UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2011 question paper

for the guidance of teachers

9708 ECONOMICS

9708/22 Paper 2 (Data Response and Essay – Core), maximum raw mark 40

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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1 (a) (i) Calculate and compare the change in the trade balance between 2008–9 and 2012–13 of the Northern Territory with that of Australia. [4]

Both improved (1), Northern Territory (NT) has an increased surplus (1), Australia goes from deficit to surplus (1), supporting calculation NT A$1454 to A$3193, Aus A$-41 665 to A$12 303 (2)
Comparative points without accurate calculation can be rewarded, but the points must relate to the 'balance', not the change in imports or exports alone.

(ii) Explain why exports and imports are often measured at constant prices. [2]

Constant prices exclude the effect of inflation (1), more accurate in real terms or shows the volume of trade.

(b) Explain <u>two</u> additional pieces of information that would be useful in judging Australia's international financial position. [4]

From net income, net transfers, capital account, financial account, foreign reserves, exchange rate, *terms of trade* or alternatives, identification (1), *plus 1 mark for explanation of identified point (1)*

(c) Analyse the change in average weekly earnings in Australia in real terms between 2008–9 and 2012–13. [4]

For an understanding of meaning of 'real terms' (1 mark)

Real earnings will rise (1), earnings rise more rapidly than inflation (1), supporting calculation 14.6% v. 11.2% (2)

(d) With the help of the text and the table, discuss the economic prospects of the Northern Territory. [6]

Good prospects: trade in tourism (income elastic), minerals and oil, rising surplus, relatively low inflation rate, higher real wages, growth of working population.
Poor prospects: rise in unemployment, dependence on narrow range of production, variable demand, externalities of tourism and mining, lack of sustainability of natural resources.

For the identification of points that could affect the economic prospects of the Northern Territories (2 max.)

For explanation of why the identified points are relevant to the economic prospects. (2 max.)

For comment on the economic prospects of the Northern Territories, for example a reasoned summary or conclusion. (up to 2 marks)

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2 (a) Explain the role that a government must fulfil in a mixed economy. [8]

A mixed economy is based on private ownership, the profit motive, demand and supply etc. with a role for the government. The role is to provide the environment in which the market can operate successfully. This includes ensuring law and order, national defence, property rights and the provision of public goods and desirable merit goods. It intervenes with taxes, subsidies etc. to influence the behaviour of the private sector and markets and achieve a better allocation of resources.

For a definition of the mixed economy (2 marks)
For an explanation of the role of government in a mixed economy (6 marks)

(b) Discuss the accuracy of the definition of public and merit goods as 'goods that must be provided by the government'. [12]

Public goods are non-rival and non-excludable such as street lighting. Merit goods are goods underprovided by the market system. The consumers lack full information of the consequences of non-consumption. This might include healthcare and pension provision. Although the government provides public goods because it is not possible for the market due to free riders, merit goods are supplied to a greater or lesser extent by private providers.
The government also provides other goods and services which are neither public nor merit goods. The definition fits public better than merit goods but is inadequate in itself.

For an understanding of public goods and why they are provided by the government (up to 6 marks)
For an understanding of merit goods and why they are provided by the government (up to 6 marks)
(10 marks max.)

Discussion of the accuracy of the definition. (4 marks)

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3 (a) Using economic analysis, explain the possible causes of the increase in the sales of electronic goods such as mp3 players in recent years. [8]

Influences have come from both the demand and supply side. Rising incomes, advertising, changing fashion and tastes have increased demand. Innovation, the introduction of new and improved products and the lowering of costs have increased supply. The fall in the price of the goods has resulted in an extension of demand. More are being sold at lower prices.

Understanding the significance of demand and supply 2 marks
Explanation of demand and/or supply changes 6 marks
(up to 3 marks for each factor explained)

(b) Suggest <u>two</u> possible reasons why a government might increase the indirect tax on such goods and discuss, in the light of these reasons, the likely effectiveness of such a policy. [12]

Possible reasons include raising revenue to finance government expenditure, cutting the purchase of imports to help the balance of trade. It might be argued that the products are demerit goods because of the harm to hearing and disturbance to others. An indirect tax is imposed on spending and raises the price of the good. PED measures the responsiveness of demand to a change in price and affects the impact of an increase in an indirect tax. A tax will best reduce the quantity imported when demand for imports is elastic as there will be a more than proportionate fall in demand. To raise revenue it is better for demand to be inelastic so that the fall in demand is less than proportionate to the price rise. The effectiveness of internalising the negative externality will depend upon setting the tax at the appropriate rate.

For a definition of indirect tax (1 mark)

For an explanation of one reason for an indirect tax and a discussion of 'effectiveness' (up to 6 marks with 4 max. if only one element is considered)

For an explanation of a second reason for an indirect tax and a discussion of 'effectiveness' (up to 6 marks with 4 max. if only one element is considered)

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4 (a) Explain why the successful operation of division of labour depends upon the use of money. [8]

Division of labour involves dividing the production process into a series of stages. This leads to more specialised outputs which are not necessarily final products. Trading these in a barter system would be difficult, inefficient and probably impossible. Money, anything that is generally acceptable as a means of payment, can act as a medium of exchange and a unit of account, so enabling trade to take place and making division of labour effective.

Understanding of division of labour and money 4 marks (one only 3 max.)
Explanation of the link between the functions of money and trade 4 marks

(b) Discuss whether it is the behaviour of producers, consumers or governments that is most likely to cause inflation. [12]

Inflation is a sustained rise in the general price level and is measured by the CPI or RPI. Each of the groups can contribute to inflation although in different ways. Producers may increase prices to raise profit levels or to respond to higher import prices (cost push); consumers may increase their spending and reduce their saving raising AD (demand pull); governments may increase the money supply (monetary inflation), lower direct taxation and run budget deficits (demand pull) and raise indirect taxation (cost push inflation); they may also manipulate the exchange rate. Candidates can argue for any group although government influence may be most widespread.

For a definition of inflation 1 mark
For an understanding of different types of inflation 6 marks
Analysis of the influence of different groups 6 marks
} (10 marks max.)
Discussion of the relative impact of the groups 4 marks

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