Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay **March 2019**

MARK SCHEME

Maximum Mark: 40

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

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GENERIC MARKING PRINCIPLE 5: Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).
GENERIC MARKING PRINCIPLE 6: Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Question	Answer	Marks	Guidance
1(a)(i)	The single mark is available for the identification of **either** a broad component of the Primary Income balance such as net factor incomes from abroad **Or** a specific example of the broad component e.g. profit or dividends from investments abroad, interest on loans overseas, remittances from income earned abroad etc. **(1 mark)** The candidate must show clear understanding that this refers to items that represent an **external** transaction.	**1**	**This is the current IMF classification as per syllabus.**
1(a)(ii)	The single mark is available for the identification of **either** a broad component of the Secondary Income balance such as net transfers from abroad **Or** a specific example of the broad component e.g. government aid, spending on overseas embassies etc. **(1 mark)** The candidate must show clear understanding that this refers to items that represent an **external** transaction.	**1**	**This is the current IMF classification as per syllabus.**
1(a)(iii)	The current balance shows a declining **(1)** deficit **(1)**	**2**	**Candidates need to use the data in the table to calculate the deficit and that this is declining. It is essential that the correct term, 'deficit' be used. If the candidate states that the deficit is improving then allow 1 mark for deficit, but the second mark should only be awarded if it is clear that the candidate also understands that the deficit is going down. If for example the candidate uses the term deficit and then illustrates that the deficit has gone down in figures then this can be awarded 2 marks.**

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Question	Answer	Marks	Guidance
1(b)	For identification of each valid policy **(2 @ 1 mark)**	**2**	**Supply-side policies include any policies that aim to increase the aggregate supply. Any examples of policies that aim to achieve this should be credited.** **The examples might include the policy of expanding the quality and quantity of education, the use of EU funds to develop transport links, privatisation and market-oriented reforms.**
1(c)	For an appropriate diagram **(Up to 2 marks)** For an accompanying explanation that shows why this will deter entrepreneurs from investing with due reference to falling sales as a result of the higher price and lower profit prospects **(Up to 2 marks)**	**4**	**The most appropriate diagram is one that shows a shift in the supply curve to the left, with a rise in price and fall in quantity. This shows that entrepreneurs will face a rise in price and a fall in sales and a likely fall in profits.** **Shifts in the aggregate supply curve are not acceptable.**

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Question	Answer	Marks	Guidance
1(d)	For explaining that Extract 2 suggests that aggregate demand is likely to fall **(or rise. See below.)** **(1 mark maximum)** For an explanation of how a change in any component would contribute to this fall **(or offset it. See below).** **(Up to 2 marks per component explained, 3 marks maximum)** **4 marks total** **A candidate may recognise that the factors mentioned are likely to depress aggregate demand, but may go on to explain that whether aggregate demand actually falls depends upon other factors. Extract 2 suggests that the government might take action to offset the fall and overall this might cause aggregate demand to rise. This approach could still be awarded full marks as long as it is well-argued and there is a clear explanation of the link between the action taken and aggregate demand.**	**4**	**There are a number of indications in Extract 2 to suggest that the Polish economy will slow down. For example, net exports and private investment are expected to fall. This leads to the view that 'the outlook was gloomy' and 'there will be a significant slowdown in economic activity'. These changes must be linked to the predicted fall in aggregate demand.** **Candidates may take the view that whether aggregate demand will actually fall depends upon the extent to which any government action to increase aggregate demand such as increased public spending or 'other demand stimulating actions' overcome those factors that are depressing aggregate demand.**
1(e)	For a clear **understanding** of the meaning of an increasing budget deficit and/or how this might arise in terms of **G** and **T**. **(1 mark)** For explaining the potential **positive** effects of an increasing budget deficit as aggregate demand increases. **(Up to 2 marks)** For explaining the potential **negative** effects of an increasing budget deficit as aggregate demand increases. **(Up to 2 marks)** For a **conclusion** that the impact will depend upon the relationship between aggregate demand and aggregate supply and the new equilibrium. **(1 mark)**	**6**	**Candidates need to explain that an increasing budget deficit represents an increase in AD. This could be caused by a fall in taxes that will increase consumption, and/or a rise in government spending that has a direct effect upon AD. They need explain that this will shift the AD upwards and increase equilibrium national income. They then need to explain that the impact can be on prices and/or output and employment and that this depends upon the availability of unused resources. They then need to provide a conclusion on whether the impact will always be positive.**

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Question	Answer	Marks	Guidance
2(a)	For **knowledge and understanding**: an accurate diagram of a production possibility curve with appropriate axes. **(Up to 2 marks)** For **application:** using the production possibility curve to **explain** • scarcity **(up to 2 marks)** • choice **(up to 2 marks)** • and opportunity cost **(up to 2 marks)**	**8**	**The PPC can be used to illustrate scarcity as a production frontier. It can also illustrate choice and opportunity cost as an economy moves along the PPC with different combinations of goods and services chosen.**
2(b)	The reason for maximum prices is to ensure that lower-income consumers can afford to purchase these goods and services. For **analysis** showing the impact on the market of maximum price set below the equilibrium price and the difficulties in allocation that will arise from the shortage created in the market. **(Up to 4 marks)** For **analysis** of the ways in which the problems of allocation that arise from the maximum price can be effectively overcome through for example rationing **(Up to 4 marks)** For **evaluation** that assesses the benefits of using maximum prices and whether the problems can be overcome **(up to 3 marks)** and containing a conclusion **(1 mark)**	**12**	**The imposition of maximum prices will only be effective if the maximum price is imposed below the equilibrium price. This will then create problems in the allocation of goods as a shortage will develop. This could lead to queuing or sellers' preference and black markets may appear. The problem might be overcome if an effective rationing system is implemented.**

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Question	Answer	Marks	Guidance
3(a)	For **knowledge and understanding** of what price elasticity measures together with an accurate formula. **(Up to 2 marks)** For **application** showing how total revenue changes as price changes when demand is: • price elastic **(up to 2 marks)** • unitary elastic **(up to 2 marks)** • and price inelastic **(up to 2 marks)**	**8**	**Candidates need a sound understanding of price elasticity and the link with total revenue.**
3(b)	For **analysis** that explains that merit goods are more beneficial for the consumer than they realise **(1 mark**) and as a result are under-consumed because of information failure **(1 mark**) and demerit goods are more harmful to the consumer than they realise **(1 mark)** and as a result are over-consumed because of information failure **(1 mark)**. **(4 marks maximum)** For **analysis** that explains the extent to which a subsidy can increase the consumption of merit goods when demand is price inelastic. **(Up to 2 marks)** For **analysis** that explains the extent to which an indirect tax can decrease the consumption of demerit goods when demand is price inelastic. **(Up to 2 marks)** For **evaluation** that assesses the effectiveness of these measures in improving consumption **(up to 3 marks)** and containing a conclusion **(1 mark).**	**12**	**Merit goods are under-consumed and demerit goods are over-consumed in a free market. This is because of information failure. Merit goods are more beneficial than consumers realise and demerit goods are more harmful than consumers realise. If the price elasticity of demand for merit and demerit goods is inelastic then the response of demand to the change in price is less than proportionate. This weakens the impact of the subsidies and indirect taxes, but they could still be used to improve consumption because there will be some rise in the consumption of merit goods and some fall in the consumption of demerit goods as a result of their imposition.**

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Question	Answer	Marks	Guidance
4(a)	For **knowledge and understanding** of how the foreign exchange rate is determined by the demand and supply of a currency in a free market. **(Up to 2 marks)** For **application** showing how an exchange rate can be managed downward by: • intervention in the foreign exchange market through sales of foreign reserves **(Up to 3 marks)** **and/or** • other methods such as reductions in the rate of interest, encouraging imports, reducing exports and so on. **(Up to 3 marks)**	**8**	**Candidates need a sound understanding of how governments can manage an exchange rate through the use of foreign exchange reserves and interest rates.** **'Other methods' must explain the impact of the explained policies upon the demand and the supply of the currency.**
4(b)	For **analysis** of the advantages of using expenditure-reducing policies **(Up to 4 marks)** For **analysis** of the disadvantages of using expenditure-reducing policies **(Up to 4 marks)** For **evaluation** of the likely success of such policies **(Up to 3 marks)** that reaches a conclusion **(1 mark)**.	**12**	**Candidates must be able to provide analysis of expenditure reducing policies and the advantages and disadvantages of this policy.**

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