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ECONOMICS **9708/23**

Paper 2 Data Response and Essay **May/June 2017**

MARK SCHEME

Maximum Mark: 40

Published

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Question	Answer	Marks	Guidance
1(a)(i)	The trend in the value of the Kwacha is declining or downward (1 mark)	**1**	
1(a)(ii)	For an explanation of the fall in the demand and the price of copper as a result of China's slowdown (1 mark) For an explanation of how the fall in the price of copper has resulted in a fall in the demand for the Kwacha and a fall in the Kwacha's value as the demand for the currency is less than the sUpply. (Up to 2 marks)	**3**	The slowdown of China's economy has reduced the demand for minerals including copper. The result is a fall in the price of copper shown in Fig.1. Zambia's export earnings have fallen leading to a fall in the demand for the Kwacha and a fall in its value.
1(a)(iii)	Up to 4 marks for an explanation of cost-push inflation in the context of Zambia's economy • For recognition that a fall in the value of the Kwacha will make Zambia's imports more expensive. (1 mark) • For an explanation that this will lead to rising costs for Zambia's producers and consumers (Up to 2 marks) • For clear recognition that this represents cost-push inflation (1 mark) Allow credit for explanations of demand-pull inflation if consistent with the context of the extract.	**4**	The change in the value of the Kwacha is likely to cause cost-push inflation through the rise in import prices. There will be a rise in the price of imported raw materials and components used by Zambian businesses and pressure Upon the components of Zambian household expenditure. Theoretically, the decline in the Kwacha could generate demand-pull inflation, but given the context of the extract, this is unlikely.

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Question	Answer	Marks	Guidance
1(b)	For identification of all the components of aggregate demand: • For C+I+G+X-M (1 mark) • **Or** Consumption + Investment + government spending + net exports (2 marks) **(2 marks maximum)** For explaining: • how consumption might be affected (1 mark) • how investment might be affected (1 mark) • how government spending might be affected (1 mark) • how net exports might be affected (1 mark) **(4 marks maximum)**	**6**	The notation for aggregate demand is worth only one mark. If the components are named then two marks are available. China's declining demand for copper is likely to: • reduce consumption because household incomes fall • reduce investment because business activity declines • increase government spending because welfare payments to the unemployed rise or through counter-cyclical government spending **Or** it may reduce government spending because as tax receipts will fall and the government will tighten its belt. Either is accepted as long as an explanation is included • Net exports will fall in the short-run, but may rise in the long-run as the Kwacha declines. • An explanation of the likely changes is necessary to score a mark here.
1(c)	• For identifying and explaining the relevant economic theory (1 mark) • For a discussion of the costs and benefits of diversification (Up to 3 marks) • For a discussion of the costs and benefits of specialisation (Up to 3 marks) **(5 marks maximum)** For a reasoned conclusion on whether specialisation or diversification is more effective. (1 mark)	**6**	Diversification of the Zambian economy implies that specialisation on copper production should be abandoned and other sectors developed. This runs counter to the principle of comparative advantage which suggests that economies should specialise in producing goods and services that have the lowest opportunity costs. Some candidates might develop arguments that justify diversification, but these should be assessed in terms of underlying economic theory.

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Question	Answer	Marks	Guidance
2(a)	For **knowledge and understanding** of the concept of income elasticity of demand • For statement of what the concept measures (1 mark) • For an accurate formula (Up to 2 marks) • For elaboration e.g. in terms of elastic/inelastic (1 mark) **(4 marks maximum)** For **application**: • showing how inferior goods react when incomes rise. (2 marks) • showing how necessary goods react when incomes rise (2 marks) **(4 marks maximum)**	**8**	Candidates need to display a firm understanding of the concept of income elasticity of demand and how it is used by economists to distinguish between inferior and necessary goods as incomes rise.
2(b)	For **analysis** • of any policy available to business to increase sales when incomes are falling with due reference to the strengths and weaknesses of the policy. (Up to 6 marks for each policy) **(8 marks maximum)** For **evaluation** that **assesses and compares** • the relative strengths and weaknesses of each policy (Up to 3 marks) • to reach a conclusion concerning which policy is most likely to be successful. (1 mark) **(4 marks maximum)**	**12**	Policies that are available include reducing the price of the good, advertising to increase demand and switching production to inferior goods. Reward attempted evaluation. For example, it might be difficult to maintain sales through price cuts if demand is inelastic. Advertising might be expensive. Switching production to inferior goods might be difficult if the business has invested in capital. Allow a mark for the conclusion offered if it is based Upon the evaluative comment.

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Question	Answer	Marks	Guidance
3(a)	For **knowledge and understanding** of: • profit as the reward to the factor enterprise for organising the factors of production and taking the risk of production **(4 marks maximum)** For **application:** • That shows how, motivated by profit, entrepreneurs allocate resources in response to price signals in a market economy. **(4 marks maximum)**	**8**	In this question we are looking for knowledge and understanding of the role of profit as reward to enterprise for the undertaking of the risk and organisation of production and the way in which enterprise responds to price changes in order to receive the reward of profit. Diagrams may be used, but are not essential for full marks.
3(b)	For **analysis** containing: • an explanation of the way in which resources are allocated in a planned economy with due reference to the strengths and weaknesses of allocation in this type of economy (Up to 6 marks) • an explanation of the way in which resources are allocated in a market economy with due reference to the strengths and weaknesses of allocation in this type of economy (Up to 6 marks) **(8 marks maximum)** For **evaluation** that **assesses and compares** • the relative strengths and weaknesses of the allocation of resources in each economy (Up to 3 marks) • and reaches a conclusion on which type of economy allocates resources most effectively (1 mark). **(4 marks maximum)**	**12**	Candidates need to be aware of the way in which resources are allocated in each type of economy and the strengths and weaknesses of each. These include the lack of production of public goods in a market economy. Also, the underproduction of merit goods and the overproduction of de-merit goods. The weakness of a planned economy includes the lack of price signals with the result that there are often shortages and surpluses in the market.

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Question	Answer	Marks	Guidance
4(a)	For **knowledge and understanding** of the four functions of money: • Medium of exchange (1 mark) • Store of value (1 mark) • Unit of account (1 mark) • Standard of deferred payment (1 mark) **(4 marks maximum)** For **application** • showing how each function will be affected by a high rate of inflation **(4 marks maximum)**	**8**	If the functions are presented as a list with no explanation 1 maximum for the knowledge and understanding element. Only a brief explanation of how each function of money is affected is required.
4(b)	For **analysis** containing: • an explanation of the way in which monetary policy can be used to solve the problem of inflation with due reference to the effectiveness of such a policy (Up to 4 marks) • an explanation of the way in which monetary policy can be used to solve the problem of deflation with due reference to the effectiveness of such a policy (Up to 4 marks) **(8 marks maximum)** For evaluation that **assesses and compares** • the likely effectiveness of monetary policy in solving inflation with its likely effectiveness in solving deflation (3 marks) • and reaches a conclusion on whether it is likely to be effective in solving only one or both problems (1 mark) **(4 marks maximum)**	**12**	Monetary policy is any action taken by the monetary authorities to change the quantity of money, the rate of interest or credit terms. It is usually operated by the central bank of an economy. When faced with inflation it is likely that the central bank will limit the money supply, raise the rate of interest and tighten credit controls. When faced with deflation these measures would be reversed. Whether the policy is likely to be effective depends Upon the extent to which spending is sensitive to changes in the money supply, the rate of interest and credit terms. If only inflation or deflation considered then 4 maximum.

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