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 2019**

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)	**What happened to Egypt's current account balance between 2014 and 2016?** The deficit increased **1 mark**	**1**	We need the correct economic term, so 'deficit' in this context is essential. If the candidate uses a subjective term such as 'worsened' it must be supported by figures that make it clear that the deficit has increased. If the candidate simply lists increasingly negative balances without the term 'deficit' then no marks are awarded.
1(a)(ii)	**With reference to Table 1.1 calculate the percentage rate of inflation in Egypt between 2016 and 2017 that was estimated by the IMF.** 22.1% **1 mark**	**1**	Accept any value up to 22.0–22.2%
1(b)	**Identify two Canons of Taxation satisfied by Egypt's new VAT.** For each Canon identified **1 mark** **2 marks maximum**	**2**	**The acceptable 'canons of taxation' are** **Smith's canons** **Certainty** The timing and amount to be paid must be certain and open **Convenience** The means and timing of payment must be convenient **Economy** The cost of collection must be low relative to the yield **Equity** The tax must be 'fair'. Others acceptable responses developed by other economists include, simplicity, productivity and elasticity, diversity and that the tax should automatically adjust to changes in inflation All the above are acceptable. 'Equality' is not acceptable.

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Question	Answer	Marks	Guidance
1(c)	**Explain how the decline in the value of the Egyptian pound could cause demand-pull and cost-push inflation in Egypt.** For an explanation of how the decline in the Egyptian pound could cause cost-push inflation. The decline in the value of the Egyptian pound makes imports more expensive **(1 mark)** This increases the price of imported raw materials and as a result business costs. This causes cost-push inflation **(1 mark)** **Up to 2 marks** For an explanation of how the decline in the Egyptian pound could cause demand-pull inflation. The decline in the value of the Egyptian pound makes exports cheaper **(1 mark)** and this is expected to increase the net exports and as a result aggregate demand. This causes demand-pull inflation **(1 mark)** **Up to 2 marks**	**4**	The decline in the value will make imports more expensive. This will increase the cost of imported raw materials and increase business costs. This will cause cost-push inflation. It will also make exports cheaper and this will increase net exports leading to demand pull inflation.

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Question	Answer	Marks	Guidance
1(d)	**Explain how the estimated changes in unemployment in Table 1.1 might be expected to affect the current account balance of Egypt after 2016** <u>Two approaches are acceptable:</u> For linking a fall in unemployment and rising incomes **(1 mark)** For explaining that the rise in incomes is likely to lead to rising imports **(1)** and falling exports **(1)** and an increasing deficit **(1)** **Up to 3 marks** **And/or** For explaining that the fall in unemployment means that more people are in work and that national production will rise **(1 mark)** For explaining that this would lead to a rise in exports **(1)** and a fall in imports **(1 mark)** and a reducing deficit **(1)** **Up to 3 marks** For elaboration that considers any factors that the identified change i.e. the increasing and/or reducing deficit relies upon. **Up to 2 marks** **If a candidate adopts both approaches without elaboration of either then 4 marks maximum**	**6**	The unemployment rate is expected to fall from 2016. As a result, incomes will rise and it would be expected that imports would also rise. In addition, goods formerly exported would be diverted to satisfy rising demand in the home market. Net exports would decrease as a result and the current account balance become an increasing deficit. Alternatively, it could be argued that those who enter employment will boost production and this could offset imports or boost exports. Explanations developed along these lines are equally acceptable. Some candidates might offer the view that either outcome is possible. These approaches should also be credited. Up to 4 marks are available for explaining the link between the changes in unemployment and the current account balance. Two further marks are reserved for elaboration that considers any factors that the outcome of the change depends upon e.gs include the imposition of import controls, the income elasticity of demand for imports, exchange rate changes, the availability of other factors in the production process such as capital goods and the time period under consideration.

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Question	Answer	Marks	Guidance
1(e)	**Discuss whether the Egyptian government's fiscal and monetary policies in the article are likely to succeed in curing the inflation problem** For recognition of any fiscal policy measures in the data **(1 mark)** and for an explanation of how this measure might (or might not) cure the problem of inflation **(1 mark)** For an evaluative comment that explains why this measure might not (or might) succeed in curing the inflation problem **(1 mark)** **(Up to 3 marks)** For recognition of any monetary policy measures in the data **(1 mark)** and for an explanation of how this measure might (or might not) cure the problem of inflation **(1 mark)** For an evaluative comment that explains why this measure might not (or might) succeed in curing the inflation problem **(1 mark)** **(Up to 3 marks)**	**6**	The fiscal and monetary changes referred to in the text include reducing the budget deficit, levying a new indirect tax, cutting subsidies on energy, raising interest rates and floating the Egyptian pound. Some of these changes will help to cure inflation, but others will exacerbate the problem. For example: As far as fiscal policy measures are concerned the data refers to a reduction in the budget deficit. This might help to cure inflation. On the other hand the rise in VAT and the cut in subsidies will cause a rise in prices. So these fiscal policy measures work in opposing directions. As far as monetary policy measures are concerned, a rise in interest rates might help to cure inflation, but the fall in the value of the Egyptian pound might cause cost-push inflation. Again these monetary measures work in opposing directions. Some candidates might explain how a policy is expected to work (1 mark) they then need to consider why it might not work (1 mark). Other candidates might explain why a measure might not work (1 mark). These candidates then need to consider why it might work (1 mark)

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Question	Answer	Marks	Guidance
2(a)	**Explain how economists use the concept of elasticity to distinguish between inferior goods and necessary goods when consumer incomes change.** **Knowledge and Understanding** of income elasticity of demand: What it measures **1 mark** For accurate formula **1 mark** **(KU: up to 2 marks)** **Application**: Income elasticity for inferior goods: • For recognition that the coefficient is negative **1 mark** • For an explanation of why a negative coefficient arises when incomes change **Up to 2 marks** Income elasticity for necessary goods: • For recognition that the coefficient is positive (accept zero) **1 mark** • For an explanation linking the extent of necessity to the size of the coefficient. **Up to 2 marks** **(APP: up to 6 marks)**	**8**	Clear understanding of the concept of YED and its application to inferior and necessary goods.

Question	Answer	Marks	Guidance
2(b)	**Discuss how businesses might attempt to change the price elasticity of demand for their products and consider which approach is most likely to be successful.** **Analysis:** Explains any methods that might be used to change the price elasticity of demand for a product with due reference to any difficulties that might arise with each method explained. **Up to 4 marks for each method explained** **(AN: up to 8 marks)** **Evaluation:** Compares the likely success of the methods explained **(3 marks)** and reaches a conclusion on which is most likely to be successful **(1 mark)** **(EV: up to 4 marks)**	**12**	Businesses can attempt to change the price elasticity of demand by changing the factors that make the product elastic or inelastic. For example they might attempt to make demand more price inelastic by creating more brand awareness and reducing the extent to which other products are seen as substitutes. Accept approaches that explain how businesses might attempt to make the demand for their product more elastic. Candidates might choose to explain only one method. This can be awarded up to 4 marks, but will score no marks for evaluation.

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Question	Answer	Marks	Guidance
3(a)	**Distinguish between regressive and progressive taxes and explain whether you would use an income tax or a specific indirect tax to make post-tax incomes more equal.** **Knowledge and understanding:** • For a definition of a regressive tax **1 mark** • For a definition of a progressive tax **1 mark** **(KU: up to 2 marks)** **Application:** Explains that specific indirect taxes are regressive **(Up to 2 marks)** and their impact upon the **equality** of post-tax incomes (**1 mark)** Explains that income taxes can be progressive **(Up to 2 marks)** and their impact upon the **equality** of post-tax incomes **(1 mark)** **(APP: up to 6 marks)**	**8**	Candidates need to have a clear understanding of the difference between a regressive and progressive tax and that specific indirect taxes will be regressive and income taxes can be designed to be progressive.

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Question	Answer	Marks	Guidance
3(b)	**Discuss whether subsidies on production of all types of goods will lead to an improved allocation of resources.** **Analysis:** Explaining that merit goods are under-consumed because of information failure and that subsidies will reduce price and increase their consumption improving resource allocation. **Up to 4 marks** Explaining the impact of subsidies on other types of goods for e.g. demerit goods, public goods or private goods where resource allocation will not be improved. **Up to 4 marks for each case explained** **(AN: up to 8 marks)** **Evaluation:** Comparing the impact of providing subsidies on different types of goods **(Up to 3 marks)** and for a conclusion on whether they will improve the allocation of **all** types of good **(1 mark)** **(EV: up to 4 marks)**	**12**	Candidates need to recognise that subsidies can improve the allocation of resources if they are imposed upon merit goods. They will go some way to improving the under-consumption of the good. If subsidies are imposed upon demerit goods however they will exacerbate the over-consumption of these goods. Subsidies will not improve resource allocation if applied to public goods because they still need to be provided by the public sector. In the case of other goods that cannot be classified as merit, demerit or public goods subsidies will reduce the price below the equilibrium determined in a free market.

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Question	Answer	Marks	Guidance
4(a)	**Explain, using examples, what is meant by 'protectionism' and show with the help of a diagram how export subsidies can be considered as a form of protectionism.** **Knowledge and understanding:** • Protectionism is adopting policies to assist domestic industries facing competition from foreign industries **1 mark** • through interference with market forces or the relative prices of imports and exports. **1 mark** **(KU: up to 2 marks)** **Application:** **One** example of a method of protectionism other than an export subsidy e.g. a tariff or a quota **(1 mark)** and explaining how this could be considered a method of protectionism **(1 mark)** For explaining why export subsidies can be considered as a method of protectionism: For an accurate diagram showing the impact of the export subsidy on costs and the price of exports **(Up to 3 marks)** and explaining how this could be considered a method of protectionism **(1 mark)** **(APP: up to 6 marks)**	**8**	Candidates often explain what is meant by protectionism by providing examples. A more general explanation is required. This could focus upon protectionism being any policy that interferes with market forces in international trade with the aim of giving an advantage to domestic producers. Diagram: Correctly labelled axes and curves (1 mark) Correct shift in the supply curve (1 mark) Correct change in equilibrium price and quantity (1 mark)

Question	Answer	Marks	Guidance
4(b)	**Discuss the arguments that are used to justify protectionism and consider whether these arguments can ever be justified.** **Analysis:** Considering any argument in favour of protectionism with a consideration of whether it can be justified with due reference to economic theory. **Up to 4 marks per justification** **(AN: up to 8 marks)** **Evaluation:** Summarises the arguments in favour of protectionism and considers whether this can be justified when compared to the benefits of free trade. **Up to 3 marks plus 1 mark for a reasoned conclusion** **(EV: up to 4 marks)**	**12**	Candidates may consider a range of arguments used to justify protectionism such as to protect domestic employment, to correct a balance of payments deficit, the anti-dumping argument and the infant industry argument. They need to examine each in terms of underlying economic theory to reach a conclusion. Candidates might choose to explain more than two justifications for protectionism. Each can be awarded up to 4 marks, but explanation is essential. Only 8 marks are available for this analysis.

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