR	Irrelevant response – this work is not helping the candidate to answer the given question.
SEEN	This work has been noted by the examiner, but there is nothing of any credit here.
highlighter	Used to indicate something of significance, or referred to by another annotation or comment.
[T] (text box)	A catch-all, when you need to give more detail or explanation. Please note that teachers who request a script can read your comments. For the Essay there may be a requirement to show part marks in a text box – see the detailed mark scheme.

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ASSESSMENT OBJECTIVES

The skills listed below are what we expect candidates to be able to do. The marks in the mark scheme reward candidates who demonstrate these skills, so they are helpful to keep in mind if you have any doubts as to whether or not something is worthy of credit.

AO1 Knowledge and understanding	Demonstrate knowledge and understanding.
AO2 Application	Interpret and apply knowledge and understanding to information presented in written, numerical or graphical form.
AO3 Analysis	Analyse economic issues and arguments, using relevant economic concepts, theories and information, and communicate conclusions in a clear, reasoned manner.
AO4 Evaluation	Critically evaluate economic information, arguments, proposals and policies, taking into consideration relevant information and economic principles and distinguishing facts from hypothetical statements and value judgements.

SECTION B

Examiners please note: for the essays there are **two** marks to be entered in RM Assessor for **2(b)**, **3(b)** and **4(b)** rather than one. You will be required to enter

- a mark out of **8** for **analysis** in a mark box labelled **AN**, and
- a mark out of **4** for **evaluation** in a mark box labelled **EV**.

This will make it clearer how you have arrived at the marks awarded, and also means that RM Assessor will do the addition rather than examiners needing to do it themselves.

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Question	Answer	Marks	Guidance
1(a)	**Explain what might be the opportunity cost if the Pakistan government agreed to pay subsidies to Pakistan's farmers comparable to those paid to India's farmers.** • Opportunity cost is the cost in terms of the best alternative that is forgone **(1 mark)** • The decision to increase subsidies means that other areas of government funding with a specific example will have less spending allocated to them **(1 mark)**	**2**	Other areas of government funding may include healthcare, education, infrastructure etc. Accept any valid example Accept answers that merge the explanation of opportunity cost with an appropriate example for 2 marks.
1(b)(i)	**With reference to Table 1.1, state in which product group Pakistan's farmers are most disadvantaged.** Maize **(1 mark)**	**1**	Maize has the greatest relative cost difference (2.24 although this measure is not required.) Do not accept any other product group.
1(b)(ii)	**Explain how the lower level of subsidy currently paid to Pakistan's farmers is likely to affect Pakistan's trade in agricultural goods when competing with India in international markets.** It is likely to make exports of Pakistan's agricultural products less price competitive / imports of India's agricultural products more price competitive **(1)** and the resulting reduction in exports **(1)** and increasing imports **(1)** is likely to lead to a (increased) deficit in Pakistan's trade in agricultural goods **(1)** **Up to a maximum of 3 marks**	**3**	Responses may consider the following points within the explanation: • Pakistan is already at a cost disadvantage when trading with India • Pakistan's agricultural exports are likely to be less competitive than similar exports from India • Lower subsidies exaggerate the cost differences • Could mean that imports of staple foods from India increase • Other countries will buy more goods from India due to cost difference

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Question	Answer	Marks	Guidance
1(c)	**Analyse, with the help of a diagram, how the sales tax on fertilisers affects the market for fertilisers in Pakistan.** For an accurate diagram that uses an accurately labelled D and S diagram to show a shift in the supply curve **(1 mark)** and the increase in price and reduction in quantity **(1 mark)** For an explanation that the fall in demand will depend upon the PED for fertilisers and /or the size of the sales tax. **(Up to 2 marks)**	**4**	A sales tax increases the price of fertilisers to farmers in Pakistan. This can be shown by a shift to the left of the supply curve. The effect on the market is likely to depend upon the PED for fertilisers and the size of the sales tax.
1(d)	**Explain <u>two</u> other ways, apart from subsidies and reductions in sales tax, in which the government might support Pakistan's farmers.** Identification of an additional way **(1 mark)** plus an explanation of how this will support farmers **(1 mark)** **Up to 2 marks per identified way × 2**	**4**	Various possibilities include: • A minimum price for a given crop • Income support through transfer payments • Advice on how to cut costs and improve crop yields • Cheap finance to buy better quality seed • Policy of protectionism **(N.B. do not accept 2 policies of protection as 2 separate ways)** • Education and training
1(e)	**Discuss whether agricultural subsidies should not be paid to farmers in countries which have lower opportunity costs in other areas of production.** For an explanation of the benefits of paying agricultural subsidies to farmers **(up to 3 marks)** For an evaluation of whether agricultural subsidies should be paid to farmers if the country already has lower opportunity costs in other industries. **(Up to 3 marks with 1 mark reserved for a conclusion)**	**6**	The answer should consider the benefits of subsidies to farmers in terms of increasing their incomes and benefits to the economy in terms of reducing import dependence and keeping the prices of staple goods affordable. The evaluation should consider these benefits in countries that have lower opportunity costs in other areas of production e.g., may be an unnecessary burden on government expenditure, may invite retaliation, may restrict trade etc.

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Question	Answer	Marks	Guidance
2(a)	**Explain why demerit goods are over-consumed and merit goods are under-consumed.** For **knowledge and understanding** of the difference between demerit goods and merit goods e.g., demerit goods are those that are thought to be undesirable for consumers / worse for them than they realise **(1**) and merit goods are those that are thought to be desirable for consumers / better for them than they realise **(1)** For **application** that explains that demerit goods are often overconsumed because of imperfect information **(1**) giving an example **(1)** with further development e.g., also because of low income, poor education, low prices of demerit goods, addiction **(1)** For **application** that merit goods are often underconsumed because of imperfect information **(1)** giving an example **(1)** with further development e.g., also because of low income / high prices of merit goods **(1)**	**8**	Demerit goods are over-consumed because of imperfect information on the part of those who consume them. They are not aware of the risks to health of over consumption. The positive side effects of consuming merit goods are not appreciated by all consumers due to imperfect information. We cannot expect any discussion regarding costs and benefits including externalities, private costs and benefits, social costs and benefits as these are not on the AS syllabus but these may be rewarded if included.

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Question	Answer	Marks	Guidance
2(b)	**Discuss the extent to which the introduction of a maximum price in a market will benefit consumers.** For **analysis** of how the introduction of a maximum price in a market may benefit consumers. **(Up to 4 marks)** For **analysis** of how the introduction of a maximum price in a market may not be of benefit to consumers. **(Up to 4 marks)** For **evaluation** that clearly considers the extent to which consumers may benefit from the introduction of a maximum price in a market **(up to 3 marks)** that leads to a reasoned conclusion **(1 mark)**	**12**	The purpose of maximum price legislation is to ensure that consumers get access to supplies of essential products such as various types of food and in some cases, water and power supplies. It may also free up income to purchase other essential items. To be effective the maximum price must be below the equilibrium price in a free market, and this may be referred to in the first part of the analysis. An accurate diagram should not be expected but would enhance the quality of the analysis. However, the problem with a maximum price is that demand invariably exceeds supply at this price. Shortages can occur and this can lead to an informal market and profiteering along with rationing and queuing. Consumers may end up paying even more than the equilibrium price to get the supplies they need.

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Question	Answer	Marks	Guidance
3(a)	**Explain the difference between a progressive direct tax and a regressive indirect tax, with an example of each.** For **knowledge and understanding** of the difference between a direct tax and an indirect tax e.g., a direct tax is a tax on income and wealth **(1)** and an indirect tax is a tax on the sale of/ spending on goods and services **(1)** For **application** that provides a valid identification of a direct tax **(1 mark)** and explains why it may be progressive with reference to the burden of taxation as income rises **(1 mark)** with accurate reference to the marginal rate of taxation. **(1 mark) OR** the marginal rate of tax will be higher **(1 mark)** than the average rate of tax **(1 mark)** **Up to 3 marks** For **application** that provides a valid identification of an indirect tax **(1 mark)** and explains why it is considered regressive with reference to the relative burden of taxation between higher and lower income groups **(1 mark)** with accurate reference to the marginal rate of taxation (**1 mark) OR** the marginal rate of tax will be lower **(1 mark)** than the average rate of tax **(1 mark)** **Up to 3 marks**	**8**	A direct tax is one that is paid by individuals or businesses direct to the government. It is based on an individual's income or on the profits of a business. Examples are income tax and profits tax. An indirect tax is so-called because it is not directly collected by the government-retailers and local government agencies are the main collectors. The tax is based on the purchase of products. Examples are GST or VAT and duties charged on sales of petrol, cigarettes and alcohol. A direct tax is usually progressive, the rate of taxation increasing as income increases. Indirect taxes are regressive since they have to be paid irrespective of the income of the consumer. The marginal rate of taxation is the proportion of **extra** income taken in tax. This will rise with a progressive tax thus increasing the burden on higher income groups. It will fall with a regressive tax thus increasing the burden on lower income groups. The average rate of tax refers to the proportion of income taken so for a progressive tax the marginal rate of taxation will be **higher** than the average rate of taxation and **lower** for a regressive tax.

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Question	Answer	Marks	Guidance
3(b)	**Discuss whether an increase in direct taxes or an increase in interest rates is the more effective way of reducing inflation.** For an **analysis** of the advantages and disadvantages of increasing direct taxes to reduce inflation. **N.B** if only advantages or disadvantages are considered then **maximum** mark of **3. Up to 4 marks** For an **analysis** of the advantages and disadvantages of increasing interest rates to reduce inflation. **N.B** if only advantages or disadvantages are considered then **maximum** mark of **3. Up to 4 marks** For an **evaluation** of which may be the more effective way of reducing inflation **(up to 3 marks)** that leads to a reasoned conclusion **(1 mark)**		An increase in direct taxes is likely to lead to a fall in AD and therefore inflation due to a fall in consumption and investment. It is likely to be easy to implement and may be seen as fair if the tax is progressive as the burden will fall more on higher income groups. However, it may reduce incentives and lead to lower economic growth. An increase in interest rates should lead to an increase in savings and a fall in consumption and investment due to the increase in borrowing. The effects are likely to be quicker than an increase in direct taxes due to the speed of implementation. However, it may have similar consequences to an increase in direct taxes and it may be ineffective if interest rates are already very low, or confidence levels remain high. Both evaluation and analysis may make reference to the fact that effectiveness of both methods depends on the type of inflation i,e., if it is cost-push rather than demand -pull, they may be ineffective.**.**

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Question	Answer	Marks	Guidance
4(a)	**Explain how a higher rate of inflation in an economy compared to its trading partners and a decline in the exchange rate will each affect the terms of trade in an economy.** For **knowledge and understanding** of what is meant by terms of trade i.e., it is a measure of the ratio of export to import prices **(1)** plus an accurate formula showing index of export prices / index of import prices **(1).** For **application** that explains the effect of a higher rate of inflation compared to trading partners on the terms of trade of an economy. It will increase the relative price of exports **(1)** and reduce the relative price of imports **(1)** therefore leading to an improvement of the terms of trade **(1)** **(Up to 3 marks)** For **application** that explains the effect of a decline in its exchange rate will affect the terms of trade in an economy. It will reduce the relative price of exports **(1)** and increase the relative price of imports **(1)** and lead to a deterioration in the terms of trade **(1)** **(Up to 3 marks)**	**8**	Terms of trade is a measure of the relationship between export prices and import prices in an economy. By definition, a favourable movement or improvement is when export prices increase relative to a change in import prices. Import prices could fall while export prices remain unchanged. A higher rate of inflation compared to that in trading partners will result in an increase in export prices and an improvement in the terms of trade. A decline in the exchange rate results in a relative fall in export prices compared to trading partners. Terms of trade deteriorates.

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Question	Answer	Marks	Guidance
4(b)	**Since 2018, China and the United States (US) have been imposing tariffs on trade with each other.** **Discuss the view that some will benefit and some will lose but the overall impact of these tariffs will be negative.** For **analysis** that explains the benefits of imposing tariffs **N.B** if only one benefit is considered then **maximum** mark of **3. Up to 4 marks** For **analysis** that explains the costs of imposing tariffs **N.B.** if only one cost is explained then **maximum** mark of **3. Up to 4 marks** For **evaluation** that considers the costs and benefits and assess whether the overall impact will be negative **(up to 3 marks)** leading to a reasoned conclusion **(1 mark)**	**12**	Protection occurs where a government protects its domestic producers from external competition through measures such as tariffs. These measures distort the market and do not lead to an efficient allocation of resources. Benefits: protecting employment, infant industry argument, sunset industries argument, reducing deficit on current account of the balance of payments. Costs: higher prices for consumers, less choice, protects inefficient firms and industries. Evaluation may make a comparison with the benefits of free trade.

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