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Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the May/June 2015 series

9708 ECONOMICS

9708/21 Paper 2 (Data Response and Essay – Core), maximum raw mark 40

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Data Response

1 (a) With reference to Fig. 1, explain the trend in US net imports of oil after 2005. [3]

The trend is downward **(1 mark)** because consumption is falling [1 mark] and production is rising. **(1 mark)**

If the explanation is not clearly linked to Fig. 1, even if it is a valid explanation, then there is a maximum mark of 2.

(b) (i) With the help of a diagram(s), explain how the new sources of crude oil from hydraulic fracturing and the 'falling enthusiasm for cars among younger Americans' might be expected to cause a fall in the price of gasoline (petrol) in the US. [4]

For a diagram with an explanation showing the increased supply of crude oil and the fall in equilibrium price of gasoline. **(Up to 2 marks)**

For a diagram with an explanation showing the decreased demand for gasoline as a result of the falling enthusiasm for cars and the fall in the price of gasoline. **(Up to 2 marks)**

Accept one diagram showing both changes. **(Up to 4 marks)**

Use the text box to show the mark out of 2 in each case, i.e. each part should be marked out of 2.

If the candidate has not included a diagram, or diagrams, then there is a maximum mark of 1 out of 2 for each part, i.e. a maximum mark of 2/4.

(ii) Suggest and explain one factor that might have caused the price of gasoline (petrol) to rise in the US after 2009 despite these changes. [3]

Accept any valid suggestion. This could be contained in the data or be independent of the data, such as an increase in the price of oil on world markets.

E.G. 'Suggest': A rise in tax on gasoline or an increase in the costs of production **(1 mark)**.
'Explanation': Example of a shift in the supply curve to the left and the resulting rise in price. **(Up to 2 marks)**

Or 'Suggest': A rise in incomes or an increase in advertising campaigns for cars **(1 mark)**.
'Explanation': Example of a shift in the demand curve to the right and the resulting rise in price. **(Up to 2 marks)**

There needs to be an explicit reference to demand and/or supply in order to gain all 3 marks.

Diagrams are NOT essential in order to gain full marks, as long as the explanation is good.

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(c) Explain the value that you would expect to find if you measured the relationship between gasoline (petrol) and biofuel using the concept of cross elasticity of demand. [4]

For knowledge and understanding of the cross elasticity of demand: either through a definition of the term or the formula, but making it clear what is being measured. **(1 mark)**

For recognition that the two goods are substitutes. **(1 mark)**

For recognition that the coefficient would be positive. **(1 mark)**

For explanation of why the coefficient is positive. **(1 mark)**

(d) Discuss how reducing dependence on foreign oil might affect aggregate demand in the US economy and the impact of this on prices and on employment in the US. [6]

For knowledge and understanding of AD=C+I+G+(X-M). **(1 mark)**

For knowledge and understanding of AD equally consumption + investment + government expenditure – net exports. **(1 mark)**

For analysis showing that 'reducing dependence on foreign oil' would increase aggregate expenditure through an increase in net exports'. **(Up to 2 marks)**

For evaluation showing judgment about how the impact upon prices and employment depends upon the interaction of aggregate demand and aggregate supply in the U.S. economy. **(Up to 2 marks)**

Essays

2 (a) Explain two factors that are likely to make the supply of a product relatively price inelastic. [8]

For knowledge and understanding of the concept of elasticity of supply and the meaning of 'relatively price inelastic'. **(Up to 4 marks)**

For application with two factors that might make supply relatively price inelastic e.g. the lack of stocks, the time period, the nature of the product, the availability of factors of production, the number of producers, the existence of spare capacity, the ease of storing stocks, the length of the production period and factor mobility. **(Up to 4 marks)**

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(b) Discuss how governments might attempt to make the supply of an essential good more responsive to a change in its price and assess the likely effectiveness of such attempts. [12]

For **analysis** of the ways in which governments might attempt to increase the elasticity of supply of a product for example buffer stock schemes to ensure the availability of stocks during shortages, training programs to increase the availability of labour with appropriate skills, providing loans for capital investment and financial incentives to promote research and development etc.

A subsidy on training will increase supply, i.e. shift the supply curve to the right, but will not necessarily increase supply elasticity. In order to make supply more elastic, candidates need to comment on how a subsidy would change the resources. (**Up to 8 marks)**

For **evaluation** of the likely effectiveness of such policies, such as cost issues.
(Up to 4 marks)

3 (a) Explain how the contribution of each factor of production differs in an agricultural economy from that in an industrialised economy. [8]

For **knowledge and understanding** of the contribution of each factor of production in the production process. **(Up to 4 marks)**

For **application** showing the how the different factors of production might contribute to the different types of economies described. **(Up to 4 marks)**

(b) Discuss whether entrepreneurs or governments are more likely to cause economic growth in a mixed economy. [12]

In a mixed economy it is expected that both entrepreneurs and the government would contribute to economic growth. Entrepreneurs would respond to consumer wants by investing in capital goods and expanding production in pursuit of profit. Governments would invest in public goods and merit goods to ensure that these goods are sufficiently provided. Which contributes most depends upon a wide range of factors including the availability of funds for private investment, the number of entrepreneurs with the necessary skills and government budgets.

For **analysis** of the ways in which both entrepreneurs and the government can generate economic growth (up to 2 marks can be given for an understanding of what is meant by a mixed economy). **(Up to 8 marks)**

For **evaluation** of the 'more likely' issue. **(Up to 4 marks)**

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4 (a) Explain what acts as money in a modern economy and what is likely to happen to the price level if the quantity of money increases significantly. [8]

For **knowledge and understanding** of money in a modern economy. **(Up to 4 marks)**

(Up to 2 marks can be given for a traditional approach to what acts as money without recognising what may act as money in a modern economy).

For **application** showing the impact of an increase of the money supply upon the general price level in an economy. **(Up to 4 marks)**

(Up to 2 marks can be given for a general comment on inflation being caused by the growth of the money supply; up to 2 marks are reserved for explicit reference to the Fisher equation of MV=PT).

(b) Explain how a significant rise in the general price level will affect the current account of the balance of payments of an economy and discuss whether this is likely to turn a deficit into a surplus. [12]

For analysis of the fact that a significant rise in the general price level will make export prices rise and import prices fall. The impact on the current account depends upon the price elasticity of demand for exports and imports and candidates should refer to the Marshall-Lerner condition. Candidates may also refer to how capital flows are influenced with the effect on interest payments and so on.

For **analysis** of the impact of a rise in the general price level upon the deficit.
(Up to 8 marks)

For evaluation of the effect upon the deficit being affected by factors such as the relative inflation rate, the time period and the J-curve effect.

For **evaluation** of whether this is likely to turn the deficit into a surplus. **(Up to 4 marks)**

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