CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2014 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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2014 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

Data Response Questions

1 (a) (i) Calculate the rate of inflation in India between 2001 and 2011. [1]

91.5% **(1 mark)**

Accept no other answer
There is no need to refer to %

(ii) Calculate the expected rate of inflation in India between 2011 and 2013. [1]

20.9% **(1 mark)**

Accept any answer between 20.8 and 21.0
There is no need to refer to %

(b) With the use of a production possibility curve explain the opportunity cost to India of choosing to produce transport facilities rather than education services. [4]

For a correctly constructed PPC with axes labelled appropriately. **(up to 2 marks)**

Accept a straight line PPC.

For accurate illustration of opportunity cost with a definition of concept. **(up to 2 marks)**

It is not necessary to show a movement along the PPC, as long as the understanding of the underlying concept is clear.

(No diagram, a maximum of 2 marks)

(c) Explain how the provision of improved transport facilities and education services might develop the potential of the economy in India. [4]

Both enhanced transport and education facilities will improve productive capacity in India. This might be illustrated with a shift outwards in the PPC. Transport will improve the market as supply constraints are removed. Enhanced skills provided through education will improve productivity and increase total output.

Reward key Economics concepts such as skills, productivity, output, resources, infrastructure, shift outwards of PPC, productive/allocative efficiency. Do not reward very general answers which do not bring in relevant Economics concepts. **(up to 4 marks)**

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(d) India's exchange rate depreciated between 2010 and 2011.

With reference to the data explain, using supply and demand analysis, what might have contributed to this change in India's exchange rate. [4]

The explanation should be based upon the current account deficit, slowing exports and higher imports. In addition, credit should be awarded for reference to India's external debts**.** It should make reference to how these factors affect the supply and demand for the rupee and how a depreciation will result. **(up to 4 marks)**

For an explanation in relation to demand. **(up to 2 marks)**
For an explanation in relation to supply. **(up to 2 marks)**
Other factors to refer to could include a relatively high rate of inflation and a deficit in the current account balance

NB A diagram is not actually required.

(e) Given the changes in the exchange rate shown in Table 1 between 2010 and 2011, discuss whether the changes in the current account balance over this period is what economic theory predicts. [6]

The data shows that the exchange rate has declined, and it would be expected that this would lead to a fall in the price of India's exports and a rise in the price of India's imports. This would result in a decrease in the Current Account deficit that is expected to rise by 2013. This depends upon certain factors being present, such as the elasticity of demand for exports and imports being sufficiently elastic to reduce the expected deficit. Reference to the Marshall-Lerner condition and the J-curve effect should be credited here. Other evaluative comment should be awarded with due credit.

For the expected impact upon the current account balance. **(up to 4 marks)**

For a discussion indicating why the expected outcome might not occur. **(up to 4 marks)**

(6 marks max)

In the marking of Section B answers, please use the T (Text Box) at the end of (a) and (b) to show the mark splits. You can include a comment if you think that it would be helpful.

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2 (a) Explain whether you would expect the price elasticity of supply of a product, such as rice in a market to be elastic or inelastic. [8]

For knowledge and understanding of price elasticity of supply including elastic and inelastic outcomes. **(up to 4 marks)**

Candidates need to show a firm grasp of the concept of price elasticity of supply. The formula is not required, but it is essential that an accurate explanation refers to the formula. The meaning of elastic and inelastic must be accurate for full marks.

For application of the factors that determine the coefficient, giving both elastic and inelastic outcomes. **(up to 4 marks)**

Application marks require candidates to demonstrate an understanding of the factors that lead to elastic and inelastic outcomes. These might include a reference to the time period under consideration, the availability of stocks, the availability of surplus capacity and the nature of the good. A good explanation of relevant factors is more important than an explanation of a range of factors. **(8 marks total)**

NB The question refers to 'a product, such as rice', but it is not necessary to refer to rice.

(b) Discuss the extent to which a government can increase the supply of an agricultural product to an economy in the short-run and in the long-run. [12]

For an analysis of the factors that might increase the supply of an agricultural product to an economy in the short-run and in the long-run. **(up to 8 marks)**

The government can adopt a number of policies to increase the supply of agricultural products. These include subsidies, increasing imports through, for example, exchange rate depreciation or bi-lateral trade agreements, increasing factors devoted to agricultural production and so on.

For evaluative comment on 'the extent to which' element of the question. **(up to 4 marks)**

A number of points can be raised to score evaluative marks. For example, candidates might refer to the inelasticity of supply of agricultural products when appropriate resources in terms of land and labour are absent, so that the extent to which supplies can increase is limited. Accept any attempt to question the effectiveness of policies suggested in the analysis. **(max 12 marks)**

NB The question explicitly refers to the role of a government in increasing the supply of an agricultural product.

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3 (a) Explain the difference between private goods and public goods, and why it is possible for a business to make a profit in the supply of private goods but not in the supply of a public good. [8]

For **knowledge and understanding** of the distinction between private and public goods. **(up to 4 marks)**

Candidates need to show a firm grasp of the difference between the types of good in terms of excludability, rejectability and non-rivalry in consumption.

A maximum of 2 marks for a list of distinctions that are not explained.

For **application** to explain how it is possible to make a profit providing private goods, but not public goods based upon the free rider problem. **(up to 4 marks)**

Application marks will be awarded for a clear explanation of the free rider problem and why this undermines the ability to make a profit through the fact that no one can be excluded from the consumption of public goods.

(b) Discuss the view that a market economy is always preferable to a planned economy because of the existence of the price mechanism. [12]

For an analysis of the two types of economy and the role of the profit motive in the free market economy. **(up to 8 marks)**

Candidates should explain the difference between the two types of economy in terms of resource allocation. The role of the factor enterprise in responding to the wants of the consumer through the price mechanism in the market economy should be explained and the role of profit made clear.

NB Up to a maximum of 4 marks for a general answer that does not focus on the existence of the price mechanism.

For evaluative comment on the 'always preferable' aspect of the question. **(up to 4 marks)**

Candidates can score for evaluative comment through an examination of the advantages and disadvantages of the free market economy and the role of the price mechanism in such an economy. Advantages include consumer sovereignty. Disadvantages include the non-provision of public goods and the over provision of demerit goods.

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4 (a) Explain is meant by the term 'money' and outline its characteristics in a modern 21st century economy. [8]

For knowledge and understanding of the meaning of the term 'money' **(up to 4 marks)**

Candidates need to show a good understanding of what is meant by 'money'.

A definition is expected for a good mark.

For application explaining the characteristics of money in a modern economy.
(up to 4 marks)

Candidates need to focus on what acts as money in a modern economy, and it is essential that reference be made to forms of money other than cash. It is also essential that bank deposits and the transfer of these deposits in a modern society, for example cheques and debit cards, are explained, for a good mark.

Up to a maximum of 4 marks if there is no reference to bank deposits and the role of electronic money, given explicit reference to modern 21st century economy in question.

(b) Discuss whether money is able to perform all its functions in an economy that is experiencing a high rate of inflation. [12]

For analysis showing how the functions of money are affected by a high rate of inflation.
(up to 8 marks).

The analysis will include an explanation of the functions and the impact of high inflation on each. For example, medium of exchange, store of value and so on.

For evaluative comment on the 'all its functions' aspect of the question. **(up to 4 marks)**

Evaluative comment will distinguish how each function is affected by high inflation and whether some functions might continue successfully. For example, the store of value function will be affected by high inflation before the medium of exchange function. But during hyperinflation the medium of exchange function is also affected. So whether functions are affected depends upon the rate of inflation.

NB One mark for reference to each of the four functions of money. One additional mark for reference to the effect of inflation on each of these four functions.

Some candidates may refer to the functions of money in (a), so be prepared to credit this in the mark given to part (b).

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