Cambridge International AS & A Level

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ECONOMICS **9708/21**

Paper 2 Data Response and Essay **May/June 2018**

MARK SCHEME

Maximum Mark: 40

Published

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.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

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GENERIC MARKING PRINCIPLE 5: Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).
GENERIC MARKING PRINCIPLE 6: Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Question	Answer	Marks	Guidance
1(a)(i)	2013: 38.4 RUB against the US dollar 2015: 61.3 RUB against the US dollar A fall of 22.9 compared with initial value of 38.4 = a fall of 59.63541% Accept a fall of 59.6% or 59.64%	**2**	1 mark for correct calculation method, but wrong answer 2 marks for correct answer, even if no calculation method shown
1(a)(ii)	• A nominal exchange rate is one that is expressed in money terms without taking into account the effects of inflation (1) • A real exchange rate is one where a nominal exchange rate has been adjusted, taking into account the effects of inflation on the value of a currency in terms of its purchasing power / reflects the purchasing power of money at constant prices (1)	**2**	
1(b)	Diagram: • P, Q, D and S all correctly shown and labelled (1) • Shift of the demand curve for roubles to the left (1) Explanation: • Russia's exports are heavily dependent on oil; the oil price has tumbled from its mid-2014 peak of over US$100 a barrel to only about US$40 a barrel (1) • This has meant that other countries needed fewer roubles to buy oil from Russia, causing a shift of the demand curve to the left with a resulting fall in the price and in the quantity traded (1)	**4**	

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Question	Answer	Marks	Guidance
1(c)	Analysis of positive effects **Up to 4 marks** Analysis of negative effects **Up to 4 marks** Maximum of 6 marks	**6**	A depreciation of the Russian rouble would make exports cheaper, making them more price competitive on the international market, and this could lead to an increase in the demand for them. It would also make imports dearer, making them less price competitive on the international market, and this could lead to a decrease in the demand for them. The overall effect could therefore be an improvement in the current account balance, which would be advantageous to the Russian economy. The actual effect of the depreciation will depend on the extent to which the demand for both exports and imports is price elastic. Candidates could refer to the Marshall-Lerner condition which states that the depreciation will only lead to an improvement in the current account balance if the sum of the price elasticity of demand for exports and the price elasticity of demand for imports is greater than 1. Candidates could also refer to the J-curve effect which states that the current account balance will get worse before it gets better. Candidates could also refer to the fact that the imported goods could include imported raw materials and components, leading to an increase in the cost of production which would not be advantageous to the Russian economy. In addition to the balance of payments effects, candidates may also consider possible inflation, employment and growth effects.

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Question	Answer	Marks	Guidance
1(d)	For **identification** and **explanation** of the possible benefits of privatisation (Up to 3 marks) For **identification** and **explanation** of the possible costs of privatisation (Up to 3 marks) **(5 marks maximum for explanation)** For **evaluative conclusion** on the factors identified in relation to whether the privatisation of some state assets would be of overall benefit for the Russian economy. **(1 mark for evaluation)**	**6**	Definition of privatisation: the transfer of the ownership of a firm or an industry from the state or public sector to the private sector. The sale of some state assets would bring revenue in. The sale of some state assets would reduce public expenditure on such assets. The overall effect of increasing public revenue and reducing public expenditure would be to contribute positively to a reduction in the size of the budget deficit in Russia, although it is uncertain whether this would be sufficient to bring down the size of the budget deficit from 7% of GDP to 3% of GDP. The privatisation of some state assets could also lead to an improvement in efficiency. However, privatisation will lead to firms aiming for profit maximisation and this could lead to detrimental effects on the Russian economy, such as an increase in unemployment.

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Question	Answer	Marks	Guidance
2(a)	For **knowledge and understanding** of merit goods and demerit goods. Knowledge and understanding of merit goods as an example of a product that is under-consumed as a result of information failure. (Up to 3 marks) **Knowledge and understanding** of demerit goods as an example of a product that is over-consumed as a result of information failure. (Up to 3 marks) **(KU total: Up to 4 marks)** For **application** showing how merit goods and demerit goods are examples of a private good. Application to examples of merit goods, such as education and health care. (Up to 3 marks) Application to examples of demerit goods, such as cigarettes and alcohol. (Up to 3 marks) **(APP total: Up to 4 marks)**	**8**	Reward appropriate reference to information failure in relation to both merit goods and demerit goods. Both merit goods and demerit goods are examples of a private good because: There is rivalry in consumption, i.e. once a product has been consumed by one person, it cannot be consumed by another person. There is excludability in consumption, i.e. it is possible to exclude a person from consuming a product if another person has consumed it and they have not paid for it.

Question	Answer	Marks	Guidance
2(b)	For **analysis** of the provision of merit goods through a market economy. (Up to 4 marks) For **analysis** of the provision of demerit goods through a market economy. (Up to 4 marks) **(AN total: Up to 8 marks)** For **evaluative comment** on whether the provision of merit goods and demerit goods through a market economy will always be the best form of provision. (1 mark for a conclusion) **(EV total: Up to 4 marks)**	**12**	Advantages of a market economy: Possible advantages of a market economy, such as decisions taken by individual consumers, who aim to maximise utility/satisfaction, and by individual producers, who aim to maximise profits. Important role of a price mechanism to allocate resources efficiently, with prices acting as a signalling device. There is likely to be greater efficiency arising from the existence of a profit motive and of competition, with no government intervention. Disadvantages of a market economy: A market economy, as well as having potential benefits, can also have potential drawbacks, such as the under-production of merit goods and the over-production of demerit goods.

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Question	Answer	Marks	Guidance
3(a)	For **knowledge and understanding** of the concept of price elasticity of demand as the percentage change in the quantity demanded of a product divided by the percentage change in the price of the product. **(KU total: Up to 2 marks)** For **application** of factors to the determination of the PED of a product. The question does refer to factors, i.e. a minimum of two factors need to be explained. Up to 3 marks for one factor that is very well explained. A candidate needs to explain a minimum of two factors to gain all 6 marks. **(APP total: Up to 6 marks)**	**8**	Candidates should refer to the possible factors that can affect the PED for a product: • the period of time • the number and availability of substitutes • the degree of necessity • the durability of a product • the proportion of income taken by a product • the width of definition of a product • the amount of money spent on a product
3(b)	For **analysis** of the importance of XED to a firm. **Analysis** of a positive XED. (Up to 4 marks) **Analysis** of a negative XED. (Up to 4 marks) **(AN total: Up to 8 marks)** For **evaluative** comment on the extent to which XED is likely to be important to a firm supplying that product (1 mark for a conclusion) Candidates need to consider that the extent to which XED is likely to be important to a firm supplying a particular product will depend on a number of factors, such as how close a substitute or a complement is to the firm's product and so how significant a change in a competitor's price will be, and how large the original price change was. XED is likely to be more important when the relationship between two products is a close one. Candidates could evaluate whether XED is likely to be more or less useful than PED or YED. Candidates could also bring zero cross elasticity of demand into the discussion. **(EV total: Up to 4 marks)**	**12**	Candidates can comment on whether XED is positive, which will be the case if the two products are substitutes, giving rise to competitive demand, or whether it is negative, which will be the case if the two products are complements, giving rise to joint demand. XED is important to the decisions of a firm, enabling it to estimate the effect on the demand for one of its products of a change in the price of a substitute or a complement in the market.

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Question	Answer	Marks	Guidance
4(a)	For **knowledge** and **understanding** of the characteristics of money. **(KU total: Up to 4 marks)** For **application** showing how the characteristics of money are necessary in order for money to perform its functions effectively, e.g. money needs to be divided into smaller units so that products at various prices can be bought and sold and money needs to be portable if it is going to be convenient for the users of it. Application to at least three characteristics and three functions required for full marks. **(APP total: Up to 4 marks)**	**8**	Characteristics of money, such as: • acceptability • portability • scarcity • recognisability • relative stability of value • divisibility • durability • uniformity • stability of supply. Four functions of money: • a medium of exchange • a measure of value/unit of account • a standard for deferred payment • a store of value or wealth.
4(b)	For **analysis** of the likely consequences for an economy of an increase in the money supply. Candidates need to refer to the impact that an increase in the money supply can have in an economy, especially in relation to the existence of inflation. An increase in the money supply can lead to demand-pull inflation, especially if AD is in excess of AS. Accept an answer that focuses on the consequences of inflation. **(AN total: Up to 8 marks)** For **evaluative** comment on the extent to which an increase in the money supply in an economy is likely to be inflationary (1 mark for a conclusion). Candidates need to consider that the extent to which an increase in the money supply will lead to inflation will depend on whether AD is in excess of AS. If there is an increase in AS which matches the increase in AD, then the effect of the increase in the money supply will not necessarily be inflationary. The consequences will also depend on the extent of the size of the increase in the money supply and the state of an economy at the time of the increase. **(EV total: Up to 4 marks)**	**12**	

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