Cambridge International AS & A Level

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ECONOMICS **9708/23**

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

MARK SCHEME

Maximum Mark: 40

Published

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Data Response

1 (a) (i) Calculate the approximate change in Australia's trade balance between August 2010 and August 2014. [2]

It is acceptable to make the calculation using the seasonally adjusted figures or the trend.

In August 2010 it is in surplus by just over $1000, (or $1500) million in August 2014 it is in deficit by just under $1000, (or $1500) million**.**

So the change is a magnitude of –$2000 (or –$3000) **(1 mark)**

In addition, candidates must show understanding that the change that has occurred is that the balance changes from a surplus to a deficit. **(1 mark)**

2 marks maximum.

(ii) Use a supply and demand diagram to show how the trend in Australia's trade balance over this period would be expected to influence the value of Australia's exchange rate. [2]

For an accurate diagram showing a fall in the demand (or an increase in the supply) for Au$ **(1 mark)** which would result in a decline in the exchange rate **(1 mark)**

(iii) What other information would be required to measure the change in Australia's current account on the balance of payments over this period? [2]

The two other components are net income flows **(1 mark)** and current transfers **(1 mark)**

Note that some candidates might use the latest terms for these entries i.e. primary and secondary incomes. This is acceptable.

(b) Suggest a change in the prices of exports and imports that might account for the change in the Australian terms of trade between 2011 quarter 3 and 2014 quarter 2 [2]

Any combination of price changes that would cause a fall in the terms of trade is acceptable. Reference must be made to the price of exports and the price of imports.

For example, export prices may have fallen **(1 mark)** and import prices may have risen. **(1 mark)**

Accept answers that explain that it is not just the direction of the change in export and import prices that affect the terms of trade. It is also possible that they could change in the same direction but there might be a difference in the relative size of the change.

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(c) Explain who in China would lose and who in China would benefit if China's exchange rate were allowed to rise. [6]

If China's exchange rate were allowed to rise those who would lose include Chinese exporters, those employed in Chinese firms facing increased competition from abroad and those employed in export-orientated firms in China. Those who would benefit would include Chinese consumers and Chinese producers who import raw materials from overseas. The impact however is heavily dependent on the elasticity of demand for Chinese imports and exports.

For identifying and explaining who might lose, for example Chinese exporters, and those employed in Chinese export orientated firms. **(Up to 4 marks)**

For identifying and explaining who might benefit, for example Chinese consumers and Chinese importers of raw materials. **(Up to 4 marks)**

Reward those answers that recognise the importance of price elasticity in influencing who would lose and who would benefit from the rise of the exchange rate in the short-run and the long-run.

(d) Discuss whether lower interest rates in China or a rise in China's exchange rate is more likely to help solve Australia's balance of payments problems. [6]

For explaining the impact of lower interest rates upon Australia's balance of payments **(Up to 3 marks)**

For explaining the impact of a higher Chinese exchange rate upon Australia's balance of payments **(Up to 3 marks)**

5 marks maximum.

Reserve 1 mark for providing a conclusion on whether lower interest rates or a rise in China's exchange rate is more likely to help solve Australia's balance of payments problems.

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Essays

2 (a) Explain how economists use the concept of elasticity to distinguish between normal and inferior goods and between substitutes and complements. [8]

For **knowledge and understanding** of income elasticity of demand and **application** showing how the concept can be used to distinguish between normal and inferior goods. **(Up to 4 marks)**

For **knowledge and understanding** of cross elasticity of demand and **application** showing how the concept can be used to distinguish between substitutes and complements. **(Up to 4 marks)**

(b) Discuss how knowledge of the differences between these types of goods would help government policy makers and entrepreneurs to make decisions. [12]

For **analysis** explaining how understanding of the concepts can help government to make decisions for example which goods to tax, how tax revenues will rise or fall in recessions or growth periods. **(Up to 6 marks)**

For **analysis** explaining how understanding of the concepts can help entrepreneurs make decisions for example when to vary price to increase revenues. **(Up to 6 marks)**

8 marks maximum

For **evaluative comment** on the value of these concepts. This might include reference to the difficulty of calculating the coefficients and the influence of 'other factors' in influencing their values. **(Up to 4 marks)**

3 (a) Use aggregate demand and aggregate supply analysis to distinguish between cost-push and demand-pull causes of inflation. [8]

For **knowledge and understanding** of cost-push inflation and **application** showing how aggregate demand and aggregate supply analysis can be used to explain this and distinguish this type of inflation from demand-pull inflation**.** **(Up to 4 marks)**

For **knowledge and understanding** of demand-pull inflation and **application** showing how aggregate demand and aggregate supply analysis can be used to explain this and distinguish this type of inflation from cost-push inflation**.** **(Up to 4 marks)**

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(b) Distinguish between the domestic and the external consequences of inflation, and consider which you think is more serious for an economy. [12]

For **analysis** of the domestic consequences such as the impact upon savings and productive investment and the re-distributive effects together with the shoe-leather and menu costs of inflation. **(Up to 6 marks)**

For **analysis** of the external consequences of inflation such as the likely impact upon the trade balance and investment flows and the resulting effect upon the exchange rate. **(Up to 6 marks)**

8 marks maximum

For **evaluative comment** on which is more serious which might include reference to the extent to which the economy is open or closed. **(Up to 4 marks)**

4 (a) Use production possibility diagrams to explain how specialisation and international trade can improve the standard of living of consumers in a country. [8]

For **knowledge and understanding** of production possibility curves and the trade-off that this illustrates. **(Up to 4 marks)**

For **application** showing how specialisation leads to an improvement in the standard of living with due reference to the law of comparative advantage. **(Up to 4 marks)**

(b) Discuss whether protection of domestic industries can ever be justified, given the benefits of specialisation and trade. [12]

For **analysis** of the reasons advanced to justify protection of domestic industries such as to protect employment, to protect infant industries, to protect against dumping, to solve a balance of payment problem etc. **(Up to 8 marks)**

For **evaluative comment** on whether any of these reasons can be justified. Reward appropriate reference to the law of comparative advantage. **(Up to 4 marks)**

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