CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2013 series

9708 ECONOMICS

9708/23 Paper 2 (Data Response and Essay – Core), maximum raw mark 40

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1 (a) (i) Compare the difference between nominal and real prices of gold over the period 1970 to 2010. [2]

Prior to 1980 there was relatively little difference **(1)**, between 1980 and 2005 nominal prices were more than double real prices **(1)**, after 2005 there was an increasingly large nominal excess **(1)**. **Any two points.**

(ii) A gold trader in 2010 said that 'the price of gold has never been higher'. Explain whether Fig. 1 confirms this statement. [2]

This is only correct in nominal terms **(1)** in real terms it was higher in 1980 **(1)**.

(b) Use the data to estimate the price elasticity of supply of <u>scrap gold</u> between 2003 and 2009 and state whether it is elastic or inelastic. [4]

Formula or definition of PES **(1)** supply rose from 986 to 1674 tonnes or 69.7%, price rose from $280 to $972 or 247% **(1)** PES is 0.28 **(1)** supply is inelastic **(1)**.

(c) (i) What were the changes in the sources of supply of gold between 2001 and 2009? [2]

Scrap was the only one to increase **(1)**, mining barely altered **(1)**, central bank sales fell to a low for the period **(1)**. **Any two points.**

(ii) Explain <u>two</u> possible reasons for these changes. [4]

Individuals need to realise assets in difficult economic circumstances, a period of recession, falling employment and uncertainty **(2)**. Mining might be restricted by natural conditions making increased output difficult **(2)**.

Central banks had a low level of stocks because of previous sales, possibly because of budget considerations and did not want to reduce them further or central bankers may have sought a boost to the value of their reserves as one component appreciates, so did not sell **(2)**.

(d) Discuss the extent to which gold is like other consumer goods, and whether the gold market operates like a consumer good market. [6]

Gold has a normal demand and supply curve. Price and quantity react in the normal way. It has a range of substitutes in the form of other precious metals, property, and bonds and equities **(2)**. The product is somewhat unusual in that it is demanded as a durable good and a financial investment and there are diversified sources of supply for gold. Its price is relatively unstable **(2)**. The market is typical in that demand and supply are at work and that price reacts in a normal way to D and S changes **(2)**, it is unusual that central banks can be active in the market, consumers can also be suppliers and speculators may be at work **(2)**.

Detailed knowledge of the gold market is not expected. Allow reasonable assumptions about the nature of the product and market based on the data. Credit a reasoned conclusion.

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2 (a) With the help of a diagram, explain how a production possibility curve can illustrate the concepts of opportunity cost and economic growth. [8]

This question tests the grasp of some basic concepts in Economics that can be demonstrated through the Production Possibility Curve.

- For a **knowledge and understanding** of the production possibility curve supported by an appropriate diagram. **Up to 4 marks.**
- For **application** showing how a production possibility curve can illustrate both opportunity cost and choice. **Up to 4 marks (allow 3/1 or 1/3 split).**

(b) Discuss whether free market economies or centrally planned economies are more likely to make choices that will maximise the benefit for consumers. [12]

The candidate needs to explain that choices are made through the forces of demand and supply in a free market economy. This is likely to give a different allocation of resources compared to that in a centrally planned economy. The impact depends upon a number of factors in the market driven by market forces and the profit motive. In the centrally planned economy it depends upon decisions taken by planning committees. They may or may not choose to prioritise current consumer welfare.

- For **analysis** of how choices are made to maximise the benefit for consumers in each type of economy. **Up to 8 marks.**
- For **evaluative comment** on the 'more likely' aspect of the question. **Up to 4 marks.**

3 (a) Explain, using economic analysis, how economists decide whether goods are substitutes or complementary goods. [8]

- For **knowledge and understanding** of the concept of cross elasticity of demand with examples of substitutes and complements. **Up to 4 marks.**
- For **application** that uses the coefficient to classify each type of good. **Up to 4 marks.**

(b) Explain on which goods and services the government should impose indirect taxes to ensure that the incidence of the tax fell mainly on consumers and discuss the extent to which consumer surplus will be affected [12]

The incidence of indirect taxes depends upon the elasticity of demand and supply of the taxed goods. If the government wished to ensure that the tax fell on consumers they should choose goods with an inelastic demand and an elastic supply. This would reduce consumer spending power and lower their standard of living.

- For **analysis** of the influence of elasticity on the incidence of indirect tax and the goods and services the government should choose. **Up to 8 marks.**
- For **evaluative comment** on the extent to which consumer surplus will be affected. **Up to 4 marks.**

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4 The best way to reduce a deficit on the current account of the balance of payments is to change the value of the deficit country's exchange rate.

(a) Explain how a change in a country's exchange rate might reduce a deficit on the current account of its balance of payments. [8]

- For **knowledge and understanding** of the key terms current account deficit and the meaning of a reduction of the exchange rate. **Up to 4 marks (allow 3/1 or 1/3 split).**
- For **analysis** of how a reduction in the exchange rate corrects a deficit on the current account of the balance of payments. **Up to 4 marks.**

(b) Discuss whether changing the exchange rate or imposing tariffs is the better way of correcting a deficit on the current account of the balance of payments. [12]

- For **analysis** of the way in which tariffs might correct a deficit on the current account of the balance of payments. **Up to 4 marks.**
- For **evaluative comment** on the relative merits of each and which is better. **Up to 4 marks.**

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