Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/22**

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)	$US 437 billion	**1**	Must have $ and billions. No need to indicate US.
1(a)(ii)	Capital goods **(1 mark)**	**1**	
1(b)(i)	For recognition that consumption will increase **(1 mark)** For an explanation. Candidates can **either** identify one reason and provide a developed explanation of this e.g. the fall in the interest rate means that loans are cheaper **(1 mark)** and therefore spending on consumer goods that are sensitive to interest rate changes for example 'big ticket' items will increase **(1 mark)** **OR** Identify a second reason for a likely rise in consumption such as the disincentive to save **(1 mark)**	**3**	Consumption is likely to increase. Two approaches are expected. One relates to the impact of the fall in the rate of interest upon the cost of loans. The other upon the impact upon savings. Candidates can either give a developed explanation of one approach or give a brief explanation of the two approaches.
1b(ii)	For a developed explanation of the chosen outcome. For example the fall in interest rates will reduce the value of the baht **(1 mark)** and as a result export prices will fall **(1 mark)** and export expenditure will rise/fall if demand for exports is price elastic/inelastic **(1 mark)** **(Up to 3 marks)**	**3**	The impact on export expenditure depends upon a number of factors and there are a number of possible outcomes. • The fall in interest rates will decrease the value of the baht and this could lead to a rise or fall in export earnings depending upon the price elasticity of exports • The fall in interest rates might result in more spending in Thailand and as a result Thai exports might be diverted to the home market and export earnings could fall. • The fall in the rate of interest might lead to more investment in Thailand that results in more productivity in export industries and export earnings might rise.

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Question	Answer	Marks	Guidance
1(c)	For each demand factor explained **(Up to 2 marks)** For the identification of a factor that will increase the number of visitors from China **(1 mark)** for the second mark it is necessary to compare this change with other countries **(1 mark)** If two demand factors explained can be categorised as **a 'change in tastes'** then this can only be accepted for two of the three demand factors. **6 marks maximum**	**6**	Any three demand factors can be developed to explain the differences. For example, differences in changes in income, changes in tastes, price and so on. If the candidate identifies changes in factors that are changes in tastes then the maximum marks awarded should not be greater than 2.
1(d)	For an explanation of the benefits of a high proportion of income stemming from the external balance. **(Up to 3 marks)** For an explanation on the dangers of reliance upon the external balance**.** **(Up to 3 marks)** **5 marks maximum for explanation** **1 mark reserved** for a reasoned conclusion **6 marks maximum**	**6**	Thailand is a very open economy that depends upon tourism for its export income. This allows for the import of many goods that are not produced efficiently in Thailand. This is effectively a reflection of comparative advantage and allows for an improved standard of living in Thailand. The danger is that the external balance can be influenced by world events and changes in export earnings can have serious consequences.

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Question	Answer	Marks	Guidance
2(a)	**Up to 4 marks** for **knowledge and understanding** and **application** of how resources are allocated in a free market economy. • Resources are allocated through the price mechanism **(1 mark)** • Elaboration in terms of features such as supply and demand, consumer sovereignty, enterprise and the profit motive **(Up to 3 marks)**. **Up to 4 marks** for **knowledge and understanding** and **application** of how resources are allocated in a mixed economy. • Resources are allocated through the price mechanism **and** the government (1 mark) • Elaboration in terms of the provision of public and merit goods, intervention in markets such as indirect taxes on demerit goods and so on (Up to 3 marks).	**8**	
2(b)	**Up to 8 marks** for **analysis** of supply side policies and their impact on the supply of enterprise: • For an explanation of how any supply side policies can increase the supply of enterprise to the economy (Up to 4 marks) • For an explanation of the difficulties associated with the application of these policies. (Up to 4 marks) **Up to 4 marks** for **evaluative** comment with **1 mark reserved** for a reasoned conclusion on the overall effectiveness of the policies.	**8 + 4**	To answer this effectively, candidates must have a good knowledge of the role of enterprise and the ways in which supply side policies operate to encourage enterprise. These include reducing business taxes, improving the economic environment and providing training for prospective entrepreneurs. Accept a broad idea of 'enterprise'. This could refer to the number of entrepreneurs in the market or the expansion of existing firms that necessitates an increase in risk and organisation. If the policies introduced do not refer to the supply of enterprise but are very general descriptions of supply side policies then no credit should be awarded.

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Question	Answer	Marks	Guidance
3(a)	**Up to 4 marks** for **knowledge and understanding:** Of the meaning of an indirect tax (1 mark) For a clear understanding of a price-elastic demand (1 mark) For a clear understanding of price-inelastic demand (1 mark) For a clear understanding of the meaning of the incidence of taxation (1 mark) **Up to 4 marks** for **application** using a diagram: • to show that if a good is price elastic the incidence of an indirect tax will fall mainly on the producer (2 marks) • and if it is price inelastic the incidence it will fall mainly on the consumer (2 marks)	**8**	An indirect tax will shift the supply curve to the left. This will raise the price of the product. The incidence depends upon price elasticity. If the demand is inelastic, the consumer bears most of the incidence. If the demand is elastic most of the incidence falls upon the producer. The candidate is NOT required to define elastic or inelastic. They need to demonstrate that they understand the concepts through their application in answer to the question.
3(b)	**Up to 8 marks** for **analysis** • Of the negative impact of the imposition of an indirect tax upon consumer surplus; higher prices and lower consumer surplus and lower consumption of the good overall. Also allow broader considerations such as the fact that the tax is regressive and could contribute to cost-push inflation (up to 4 marks) • Of the positive effects of imposing indirect taxes such as discouraging the consumption of demerit goods, raising revenue, tariffs are indirect taxes that discourage imports and so on (up to 4 marks) **Up to 4 marks** for **evaluative** comment with **1 mark reserved** for a reasoned conclusion on whether indirect taxes should ever be imposed.	**8 + 4**	The imposition of an indirect tax distorts the market in the sense that the price signals from the consumer do not reflect the value that consumers place upon the good. In addition, consumer surplus and producer surplus are reduced. In the case of demerit goods however indirect taxes adjust demand to overcome the problem of imperfect information. Candidates can be rewarded for discussion of the revenue raising motive for imposing taxes.

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Question	Answer	Marks	Guidance
4(a)	**Up to 4 marks** for **knowledge and understanding** and **application** to show how inflation can cause a deficit. • For a recognition of the impact of a high rate of inflation upon the relative price of exports and the price of imports (1 mark) • and the total expenditures on exports and imports (1 mark) • given the price elasticity of demand for exports (1 mark) • For understanding that it is the relative rate of inflation that is relevant (1 mark) **Up to 4 marks** for **knowledge and understanding** and **application** to show how a rise in the exchange rate can cause a deficit. • For a recognition of the impact of a rise in the exchange rate on the relative price of exports and the price of imports (1 mark) • and the total expenditures on exports and imports (1 mark) • given the combined price elasticity of demand for exports and imports greater than one (Marshall-Lerner) (1 mark) • Reference to the J-curve or long/short run distinction (1 mark)	**8**	Both inflation and a rise in an economy's exchange rate will raise the price of exports and reduce the relative price of imports. As a result both can cause a current account deficit.
4(b)	**Up to 8 marks** for **analysis**: • Of the problems that are created through a high rate of inflation. Possible problems could include: menu costs/shoe leather costs (count as one), haphazard redistribution of income, loss of business confidence, debtors/creditors, flight of FDI, lack competitiveness, fiscal drag and so on. Must be explained for all the marks. **(Up to 4 marks)** • Of the problems that are created through a deficit in the current account. Possible problems could include: decline in the exchange rate, accumulating foreign debt, impact on domestic policies, unemployment and so on. **(Up to 4 marks)** **Up to 4 marks** for **evaluative** comment with **1 mark reserved** for a reasoned conclusion on which poses the most serious problem.	**8 + 4**	Candidates need to show a good grasp of the difficulties that are associated with a high rate of inflation such as the re-distribution of incomes and the impact on the external balance and the problems created through a deficit on the current account such as pressure on the exchange rate and currency reserves. Acceptable evaluative comment could be that it depends upon the rate of the inflation and whether the economy is open to international trade or is a closed economy.

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