CAMBRIDGE
International Education

Cambridge International AS & A Level

ECONOMICS **9708/22**

Paper 2 AS Level Data Response and Essays **May/June 2025**

MARK SCHEME

Maximum Mark: 60

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.

Cambridge International will not enter into discussions about these mark schemes.

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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 descriptions 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.

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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Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)

b DO credit alternative answers/examples which are not written in the mark scheme if they are correct

c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).

d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)

e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities

f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).

g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

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4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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Annotations guidance for centres

Examiners use a system of annotations as a shorthand for communicating their marking decisions to one another. Examiners are trained during the standardisation process on how and when to use annotations. The purpose of annotations is to inform the standardisation and monitoring processes and guide the supervising examiners when they are checking the work of examiners within their team. The meaning of annotations and how they are used is specific to each component and is understood by all examiners who mark the component.

We publish annotations in our mark schemes to help centres understand the annotations they may see on copies of scripts. Note that there may not be a direct correlation between the number of annotations on a script and the mark awarded. Similarly, the use of an annotation may not be an indication of the quality of the response.

The annotations listed below were available to examiners marking this component in this series.

Annotation	Use
	Correct point
	Incorrect point
	Unclear response
	Key information missing from response
	Indicates knowledge and understanding of the concepts and issues relating to the question.
	Indicates where the answer has demonstrated analysis.
	Indicates appropriate reference to the information provided
	Expansion of point already made in response
	Indicates where the answer has demonstrated evaluation
	Indicates where the answer has demonstrated particularly strong/justified evaluation
	For use on questions 2,3,4 and 5. Indicates where the response has reached Level 1 in the Mark Scheme, Table A
	For use on questions 2,3,4 and 5. Indicates where the response has reached Level 2 in the Mark Scheme, Table A
	For use on questions 2,3,4 and 5. Indicates where the response has reached Level 3 in the Mark Scheme, Table A
	Used when the benefit of the doubt is given in order to reward a response.
	Used when the answer or parts of the answer do not answer the question asked.
	Indicates that the page or content has been seen by examiner, but no credit given.

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Annotation	Use
TV	Used when parts of the answer are considered to be too vague to be given credit.

Guidance on using levels-based mark schemes

Marking of work should be positive, rewarding achievement where possible, but clearly differentiating across the whole range of marks, where appropriate.

The marker should look at the work and then make a judgement about which level statement is the best fit. In practice, work does not always match one level statement precisely so a judgement may need to be made between two or more level statements.

Once a best-fit level statement has been identified, use the following guidance to decide on a specific mark:

- If the candidate's work **convincingly** meets the level statement, award the highest mark.
- If the candidate's work **adequately** meets the level statement, award the most appropriate mark in the middle of the range (where middle marks are available).
- If the candidate's work **just** meets the level statement, award the lowest mark.

Assessment objectives

AO1 Knowledge and understanding
- Show knowledge of syllabus content, recalling facts, formulae and definitions.
- Demonstrate understanding of syllabus content, giving appropriate explanations and examples.
- Apply knowledge and understanding to economic information using written, numerical and diagrammatic forms.

AO2 Analysis
- Examine economic issues and relationships, using relevant economic concepts, theories and information.
- Select, interpret and organise economic information in written, numerical and diagrammatic form.
- Use economic information to recognise patterns, relationships, causes and effects.
- Explain the impacts and consequences of changes in economic variables.

AO3 Evaluation
- Recognise assumptions and limitations of economic information and models.
- Assess economic information and the strengths and weaknesses of arguments.
- Recognise that some economic decisions involve consideration of factors such as priorities and value judgements.
- Communicate reasoned judgements, conclusions and decisions, based on the arguments.**Table A**: AO1 Knowledge and understanding and AO2 Analysis

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Use this table to give marks for each candidate response for AO1 Knowledge and understanding and AO2 Analysis for **Questions 2(b)**, **3(b)**, **4(b)** and **5(b)**.

Level	Description	Marks
3	• A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate. • The response clearly addresses the requirements of the question and explains economic issues, and fully develops these explanations. • Analysis is developed and detailed and makes accurate and relevant use of economic concepts and theories. Where necessary, there is accurate and relevant use of analytical tools such as diagrams and formulae, and these are fully explained. • Responses are well-organised, well-focused and presented in a logical and coherent manner.	**6–8**
2	• Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies. • The response addresses the general theme of the question and the relevant economic issues, with limited development. • Analysis is generally accurate with some development but little detail. Uses analytical tools such as diagrams and formulae where necessary. Use of these tools is partially accurate or not fully explained. • Responses are generally logical and coherent but are sometimes lacking in focus or organisation.	**3–5**
1	• A small number of relevant knowledge points are included and the response is limited by significant errors or omissions. • The response has little relevance to the question. • Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. • Responses show limited organisation of economic ideas.	**1–2**
0	No creditable response.	**0**

Table B: AO3 Evaluation

Use this table to give marks for each candidate response for AO3 Evaluation for **Questions 2(b)**, **3(b)**, **4(b)** and **5(b)**.

Level	Description	Marks
2	• Provides a justified conclusion or judgement that addresses the specific requirements of the question. • Makes developed, reasoned and well-supported evaluative comment(s).	**3–4**
1	• Provides a vague or general conclusion or judgement in relation to the question. • Makes simple evaluative comment(s) with no development and little supporting evidence.	**1–2**
0	No creditable response.	**0**

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Section A

Question	Answer	Marks
Follow the point-based marking guidance at the top of this mark scheme.		
1(a)(i)	**Identify the overall change in the unemployment rate in South Africa between January 2020 and October 2022.** • It increased / rose **(1)** **Note: do not accept answers that identify a number of changes <u>within</u> these dates, only the overall change <u>between</u> these dates** **Guidance:** please ignore any correct or incorrect calculation of figures as a calculation is not required by the question. The mark should only be awarded if the candidate identifies that the unemployment rate has increased.	**1**
1(a)(ii)	**Compare the trend in the unemployment rate in South Africa between January 2020 and January 2022 with that between January 2022 and October 2022.** • It increased in the first period and then fell in the second period **(1)** **Guidance:** The only comparison that should be accepted is a comparison of the overall trend between January 2020 and January 2022 and the overall trend between January 2022 and October 2022. Any reference to other dates is irrelevant and should not be rewarded. Any use of accurate figures must be accompanied by references to an increase followed by a fall	**1**
1(b)	**Identify <u>one</u> possible impact on firms in South Africa and one possible impact on the government of South Africa of such a high rate of unemployment.** • Firms may find it easier / cheaper to recruit labour / pay lower wages / may suffer weaker demand for their products. **(1)** • Government may have reduced tax revenue / higher welfare payments. **(1)** **Guidance: 1 mark maximum** per impact on firms and the government respectively.	**2**

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Question	Answer	Marks
1(c)	**Consider whether continued falls in the value of the South African rand may lead to a reduction in the current account deficit of the balance of payments.** • Continued falls in the Rand will make exports relatively cheaper **(1)** and imports relatively more expensive **(1).** • This should lead to an increase in demand / sales of exports and / or a fall in demand / sales of imports and / or an increase in the value of net exports or (X-M) **and therefore a fall in the current account deficit (1).** • **Reserve 1 mark** for a valid conclusion example the importance of PED and any other valid eval **(Note: MLC should not be expected)**. **Please use a text box to show the mark split e.g. 2,1**	**4**
1(d)	**Assess the extent to which closer membership of the AfCFTA may help South Africa to achieve the growth needed to 'escape from its economic difficulties'.** • **Up to 3 marks** for an explanation / analysis that examines the benefits of free trade in achieving the growth needed to escape South Africa's economic difficulties e.g.: • This will open up additional markets which may lead to export-led growth **(1)** • encouraging domestic businesses to be more competitive **(1)** • which may lead to lower prices and better products and therefore increase consumption at home and abroad **(1)** more FDI **(1)** (**Up to 3 marks**) • **Up to 3 marks** for an explanation / analysis of the drawbacks of free trade in achieving the growth needed to escape South Africa's economic difficulties e.g. • Domestic businesses will face increased competition **(1)** • Leading to a possible fall in the demand for domestically produced goods **(1)** • Leading to increased unemployment **(1)** and a possible slowdown / fall in economic growth **(1)** • Which may lead to a further deficit on the current account **(1) (Up to 3 marks).** **Note: 4 marks maximum for analysis** • For a balanced evaluation that clearly assesses both sides **(1)** with a justified conclusion that clearly answers the question. **(Reserve 1 mark).**	**6**

Question	Answer	Marks
1(e)	**Assess the extent to which the policies suggested to improve infrastructure and to reduce the high rates of unemployment in South Africa are likely to reduce income inequality.** Policies that may be referred to are all supply side policies and are those which: • Improve transport links and safeguard electricity supplies. • Setting an appropriate national minimum wage. • Strengthening employment protection. • Improving levels of education and training and school to job transitions. • Promotion of entrepreneurship. **Up to 3 marks for** an explanation / analysis should focus on how such policies may reduce income inequality e.g., by: • Increasing mobility (due to improved transport links) to take advantage of job opportunities. **(1)** • Raising wage levels / protecting jobs **(1)** • Making people more employable / able to move into self-employment thus raising income levels. **(1)** **(Up to 3 marks)** **Up to 3 marks for** an explanation / analysis of the drawbacks of such policies in reducing income inequality • Cost of implementation meaning such policies are possibly withdrawn **(1)** • Time taken to implement such policies **(1)** • Receptiveness of workforce for example, people may not understand the importance of education, may prioritise earning income now etc. **(1)** • If the policies simply have the impact of making people who are already earning higher incomes even better off / the benefits are equally shared across all income levels, this will not reduce income inequality. **Note: 4 marks maximum for analysis** For a balanced evaluation that clearly assesses both sides **(1)** with a justified conclusion that clearly answers the question. **(Reserve 1 mark).**	**6**

Section B

Question	Answer	Marks
EITHER		
2(a)	**With the help of examples, explain the difference between public goods and free goods <u>and</u> consider whether a market economy can ever produce public goods.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** For a clear explanation that free goods are those that are not scarce / have zero opportunity cost / no factors of production are involved in producing them **(1)** and public goods are those that have the characteristics of non-excludability and non-rivalry (separately explained) **(1)**. For appropriate examples of **both** types of goods, e.g., fresh air as a free good and national defence as a public good **Note: do not accept** examples such as roads, education or health services or explanations that public goods are simply those provided by a government **(1)** **AO2 Analysis (max 3 marks)** The characteristics of public goods make it easy for consumers to **not** pay for goods and services making it difficult for firms to charge a price / recognition of the free rider problem **(1)** meaning that people can enjoy the benefits without paying for it / firms are unable to make a profit **(1)** meaning that a market economy is unlikely to provide them **(1)**. **AO3 Evaluation (max 2 marks)** Unless there is some method of effectively charging consumers by making public goods excludable **OR** receiving e.g., a subsidy from the government to produce them **OR** businesses are genuinely motivated to act in the interests of the public, **(1)** it is unlikely that a market economy could ever produce public goods **(1)**.	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

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Question	Answer	Marks
2(b)	**Assess the extent to which a government can ensure that both merit and demerit goods are produced in desirable quantities.** Use **Table A**: AO1 Knowledge and understanding and AO2 Analysis and **Table B**: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** Merit goods are those considered desirable by society but are under consumed and therefore the quantity of consumption and production should be encouraged whereas demerit goods are those considered undesirable by society but are over consumed and therefore the quantity of consumption and production should be discouraged. Analysis should focus on the extent to which this is achievable. For example: • Use of subsidies / maximum prices / taxation / minimum prices. • Direct provision of merit goods. • Providing information on the benefits of merit goods / drawbacks of demerit goods. Considering the problems, for example: • PED together with the receptiveness of consumers e.g., towards consuming more merit goods / fewer demerit goods. • The drawbacks of policies of minimum prices and maximum prices explained including costs of enforcement. • The cost (including opportunity cost) of provision of merit goods. • Receptiveness of consumers towards more information provision and thus its effectiveness compared to its cost. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and/or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **AO3 Evaluation** That clearly analyses and compares both the extent of how both are achievable together with the associated problems and comes to a valid conclusion to answer the question. **A one-sided response cannot gain any marks for evaluation.**	**12**

Question	Answer	Marks
2(b)	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

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Question	Answer	Marks
OR		
3(a)	**Explain <u>three</u> reasons, associated with costs of production, why the supply curve for a particular market may shift to the right <u>and</u> consider the extent to which government microeconomic policy may also shift the supply curve for a particular market to the right.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** For an explanation of e.g., a fall in wage rates, an increase in worker productivity, a fall in raw material costs, a fall in costs of distribution, improvements in technology etc. explaining why they may shift the supply curve to the right **(1 × 3).** **AO2 Analysis (max 3 marks)** **Guidance:** The effect depends on the government policy used **however** it must be targeted at a particular market. Government microeconomic policy may include indirect taxes, subsidies, maximum and minimum prices, direct provision, regulations, provision of information and buffer stock schemes. Candidates should analyse at least **one** of these policies to consider the extent to which it may shift the supply curve for a particular market to the right. **For example,** the government may intervene by providing subsidies to education providers **(1)** which may increase the supply of education to the market and shift the supply curve to the right **(1) however,** the extent to which this will occur will depend on e.g., the size of the subsidy, the extent to which the provider uses the subsidy in the manner intended, the PED value **(1).** It may also depend on whether the government also puts regulations in place which limit the supply of education by providers **(1).** **Note: up to 2 marks for explaining the effect of the policy itself, and 1 mark for the extent to which it might shift the supply curve to the right.** **AO3 Evaluation (max 2 marks)** The extent to which the discussed policy will shift the supply curve to the right for a particular market will depend upon the responsiveness of the market itself. It may also depend on how the market may be affected by other government microeconomic policies. Allow any response based on valid analysis. **Note**: **reserve 1 mark for a justified conclusion.**	**8**

Question	Answer	Marks
3(a)	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
3(b)	**Assess the extent to which knowledge of a product's price elasticity of supply is the most useful measure of elasticity to a firm needing to react quickly to changes in its market.** Use **Table A**: AO1 Knowledge and understanding and AO2 Analysis and **Table B**: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** • An analysis of the usefulness of using PES that considers the strengths and weaknesses of the approach. For example, it lets the business know how quickly it can react to changes in price, but this may be of little use if production times are slow or it is not possible to hold stocks e.g., if perishable. • This needs to be compared with the usefulness of another measure of elasticity but must be in the context of a business needing to react quickly to changes in the market. E.g., YED may be useful in a recession, but this may depend on the ability to switch to inferior goods. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and / or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **AO3 Evaluation** That clearly analyses at least two sides to the question and comes to a valid conclusion. **A one-sided response cannot gain any marks for evaluation.** Accept all valid responses	**12**
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Section C

Question	Answer	Marks
EITHER		
4(a)	**With the help of an AD / AS diagram (s), explain one demand- side and one supply- side cause of deflation <u>and</u> consider which is likely to be more damaging to an economy.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** For an understanding of what is meant by deflation **(1)** An accurate AD / AS diagram showing a fall in the general price level due to a left shift in the AD curve **(1)**. An accurate AD / AS diagram showing a fall in the general price level due to a right shift in the AS curve **(1)**. **Note: no further explanations are required.** **AO2 Analysis (max 3 marks)** As indicated by the diagram, a fall in AD is also associated with a fall in GDP and employment levels. Analysis should focus on why this may be considered damaging to an economy. **For example,** this may lead to a fall in economic growth / a recession **(1)** which may lead to a rise in unemployment **(1) (up to 2 marks)**. On the other hand, the rightward shift in AS will lead to an increase in GDP and employment and why this may be considered beneficial to an economy. **For example,** this may lead to an increase in economic growth **(1)** resulting in more people being employed **(1),** It may also reduce inflationary pressure **(1), (up to 2 marks)**. **Note: 3 marks maximum overall** **AO3 Evaluation (max 2 marks)** That clearly considers both causes and assesses how damaging they are to an economy. **Note: reserve 1 mark for a valid conclusion.** **Please use a text box to show the mark split e.g., 3 3 1**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
4(b)	**Assess the extent to which using fiscal policy would be the best way to reduce a high rate of inflation.** Use **Table A**: AO1 Knowledge and understanding and AO2 Analysis and **Table B**: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** Use of fiscal policy will involve increasing levels of taxation and reducing government spending. The advantages include the fact that it is relatively quick and can be effective particularly if dealing with demand-pull inflation. However, it will reduce economic growth and may lead to unemployment, It will also be less effective if the main cause is cost-push inflation. These advantages and disadvantages must be analysed against an alternative policy or policies. These are likely to be supply-side or monetary policies. The analysis should focus on their likely success in reducing a high rather than low / sustainable rate of inflation. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and / or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **AO3 Evaluation** That clearly compares the analysis of using fiscal policy with **using at least one other policy** and reaches a justified conclusion as to which is the **best** way. **A one-sided response cannot gain any marks for evaluation.** Accept all valid responses.	**12**
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

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Question	Answer	Marks
OR		
5(a)	**With the help of a diagram (s), explain <u>two</u> ways in which a fall in the balance of trade in goods may affect the value of a floating exchange rate <u>and</u> consider the extent to which a change in the relative rate of interest between two countries may have a greater impact on the exchange rate.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** A fully labelled diagram **(1)** showing and explaining that, as a result of an increase in the demand for imports this may increase the supply of currency and therefore lead to a fall in the price of the currency **(1)** and for showing and explaining that a fall in the demand for exports may reduce the demand for the currency and therefore lead to a fall in the price of the currency **(1)**. **AO2 Analysis (max 3 marks)** Analysis that assesses the impact of changes in the relative interest rates on the demand and supply of the currency due to e.g., hot money flows for example, as the relative rate of interest increases in one country this may mean more overseas' residents want to move their savings to that country **(1)** increasing demand for the currency and increasing the exchange rate **(1)** **however** the extent will depend on factors such as stability / confidence in that country **(1)** and the influence of other factors affecting the exchange rate **(1) (up to 3 marks)** **AO3 Evaluation (max 2 marks)** An assessment of the extent to which changes in the relative rates of interest may have a greater effect on a floating exchange rate than a fall in the balance of trade in goods **(1)** leading to an overall conclusion **(1)**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

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Question	Answer	Marks
5(b)	**Assess whether an improvement in the terms of trade or a surplus on the current account of the balance of payments is of more benefit to an economy.** Use **Table A**: AO1 Knowledge and understanding and AO2 Analysis and **Table B**: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** • Analysis of the benefits of a positive terms of trade may include the ability to purchase more imports and therefore boost living standards. It may also strengthen the reputation / provide reassurance of the stability of the country in question and lead to a rise in FDI. However, it may arise from inflation and not be linked to greater competitiveness. It may lead to a current account deficit if exports fall. • Analysis of the benefits of a current account surplus may include economic growth and a rise in employment. Again, it may lead to a strengthening of the reputation / provide reassurance of the stability of the country in question. However, it may be the result of obtaining growth through exports leaving little for the domestic population and hence a fall in living standards. It may also be inflationary. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and / or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **AO3 Evaluation** For a clear comparison of the analysis of the benefits and drawbacks of both scenarios leading to a justified conclusion. **A one-sided response cannot gain any marks for evaluation.** Accept all valid responses.	**12**
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

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