Cambridge International AS & A Level

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ECONOMICS **9708/21**

Paper 2 Data Response and Essay **May/June 2016**

MARK SCHEME

Maximum Mark: 40

Published

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SECTION A

1 (a) How and where would revenue from tourist arrivals in Fiji be recorded in Fiji's balance of payments? [2]

A credit **[1 mark]** in the services section of invisibles/the trade in services/the current account (accept any one of these) **[1 mark]**.

(b) Use a supply and demand diagram to show how the government investment referred to in the article affected the price of sugar produced in Fiji. [2]

For a supply and demand diagram showing a shift in the supply curve to the right **[1 mark]** and the subsequent fall in price **[1 mark]. [Up to 2 marks]**

(c) Explain what the changes in sugar's contribution to visible export earnings and in the price of sugar might suggest about the price elasticity of demand for sugar. [3]

For a clear understanding of the concept of price elasticity of demand **[1 mark].**

The price elasticity of demand for sugar must be elastic **[1 mark]** because a fall in price has resulted in an increase in demand by a greater % resulting in a rise in expenditure **[1 mark].**

(d) Using aggregate demand and aggregate supply analysis, explain why inflationary pressures remained subdued in Fiji despite higher growth. [3]

For aggregate demand analysis that explains the potential impact of economic growth upon prices through increasing aggregate demand. **[Up to 2 marks]**

For aggregate supply analysis that explains how declining international commodity prices would increase aggregate supply to prevent price rises. **[Up to 2 marks] [3 marks maximum]**

(e) Explain how increased investment could address supply-side capacity constraints in the Fiji economy. [4]

For a clear understanding of the meaning of the supply-side of the economy **[1 mark]**.

For explanation of the link between investment and an increase in supply-side capacity **[1 mark]** with appropriate examples of supply-side policies **[1 mark]**.

For comment on the strength of the link **[1 mark].**

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(f) Discuss any economic factors that would help to explain the changes in visitor arrivals to Fiji from Australia and Japan. [6]

At least **two** factors must be identified and discussed. For example:

- differences in relative exchange rates
- differences in income changes
- differences in price of related goods, for example travel.

For full marks some evaluative comment is required on the likely impact of each factor identified. For example the impact of income changes depends upon the income elasticity of demand.

Up to **4** marks for each factor discussed. If no evaluative comment, **2** marks maximum on each factor discussed. **[6 marks maximum]**

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SECTION B

Essays

2 (a) Explain the meaning of the term 'equilibrium price and quantity' in the market for a good or service, and show how a new equilibrium position is established when there is a decrease in demand. [8]

For **knowledge and understanding** of equilibrium price and equilibrium quantity. **[Up to 4 marks]**

Candidates need to show good understanding that equilibrium price and quantity is a position in the market where there is 'no tendency to change'. This can be illustrated and explained with the use of a supply and demand diagram.

For **application** showing the process through which equilibrium is established when there is a decrease in demand. **(Up to 4 marks)**

Candidates are expected to provide a supply and demand diagram showing a shift in the demand curve to the left, the consequent excess supply that this will cause together with the downward movement of price and quantity to re-establish equilibrium.

(b) Discuss whether attempts to help poorer consumers through the introduction of a maximum price for necessities can ever be successful. [12]

For **analysis** showing the impact of a maximum price below equilibrium, the consequent shortage and the likely emergence of black markets. **(Up to 8 marks)**

In this case, there will need to be an alternative system of resource allocation, such as rationing.

For **evaluative comment** making a judgement about whether this can ever be successful. **(Up to 4 marks)**

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3 (a) Outline the functions of the factor enterprise in a modern economy, and explain how enterprise responds to a rise in the demand for a good. [8]

For **knowledge and understanding** of the functions of enterprise.

For the organisation function **[Up to 3 marks]**

For risk taking **[Up to 3 marks] [4 marks maximum]**

For **application** showing how enterprise responds to an increase in demand and the consequent rise in price. **[Up to 4 marks]**

(b) Discuss why some goods and services are provided by private enterprise and others are provided by the government in a mixed economy. [12]

For **analysis** explaining how governments and private enterprise produce:
- private
- merit
- demerit and
- public goods. **[Up to 8 marks]**

For **evaluative comment** that considers the effectiveness of government provision and provision by private enterprise. **[Up to 4 marks]**

4 (a) Explain what might cause a favourable movement in an economy's terms of trade. [8]

For **knowledge and understanding** of the terms of trade. **[Up to 4 marks]**

For **application** to show how changes in the price of exports relative to the price of imports cause a favourable movement in the terms of trade. **[Up to 4 marks]**

(b) Discuss whether overall a favourable movement in an economy's terms of trade would be likely to have positive or negative effects on the economy. [12]

For analysis of the impact of a favourable change in the terms of trade:

- **Up to 6 marks** for the possible positive effects.

- **Up to 6 marks** for the possible negative effects. **[8 marks maximum]**

For **evaluative comment** upon the 'overall' aspect of the question. **[Up to 4 marks]**

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