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ECONOMICS **9708/23**

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.

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.

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Table A: AO1 Knowledge and understanding and AO2 Analysis

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

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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)	**Use a demand and supply diagram to demonstrate how 'a series of typhoons' affected the market price of food crops in Southeast Asia in January 2023.** • An accurate/fully labelled supply and demand diagram showing a shift to the left of the supply curve **(1)** • New equilibrium showing higher equilibrium price and lower equilibrium quantity **(1)**	**2**
1(b)	**Is the short-run price elasticity of supply of red onions elastic or inelastic? Justify your answer.** • Inelastic **(1)** (accept perfectly inelastic) • Reference to the typhoons in Southeast Asia meaning that supply is volatile/unpredictable. The candidate may refer to the nature of agricultural goods means that you cannot simply grow additional red onions. • The explanation must refer to how it affects the responsiveness of supply **(1)** **If a candidate refers to the PES being price elastic, then this can be accepted but only if the development is linked to the illegal importation and storage of red onions.**	**2**
1(c)	**With the help of a production possibility curve (PPC) diagram, consider the impact on the opportunity cost to a farmer in the Philippines of starting to grow red onions.** • Correctly labelled axes (one must be red onions) PPC diagram that touches both axes. Either straight line or concave. (1) • An initial production combination showing all resources are used to produce the 'other good' with zero 'onions being produced (1). • A second production combination showing increased output of 'onions' and reduced output of the 'other good' (1) **Max of one mark for the analysis if the initial production choice is not at a starting point of zero red onions.** **For valid evaluation** • For example – the opportunity cost will rise the greater the volume of red onions are produced. **(1).** • Other relevant comments may refer to size of the opportunity cost will depend on the shape of the PPC curve.	**4**

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Question	Answer	Marks
1(d)	**Assess whether 'a suggested retail price' is the best way of stabilising onion prices in the Philippines.** **Up to 3 marks maximum for the benefits and disadvantages of a maximum price. for each perspective.** • A maximum price (price ceiling) set below the equilibrium price can stop sellers from charging excessively high prices when supply is limited, especially during harvest failures or supply chain disruptions. • By capping prices, the government can ensure red onions remain affordable for lower-income households, stabilising demand and avoiding volatile consumer reactions to price spikes. • A legal price cap can reduce incentives for traders to hoard onions and sell them later at inflated prices, helping to keep the market stable. • It provides confidence to the public that the government is actively managing food inflation, which can stabilise expectations and reduce panic buying or price-driven speculation. **However** • If the maximum price is set below the market equilibrium, quantity demanded exceeds quantity supplied. This can lead to persistent shortages and long queues for red onions. • Suppliers may sell onions illegally at higher prices (above the ceiling) to profit from the excess demand, reducing the effectiveness of the price control. • Farmers may cut back on onion production if they cannot cover their costs or earn a reasonable profit at the capped price, worsening long-term supply. • Monitoring and enforcing the maximum price requires government resources. Without proper enforcement, the policy may fail to stabilise prices effectively. **If only the benefits OR problems of a maximum price are considered, then a maximum of 2 marks.** **Up to 3 marks of at least one alternative policy to stabilise onions prices in the Philippines.** • The government can provide subsidies to onion producers to lower their production costs, thereby increasing and helping meet demand at a lower price without the need for a price cap. • A buffer stock scheme could be introduced where excess stocks of onions could be bought during times of surplus and released during times of shortages. • The temporary removal of tariffs or controlled imports during periods of shortages, • Promotion of investment in irrigation, storage and distribution networks to reduce production and post-harvest losses.	**6**

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Question	Answer	Marks
1(d)	**If only the benefits OR problems of an alternatively policy are considered, then a maximum of 2 marks** **Up to 2 marks for evaluation** • That clearly considers whether or not 'a suggested retail price' is the best way of stabilising onion prices in the Philippines when compared to an alternative policy. • Comes to a reasoned conclusion. (reserve 1 mark) **No mark for evaluation can be awarded unless the candidate has considered the benefits and disadvantages of a maximum price and an alternative.**	

Question	Answer	Marks
1(e)	**Assess the extent to which the increase in onion price is likely to have affected all households equally in the Philippines.** **Up to 3 marks for explanation/analysis of why the increase in onion price is likely to have affected all households equally in the Philippines.** • Onions are widely used in Filipino cooking across all income groups, so a price increase impacts the food costs of most households. • Since onions are a basic necessity with few close substitutes (i.e. demand is price inelastic), all households tend to keep buying similar quantities despite price rises, spreading the impact evenly. • Onions may be sold at similar prices across markets, so households across different regions face similar price increases. • Due to cultural preferences and cooking practices, most households cannot easily switch to other ingredients, so they all experience the price rise similarly. **Up to 3 marks for explanation/analysis of why the increase in onion price is unlikely to have affected all households equally in the Philippines.** • Lower-income households spend a higher proportion of their income on basic food items like onions, so a price rise hits their budgets harder than wealthier households. • Not all households consume the same quantity of onions. Some may rely heavily on onions in daily cooking, while others use them less, affecting the impact of the price increase. • Wealthier households might afford substitutes or alternatives (e.g., other vegetables or flavorings), lessening the effect of onion price increases on their overall food costs. • Households in rural farming areas might grow their own onions or buy at lower prices, while urban households depend on market purchases, so the price increase affects urban consumers more. **Up to 3 marks maximum for each perspective, with an overall maximum of 4 marks.** **Up to 2 marks for evaluation** • That clearly considers **both** viewpoints. For example, although the price rise affects everyone, its burden is not distributed evenly across the Philippines. • Comes to a reasoned conclusion as to whether the price rise affects all households equally **(reserve 1 mark)** **No mark for evaluation can be awarded if only advantages or disadvantages are considered**.	**6**

Section B

Question	Answer	Marks
EITHER		
2(a)	**Semi-conductors are widely used in the production of many types of electronic goods such as smartphones. It has been estimated that the price elasticity of supply for semi-conductors is 0.2 in the short run and 0.8 in the long run.** **Explain what these estimates mean for producers of smartphones that use semi-conductors <u>and</u> consider the significance of the long run estimate.** 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)** Meaning of price elasticity of supply (1) an accurate formula (1) an explanation of what is meant by price inelastic supply based on an increase in price leading to a proportionately smaller increase in quantity supplied. (1). **AO2 Analysis (max 3 marks)** Analysis of why the values may differ due to e.g., the time period, level of stock, changes in the production process etc. Up to 2 marks for each reason explained. **Maximum of 3 marks overall.** **AO3 Evaluation (max 2 marks)** An assessment of the significance of the long run estimate – e.g. possible shortages in the production of goods that require semi-conductors **(1)**; investment into improving supply chains **(1);** investment into expanding capacity **(1).**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

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Question	Answer	Marks
2(b)	**Assess the likely effects on resource allocation of a continuing increase in demand for semi-conductors.** 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 impact of continuing increases in the demand for semi-conductors. For example, the rationing function of the price mechanism will result in rising prices for the semi-conductors to remove the excess demand; the incentive function – rising prices will encourage producers to investigate ways to increase production levels; the signaling function – rising prices may encourage more firms to enter the market. • However, the effects on resource allocation may depend on the availability of silicon, the costs of extraction, time lags and government legislation to limit environmental damage. • Accept any other reasonable analysis of the effects on resource allocation – e.g. a PPC approach where producers are likely to increase the allocation of scarce resources for semi-conductor production – thereby creating an opportunity cost in terms of potential output of "other goods." In addition, accept a correct analysis based on it may depend on the type of economy in question. **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 both sides of the question and comes to a valid conclusion. **A one-sided response cannot gain any marks for evaluation.** **Please use a text box to show the levels applied and mark split e.g., L3 6 L1 2**	**12**
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

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Question	Answer	Marks
OR		
3(a)	**Explain what is meant by a merit good, why governments provide merit goods such as healthcare free of charge <u>and</u> consider why such provision may not always be successful.** 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 merit good is thought to be desirable but is underprovided/underconsumed (1) due to information failure/a lack of awareness/better than is realised (1) By providing healthcare free of charge, the government encourages greater consumption and improves overall welfare (1). **AO2 Analysis (max 3 marks)** For example, an explanation that some healthcare services, such as vaccinations, act as public goods because they are non-excludable and non-rival meaning that they will not be provided by the private sector (1). Governments provide them to prevent under-provision and protect overall public health (1); Government provision removes financial barriers, ensuring fair access and reducing inequality (1). **AO3 Evaluation (max 2 marks)** • Up to 2 marks for evaluating whether or not government provision of healthcare free of charge may not always be successful. For example, if individuals continue not to see the benefits of healthcare, then providing it free of charge may not see an increase in its consumption (1); time, travel or waiting costs may discourage people from using free healthcare services despite no direct charge (1). **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
3(b)	**Assess whether a charge made for healthcare at the point of use is likely to be more beneficial to consumers and providers than if healthcare is available to all free of charge.** 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 should focus on the extent to which this is beneficial to consumers and providers. For example charging a fee: • Discourages unnecessary or excessive use of healthcare services, helping to prevent resource wastage and long waiting times. • Generates funds that can be reinvested into improving healthcare quality and infrastructure, benefiting both consumers and providers in the long term • Reduces the financial strain on government budgets, allowing funds to be allocated to other public services or targeted subsidies for those in genuine need Considering the **problems**, for example charging fees: • Increase inequality in access as charging fees is likely to disproportionately affect low-income individuals • Some individuals may avoid seeking care due to cost, even when treatment is essential, which could lead to worsened health outcomes and higher long-term healthcare costs • Potential under-provision of certain types of care, particularly preventive services, as people may only seek care when they are severely ill and unable to delay treatment **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.	**12**

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Question	Answer	Marks
3(b)	**AO3 Evaluation** That clearly analyses and compares the extent to which charging for healthcare at the point of use is more beneficial to consumers and providers 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.**	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Section C

Question	Answer	Marks
EITHER		
4(a)	**Explain <u>two</u> causes of economic growth <u>and</u> consider the extent to which their impact can be measured.** 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)** • Economic growth is the increase in the real value of goods and services produced in an economy over time **(1).** Explanation of two causes of protection – e.g. Increase in AD – higher real wages, direct tax cuts, lower interest rates; increases in LRAS – increased investment, increased productivity **(1+1).** **AO2 Analysis (max 3 marks)** • An explanation of how each cause increases economic growth (1+1). For example, reductions in income tax will reduce disposable income thereby increasing AD and economic growth. However, if high levels of job insecurity exists then the increase in consumption/AD/economic growth may be less (1). Alternatively, the ability to measure the impact will be affected by the size of the hidden/informal economy (1). **AO3 Evaluation (max 2 marks)** • Evaluation should consider the extent to which the causes can be measured – size of hidden/informal economy. • 1 mark reserved for a justified conclusion.	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

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Question	Answer	Marks
4(b)	**Assess the extent to which economic growth is always beneficial for the people and government in 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** Potential **benefits** of increasing economic growth. For example: • Economic growth often leads to increased real GDP per capita, allowing consumers to enjoy more goods and services and improve their quality of life. • As output increases, firms typically need more workers, leading to more job opportunities and reduced unemployment. • Higher incomes and spending generate more tax revenue without raising tax rates, enabling governments to invest in public services like healthcare and education. • Sustained growth can boost investment and consumption as expectations about future income and profits rise. Potential **costs** of increasing economic growth include: • Economic growth can disproportionately benefit the wealthy, leading to a widening gap between rich and poor, with some groups not experiencing the same level of improvement. • Increased production and consumption associated with growth can lead to higher pollution levels, depletion of natural resources, and other environmental harm. • If growth is too rapid, it can lead to inflationary pressures, demand-pull inflation, and potential economic instability. • As economies grow, the demand for resources (such as raw materials, energy, and land) increases, which can lead to shortages, higher prices, and the over-exploitation of finite resources. **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.	**12**

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Question	Answer	Marks
4(b)	**AO3 Evaluation** Requires an assessment of the benefits and costs of increased economic growth (which may refer to specific groups) which leads to a justified conclusion as to whether or not economic growth is always beneficial Accept all valid responses. **A one-sided response cannot gain any marks for evaluation.**	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

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Question	Answer	Marks
OR		
5(a)	**The terms of trade index for an economy changed from 105 to 110 in a given year.** **Explain <u>two</u> likely reasons for this change <u>and</u> consider the extent to which the change is likely to benefit the current account of the balance of payments of this 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)** • An accurate definition of the terms of trade **OR** an accurate formula (1) • Understanding that there is likely to be an improvement in the terms of trade if export prices rise (1) relative to import prices (1). **AO2 Analysis (max 3 marks)** • Higher exports prices allow the country to receive a higher income from selling the same quantity of goods and services abroad. This increase in **export revenue** improves the current account balance **(1)**. • When the cost of importing goods decreases, the country can now import the same quantity of goods at a lower price, resulting in **lower import expenditure and an improvement in the current account balance (1)**. **MAX 2** if only benefits considered **AO3 Evaluation (max 2 marks)** • That assesses the extent to which an improvement in the terms of trade will benefit the balance of payments and reaches a conclusion as to whether this is of benefit to an economy **(1).** 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
5(b)	**Assess whether government policy can influence an economy's comparative advantage in a good or service.** 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** • Understanding of how government policy can influence an economy's comparative advantage in a good or service. For example: • • By investing **in education and training,** governments can improve the skills of the workforce, which can enhance productivity in certain industries. • Government support for **R&D** can lead to innovation, which might give a country a technological advantage in certain sectors. This can change the opportunity cost of producing a good or service, thereby influencing comparative advantage. • By investing in **infrastructure**, such as transportation networks, ports, and digital networks, governments can reduce the costs of production and distribution, making domestic industries more competitive. This can improve a country's ability to produce goods at a lower opportunity cost. • Understanding of potential problems for governments in influencing an economy's comparative advantage in a good or service: • Many government policies, such as investment in education, infrastructure, or research and development (R&D), take a long time to affect the opportunity cost of producing a good or service • Even if a government successfully creates a comparative advantage in a particular sector, **global competition** can erode that advantage. Other countries may adopt similar policies, or technological advancements elsewhere may outpace the country's efforts. • Government policies intended to enhance comparative advantage can have **unintended consequences** that harm other parts of the economy or create inefficiencies **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.	**12**

Question	Answer	Marks
5(b)	**AO3 Evaluation** Requires an assessment of the extent to which government policy can influence an economy's comparative advantage in a good or service which leads to a justified conclusion as to which perspective is most likely to prevail. Accept all valid responses. **A one-sided response cannot gain any marks for evaluation.**	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

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