CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2013 series

9708 ECONOMICS

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

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1 (a) Give <u>two</u> reasons why palm oil is an important product for the economy of Malaysia.[2]

To provide employment (1), to raise export revenue (1), to meet domestic demand (1)
Any two reasons

(b) Analyse, with the aid of diagrams, the impact of an increase in demand for palm oil on the markets for palm oil and palm kernel cake. [5]

Palm kernel cake is in joint supply as a by product of palm oil (1). Increased demand for palm oil results in a higher price and quantity (1), corresponding diagram (1), increased supply of palm kernel cake results in lower price and greater quantity (1), corresponding diagram (1)

(c) (i) How can Table 1 be used to provide one measure of productivity in palm oil production? [2]

Total production divided by area (1) gives output per hectare (1)

(ii) Use Table 1 to compare the productivity of palm oil production in Indonesia in 1995 and 2008. [2]

1995: 4480/2025 = 2.2, 2008: 18 090/7008 = 2.6 (1) productivity rose (1)

(d) What additional information would give a better understanding of changes in productivity in palm oil production in Indonesia? [3]

Possibilities include improvements in labour (training), capital equipment, fertiliser and land quality, technology that may raise productivity, movement of skilled labour to urban employment and unfavourable natural conditions that might reduce productivity.

(e) Discuss any <u>two</u> policies that governments might use to prevent harm to the environment from palm oil production. [6]

Possible policies include subsidies for research and more environmentally friendly technology, taxes to bring the market outcome to the socially optimal position, government rules and inspection, subsidies to alternative production.

Policies may be judged in terms of their cost, effectiveness, drawbacks and acceptability. Both policies need to be considered, credit a reasoned conclusion.

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2 In a free market price rations scarce goods.

(a) Explain this statement and, with the help of a diagram, show how price rations scarce goods when there is an increase in the costs of production. [8]

The basis of a good answer must be an accurate diagram of market equilibrium showing shifts in the supply curve and changes in equilibrium price and quantity.

- For **knowledge and understanding** of the way in which price rations scarce goods. **Up to 4 marks.**
- For **application** using an appropriate diagram showing shifts in the supply curve and the resulting change in equilibrium price and quantity. **Up to 4 marks.**

(b) Discuss whether preventing the price mechanism from working freely by using government price controls can ever be effective. [12]

Candidates should provide examples of circumstances when prices are controlled such as maximum or minimum price legislation and have a good appreciation of the problems that these controls bring to the market. With maximum prices for example shortages occur and an alternative system of allocation needs to be introduced. The candidate also needs to address the issue of whether these controls can be effective. So difficulties in the policing of the system and the problem of black/hidden/underground markets should be considered.

- For **analysis** of the effect of these controls on the market mechanism and the problems that arise. **Up to 8 marks.**
- For **evaluative comment** on whether these controls can be effective considering for example black markets, policing and monitoring. **Up to 4 marks.**

3 (a) Define the components of aggregate demand and, with the help of a diagram, explain how an increase in spending in an economy might result in inflation. [8]

- For **knowledge and understanding** of the components of aggregate demand. **Up to 4 marks.**
- For **application** using an appropriate diagram showing an increase in aggregate demand and the relationship with aggregate supply at a point where inflation would occur. **Up to 4 marks.**

(b) If an economy is experiencing inflation, discuss the view that its government should be more concerned about the external effects than its effects within the domestic economy. [12]

Candidates need to be able to distinguish between the external and internal effects of inflation and then they should reach an evaluative conclusion based upon an examination of the evidence. Discussion might include whether the economy is relatively open to international trade, whether the economy has a fixed or floating exchange rate, etc.

- For **analysis** of the external and domestic effects of inflation. **Up to 8 marks.**
- For **evaluative comment** on the 'more concerned' aspect of the question. **Up to 4 marks.**

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4 (a) Explain the meaning of the term 'protection' in the context of international trade and describe <u>two</u> methods of protection used by governments. [8]

Very often candidates describe methods of protectionism without thinking clearly about the meaning of the term. A good answer will go beyond a list of the types of protectionism and will provide a more general explanation perhaps referring to prevention of market forces working freely.

- For **knowledge and understanding** of the meaning of the term 'protection' in the context of international trade illustrated with two examples of methods of protection. **Up to 4 marks.**
- For **application** that describes how the two methods mentioned work to protect an economy. **Up to 4 marks.**

(b) Discuss, with examples, how international trade protection may affect consumers and producers in an economy and whether on balance protection can be justified. [12]

Consumers lose through for example reduced choice and higher prices, producers gain through reduced competition and increased profits. Economic theory usually concludes that protectionism can be justified in the case of infant industries. Other arguments are usually dismissed as social or strategic arguments for protectionism.

- For **analysis** of the way in which consumers and producers are affected with valid examples. **Up to 8 marks.**
- For **evaluative comment** on whether on balance protection can be justified. **Up to 4 marks.**

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