CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2013 series

9708 ECONOMICS

9708/21 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.

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

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1 (a) Describe China's changing contribution to the global production of REEs between 1950 and 2012. [3]

Prior to the mid-1980s China was not a supplier (1). Growth to become dominant supplier (1), elaboration (1), e.g. by the mid-1990s China had overtaken rest of the world production, by 2012 China will out produce the rest of the world more than twofold. China's share increased 1985–2007 (1) but fell 2008–12 (1).

(b) (i) Explain <u>two</u> possible reasons why demand for REEs is likely to continue to grow. [3]

Their extensive use means that economic growth and higher living standards are liable to raise the level of worldwide demand (2). Their use in high technology products means more demand as technology is more widely applied in high income elastic goods (2). The move to conservation and greener technologies will boost demand in energy saving and generation (2). Price has fallen, so demand likely to grow (2).

(ii) Analyse the social costs associated with the increased mining of REEs. [4]

Social costs are made up of private and external costs (1), private costs are incurred by the producer while external costs (negative externalities) affect 3rd parties (1), private costs of mining include e.g. labour costs (wages and training) and costs of equipment (purchase and running) (1), external costs include e.g. pollution and environment degradation with worsening health and living conditions. Alternative examples are acceptable.

(c) What might be the economic justifications for China's reduction in export quotas for REEs? [3]

It might argue the need

- to preserve a diminishing resource
- to supply its own industries
- to protect the environment
- to ensure security of supply
- to improve the terms of trade
- increase export earnings if PED inelastic (rising prices of X = 1)
- increase costs of foreign competitors of products using REEs/reduce competitiveness
- part of a general policy to reduce B of P surplus/depreciate currency

(d) Discuss whether it is likely that China will be able to maintain its domination of the international REEs market in a time of rising global prices for REES. [6]

China is currently dominant because of a lack of competitors; it has production advantages (such as low labour costs, investment) and market power. This may be short-lived if higher prices attract competitors, REEs can be sourced from countries other than China, the technology is known to former US producers, the prospect of higher prices/profit may encourage former producers or new entrants into the market and fear of dependence on China may encourage government intervention. A market response makes it unlikely that China will be as dominant in the long run as both economic and financial influences promote additional producers. Credit a reasoned conclusion.

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2 (a) Explain why the free market is ineffective in arriving at the correct price for merit goods and demerit goods. [8]

The correct price of merit goods in Economics is one that truly reflects all the benefits of consumption. These include both private benefits and positive externalities. In the case of demerit goods, the correct price is one that reflects all the costs including private costs and negative externalities. The free market price does not reflect all costs and benefits where externalities exist because of the self-interest that motivates consumer behaviour.

- For **knowledge and understanding** of "correct price", merit and demerit goods. **Up to 4 marks**
- For **application** to show how the free market will not arrive at the correct price for merit and demerit goods. **Up to 4 marks**

(b) Discuss the policies a government might adopt to ensure the correct price for merit and demerit goods is charged in the market. [12]

A range of policies is available including subsidies and indirect taxes, but both have difficulties in ensuring that the correct price is charged.

- For **analysis** of at least two policies to ensure that price is changed to reflect externalities and information failure in the case of merit and demerit goods. **Up to 4 marks**
- For **evaluative comment** on the likely effectiveness of these policies. **Up to 4 marks**

3 (a) Explain how unemployment and inflation are measured. [8]

Candidates should display knowledge of both measures of unemployment and inflation. Reference should be made to the unemployment rate, the claimant count and answers are likely to have some idea of the difficulties involved in measuring unemployment. In the case of the measurement of inflation either the CPI or the RPI are acceptable.

- For **knowledge and understanding** of how unemployment and inflation are measured (2 + 2). **Up to 4 marks**
- For **application** showing the issues involved in measuring unemployment and inflation with accuracy (2 + 2). **Up to 4 marks**

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(b) With the help of diagrams, analyse the factors that will lead to an increase in aggregate demand in an economy, and discuss whether this increase is more likely to have an impact on inflation or unemployment in that economy. [12]

Candidates should show a good understanding of the components of aggregate demand and be able to explain the factors that would cause an upward shift in the aggregate demand curve. The diagram should be accurate and clearly labelled and explain the point of equilibrium. Whether the impact is on inflation or unemployment depends upon the full employment position and the shape of the aggregate supply curve.

- For **analysis** of shifts in the aggregate demand curve with appropriate diagrams and with accompanying explanation. **Up to 8 marks**
- For **evaluative comment** on the likelihood of the impact being on inflation or unemployment. **Up to 4 marks**

4 (a) In a country world one country is more efficient at producing one product and the other country is more efficient at producing another product. Explain why specialisation and trade usually benefit both countries. [8]

This requires an explanation of the case of reciprocal absolute advantage. A simple model with clear explanation is sufficient to score full marks for application.

- For **knowledge and understanding** of the benefits of specialisation and trade. **Up to 4 marks**
- For **application** using an appropriate economic model based upon reciprocal absolute advantage. **Up to 4 marks**

(b) Suppose one country were more efficient at producing both products. Discuss whether it is the case that specialisation and trade will always benefit both countries [12]

This requires an explanation based upon comparative advantage and, for a good score, must be based upon opportunity costs. Trade may not be beneficial for a number of reasons such as transport costs, no differences in opportunity cost ratios etc.

- For **analysis** of the model of comparative advantage showing the impact of specialisation and trade. **Up to 8 marks**
- For **evaluative comment** considering the cases where trade is not beneficial. **Up to 4 marks**

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