UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2011 question paper for the guidance of teachers

9708 ECONOMICS

9708/21 Paper 2 (Data Response and Essay – Core), maximum raw mark 40

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1 (a) Compare the price behaviour of the three sizes of diamond between July 2004 and December 2008.

0.5 carat diamonds changed least, almost steady (1), 4.0 carat diamonds changed most (1), tripled at one point then fell back (1), 3.0 carat diamonds followed pattern of 4.0 carats (1), doubled before falling back (1). Any 3 points
Answers dealing only with the period shown on the graph can earn full marks
Max. 2 marks if no comparison [3]

(b) Explain <u>two</u> possible influences on the demand for diamonds.

Price (1), affordability/consumer surplus (1) advertising (1),
Persuades consumer to buy ('diamonds are for ever') (1)
Income (1), rising income makes diamonds more affordable (less luxury) (1)
Tastes (1), diamonds become more desirable in light of fashion trends (1)
Prices of other goods (1), e.g. substitute prices change (1)
Any two valid influences, for each identify (1), explanation (1) [4]

(c) Show, with the help of a diagram, how the introduction of the 5% luxury tax would have affected the supply of diamonds.

No effect at prices below $20 000 Reserve 1 mark (1), acts as an additional cost (1) reduced supply (1) diagram: show shift to left (1) (above $20 000) will diverge by an increasing absolute amount (1) [4]

(d) Using an example from the data, explain the meaning of external cost.

External cost is the harmful side effect borne by those not directly involved in an economic transaction (third parties) (1), e.g. mining in Canada spoils the environment for others (1), tourists and locals disadvantaged (1) [3]

(e) Discuss how well diamonds might serve as money if people lose confidence in paper currency.

Functions of money – medium of exchange, store of value, unit of account, standard… (1)
Characteristics of money – portable, scarce, durable, and divisible, acceptable etc. (1)

Application of functions and characteristics (4)
e.g. they are not uniform, are not easily recognisable and would not be generally acceptable so would not act as a medium of exchange, the high basic value of the lowest unit might make it difficult to serve as a unit of account, problems with these functions would make it difficult to be a standard of deferred payment

Diamonds are durable, portable and retain their value and so could serve as a good store of value.
Reasoned conclusion (1)
Max. of 6 [6]

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2 (a) Explain how a government's approach to making a decision about a construction project might differ from that of a private firm.

Government can take a wider view of social welfare than a firm concerned with profit maximisation. External costs and benefits in addition to private costs and benefits may be considered. Cost benefit analysis (CBA) can be used to establish the balance of social costs and benefits. The decision on whether a project is worthwhile may differ between the two parties.

Understanding of private and external costs/benefits of construction	4 marks	
Explanation of different purpose (2) and method of CBA (2)	4 marks	[8]

(b) Discuss whether an economist would classify healthcare and national defence in the same way.

Usual classifications are private, merit, public and normal goods. Healthcare is a private good as it has excludability and rival, national defence is a public good being non-excludable and non-rival. Health care is a merit good based on inadequate information of the consumer and under-provision by the market and it has external benefits. Defence is not considered a merit good. While healthcare is a clearly a normal good national defence could also be considered a normal good. They might be considered the same in that government provision may be needed to obtain the appropriate level of provision. Both could be classified as services rather than goods.

Understanding of the possible classifications	Up to 2 marks	
Application of the classifications to healthcare and defence	Up to 6 marks	
Discussion of the similarities and dissimilarities	Up to 6 marks	
Reasoned conclusion (1)		
Max. of 12		[12]

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3 (a) Explain what determines a country's comparative advantage in production.

Comparative advantage occurs when a country has a lower opportunity cost in the production of a good than another country. This may be based on the quality and nature of its factors of production, production methods, technology, transport costs, exchange rates, government policies etc

Understanding of comparative advantage and opportunity cost	4 marks	
Explanation of the influences on comparative advantage	4 marks	[8]

(b) Discuss the effectiveness of expenditure-switching policies in reducing a current account deficit on the balance of payments.

Current account deficit means a net outflow on goods and services, transfers and income. Expenditure-switching involves encouraging domestic consumers to move from imports to domestic products and foreign consumers to buy more imports to replace their own products. Methods include devaluation, tariffs and subsidies. These may be effective in improving the trade position and boosting domestic employment but have drawbacks. They may draw retaliation, reduce specialisation, lower choice, and raise prices. They may not be effective, depending upon elasticities and reactions of trading partners.

Understanding of current account deficit and expenditure-switching	4 marks	
Analysis of the operation and benefits of expenditure-switching	4 marks	
Discussion of the drawbacks of expenditure-switching	4 marks	
Reasoned conclusion (1)		
Max. of 12		[12]

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4 (a) Explain the factors which determine the size and productivity of a country's labour force.

The labour force is the proportion of the population in employment or available for work. Productivity is the output per worker. The size depends upon the population's size and age distribution, rules about retirement and school-leaving, cultural attitudes etc. Productivity will depend upon health, training, capital equipment etc.

Meaning of labour force and productivity 4 marks
Explanation of influences on size (2) and productivity (2) 4 marks [8]

(b) Discuss the problems that governments face in trying to produce accurate unemployment statistics.

Unemployment is measured by the labour force survey (ILO method) and the claimant (those claiming benefits) methods. The unemployed are those without paid work, available for work and seeking work. The LFS is thought more accurate because of regular (3 monthly), valid sampling techniques. The claimant count ignores those not entitled to benefits or who do not claim them and rules for eligibility are changeable. Governments may lack resources to collect accurate data, an informal economy may exist, fraudulent data may be supplied, some may be 'unemployable', and there may be political reasons to massage the data.

Understanding of unemployment
and recognition of measurement methods
Up to 4 marks) 6
Analysis of the accuracy of the two methods Up to 4 marks) max.
Discussion of the problems faced in the calculation 6 marks
Reasoned conclusion (1)
Max. of 12 [12]

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