UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2012 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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International Examinations

1 (a) Compare the changes shown in the current account balance of Russia and the United States between 2006 and 2010. [2]

For recognition that Russia had a surplus and that the United States had a deficit (1 mark).
For the second mark we require some statement about the 'change' in each country's balance.
E.g. Russia's surplus was fluctuating, United States deficit was reducing. (1 mark)

(b) Explain <u>two</u> possible economic reasons why China's international trade performance was stronger than that of India. [4]

Up to three marks for any one reason well explained.
E.g. Productivity may have been higher in China (1 mark) because of higher levels of capital in the production process (1 mark) making Chinese goods more competitive on world markets (1 mark).
E.g. China may have an undervalued exchange rate (1 mark) because of the Chinese authorities actions in the foreign exchange market (1 mark) which reduces the price of China's exports, (or increases the price of China's imports) (1 mark).
Four marks maximum.
Notes: The answer could also be explained from the perspective of India.

(c) Explain <u>two</u> likely economic effects of the 2009 recession on international trade. [4]

Up to three marks for any one effect well explained.
E.g. 1 During a recession incomes fall (1 mark), as a result purchasing power falls so that less imports can be afforded (1 mark), as a result the volume of world trade falls (1 mark).
E.g. 2 During a recession incomes fall (1 mark*), as a result the demand for those goods with positive income elasticity falls and the demand for those goods with negative income elasticity rises (1 mark), so some countries will gain and some countries will lose as the pattern of world trade changes (1 mark).
Four marks maximum.
Notes: * Credit this point only once.

(d) Why might a current account surplus be an important economic objective for some countries? [4]

For a clear understanding of 'current account surplus' (1 mark).
and
For the benefits that result from a 'current account surplus'.
E.g.'s include:

- It creates employment via net exports. (Up to 3 marks)
- It avoids the problems that result from a current account deficit. (Up to 3 marks)
- It boosts confidence amongst foreign investors and promotes investment inflows. (Up to 3 marks)
- It results in an inflow of foreign currency that strengthens the exchange rate and foreign currency reserves. (Up to 3 marks)

Notes: The suggested benefit must be fully explained for 3 marks.

(e) Discuss the desirability of using an expenditure-reducing policy to decrease a current account deficit. [6]

For an understanding of 'expenditure-reducing policy'. (1 mark)
and
For the advantages of this approach. (up to 4 marks)
For the disadvantages of this approach. (Credit comment that 'expenditure-switching' policy is an alternative that avoids these disadvantages). (up to 4 marks)
Six marks maximum.

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2 (a) Explain why all types of economic system benefit from the existence and use of money. [8]

For knowledge and understanding of 'types of economic system' and 'money'.
Up to 4 marks

For application showing the benefits of using money in different types of economic system.
Up to 4 marks

(b) Discuss whether an economy's production possibility curve is more likely to move inward or outward over time. [12]

For a knowledge and understanding of the 'production possibility curve'. Up to 2 marks

For analysis explaining the causes of inward and outward shifts of the production possibility curve. Up to 8 marks
(up to 6 marks for analysis of each direction of shift)

For evaluative comment on whether the production possibility curve is more likely to move inward or outward. Up to 2 marks

3 (a) Explain, using elasticity of demand, why a train company might introduce a policy of raising fares at busy travel times and lowering fares at less busy travel times. [8]

For knowledge and understanding of relevant 'elasticity of demand' in this context.
Up to 4 marks

For application of price elasticity of demand showing the link between the effect of raising fares at busy times and changes in total revenue and the effect of lowering fares at less busy times and changes in total revenue. Up to 4 marks

(b) Discuss why some governments decide that it is undesirable to leave the provision of private goods such as train travel, to the private sector. [12]

For a knowledge and understanding of characteristics of a 'private good'. Up to 2 marks

For analysis explaining how leaving the provision of private goods to the private sector can result in various types of economic problem. Up to 8 marks

For evaluative comment; for example on why private sector provision remains despite these disadvantages. Up to 2 marks

4 (a) Explain, with the help of a diagram, how a government can maintain a stable foreign exchange rate. [8]

For a knowledge and understanding of the influence of supply and demand in setting the foreign exchange rate. Up to 4 marks

For application showing how a government can maintain a foreign exchange rate through intervention in the foreign exchange market. Up to 4 marks
(6 marks maximum if no diagram provided)

(b) Discuss whether a government should be more concerned by an unstable foreign exchange rate or by an unstable domestic price level. [12]

For knowledge and understanding of an 'unstable exchange rate' and an 'unstable domestic price level'. Up to 2 marks

For analysis of the disadvantages of an unstable exchange rate and an unstable domestic price level. (up to 6 marks for an analysis of each economic problem)
Up to 8 marks

For evaluative comment on whether the government should be more concerned about an unstable foreign exchange rate or by an unstable domestic price level. Up to 2 marks

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