CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level

MARK SCHEME for the May/June 2014 series

9708 ECONOMICS

9708/23 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.

CAMBRIDGE
International Examinations

1 (a) (i) Calculate the rate of food price inflation from 2003 to 2009. [1]

57% (1 mark)

(ii) Calculate the rate of food price inflation from 2009 to 2012. [1]

35.66% (1 mark)

(b) What evidence is contained in Table 1 to suggest that the adoption of biofuel targets in the EU had an impact on food prices? [2]

Candidates are expected to use the data in Table 1 to provide evidence that biofuel targets had an impact on food prices. A number of approaches are acceptable.

e.g. 1. Cereal prices and/or sugar prices, both of which are used in biofuel production, have risen more than the overall food price index **(up to 2 marks).**

e.g. 2. The rate of inflation of cereal prices increases after 2009 when the targets began. **(up to 2 marks).**

(c) Using diagrams explain how the removal of the subsidy for biofuel production in the United States would be likely to affect the market for biofuels. [3]

(i) biofuels.

For an appropriate diagram showing how the removal of the subsidy will increase price and reduce quantity of biofuels**. No diagram 1 mark maximum. (up to 3 marks).**

(ii) fossil fuels. [3]

For an appropriate diagram showing a shift to the right of the demand curve for fossil fuels as biofuels become more expensive and the resulting rise in price and rise in quantity demanded. **No diagram 1 mark maximum (up to 3 marks).**

(d) (i) Use a production possibility curve to show the trade-off between the production of crops for biofuels and the production of food crops. [2]

For an accurate ppc diagram showing the trade-off with production of biofuel and food on the axes. **If the diagram is provided, but the trade-off is not indicated 1 mark maximum** (**up to 2 marks).**

(ii) Explain why the cost of food production is increasing as more land is used to grow crops for biofuels. [2]

As resources are not homogeneous, the opportunity cost will increase, as less suitable resources are used to produce food **(up to 2 marks).**

© Cambridge International Examinations 2014

(e) Carbon emissions are believed to contribute to global warming.

Discuss whether indirect taxes on fossil fuels might be a more effective way of preventing global warming than government commitments to biofuel targets. [6]

For an analysis of the impact of indirect taxes upon global warming **(up to 3 marks).**

For an evaluative comment on which is most effective **(up to 3 marks).**

Essays

2 (a) Explain what 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 are expected to demonstrate a good understanding of what is meant by 'money' and its functions in society. 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 a reference is made to forms of money other than cash. It is essential that bank deposits and the transfer of these deposits in a modern society (e.g, cheques and debit cards) is explained for a good mark.

(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, the medium of exchange, the 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 is affected. But during hyperinflation, the medium of exchange function is also affected. So whether functions are affected primarily depends upon the rate of inflation.

© Cambridge International Examinations 2014

3 (a) Explain the factors that might make the price elasticity of demand for a good highly inelastic. [8]

For **knowledge and understanding** of 'price elasticity of demand' and 'highly inelastic' **(up to 4 marks).**

Candidates are expected to demonstrate good understanding of price elasticity and should provide an accurate explanation of highly inelastic.

For **application** explaining factors that cause the demand for a good to be inelastic **(up to 4 marks).**

The application will focus on an explanation of the factors that influence price elasticity such as the availability of substitutes, proportion of income spent upon a product and so on.

(b) Discuss why businesses might attempt to change the price elasticity of demand for their products and consider whether it is likely that they will be successful in their attempt. [12]

For **analysis** showing why businesses would want to change the price elasticity of demand **(up to 8 marks).**

The analysis will explain the link between inelastic demand and changes in total revenue. It will also include an explanation of the way in which the elasticity can be influenced, such as through the means of advertising, removal of rivals and so on.

For **evaluative comment** on the 'likely to be successful' aspect of the question **(up to 4 marks).**

Evaluative comment will assess the likely success of attempts by businesses to make demand for their product more inelastic. Such comment might include the view that it depends upon the number of rivals that makes it difficult to increase inelasticity and might question the effectiveness of advertising.

4 (a) Explain the factors that might cause an economy to experience a current account deficit. [8]

For **knowledge and understanding** of the meaning of current account deficit **(up to 4 marks).**

Candidates are expected to show an accurate understanding of the components of the current account and what is meant by a deficit.

For **application** explaining why current account deficits might arise **(up to 4 marks).**

A number of possible causes may be identified and explained. Credit quality of explanation rather than, for example, the number of causes identified. An overvalued exchange rate, loss of comparative advantage, high relative rates of inflation etc.

© Cambridge International Examinations 2014

(b) Discuss the policies available to a government faced with a current account deficit and consider which policy has the fewest disadvantages for the consumers in that economy. [12]

For **analysis** showing how at least two policies are designed to deal with a current account deficit **(up to 8 marks).**

The analysis may refer to expenditure switching and expenditure dampening policies. Credit accuracy and quality of explanation.

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

Examples of evaluative comment include the impact on consumer choice when expenditure-switching policies are adopted, and the impact on living standards when expenditure-dampening policies are deployed.

Candidates need to make some assessment of 'fewest disadvantages' to receive full evaluative marks.

© Cambridge International Examinations 2014