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

9708/22 Paper 2 (Data Response and Essay – Core), maximum raw mark 40

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1 (a) Calculate the approximate world price of rice in January 2002. [2]

Approx. $200 per tonne (2), correct understanding of method but calculation error (1).

(b) With reference to Fig 1, analyse the different causes of the price movements of rice from November 2007 to April 2008 and then after May 2008. [4]

Restrictions (India, Vietnam) reduced supply to the world market (1) resulting in a higher price (1) release of stocks (Japan) increased supply (1) resulted in a price fall (1).

(c) Explain <u>two</u> possible economic reasons for India's introduction of export restrictions. [4]

Reasons include:
To transfer supply to the home market (1) to improve living standards (1)
To help lower income families in India (1) as rice is an important part of their diet (1)
To reduce inflationary pressure in India (1) as rice has a large weight in the CPI (1).

(d) (i) How might an effective minimum price for exports have helped India's position? [2]

Price set above world equilibrium to be effective (credit diagram) (1) then possible elaboration might include that the higher price would reduce the amount exported and increase the availability of rice to the home market (1) or that there might be a possible revenue gain for producers (1).

(ii) Why might India have changed from the use of a minimum export price to an export ban? [2]

This is likely to be because the minimum price is ineffective (1) because the price is set at the wrong level (1) or because the demand for exports is inelastic and there is no significant decrease in exports (1) or because the demand for exports is elastic and there is no increased revenue (1).

(e) Discuss the potentially harmful effects of India's protectionist trade policy for both its own economy and that of the rest of the world. [6]

For a definition of protectionism (1)
Harmful effects for India might include: may face retaliation, trade position may worsen through loss of export revenue, reduced flows of foreign currency, may lose markets in the long-run etc. (up to 4 marks).
Harmful effects for the rest of the world might include: higher prices for imports, reduced choice of product, reduced welfare, trade diversion to less efficient producers (up to 4 marks).

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2 (a) Show how production possibility curves may be used to explain any <u>two</u> economic ideas. [8]

A production possibility curve (ppc) shows the alternative combinations of two goods that can be produced when an economy fully uses its resources. Likely economic ideas are scarcity (contrast within and without curve) and opportunity cost (movement between points on curve) although unemployment and growth may also be considered.
Meaning of PPC (2) and choice of two valid concepts (2)
Explanation of use of PPC to illustrate each economic idea. Up to 3 marks for one idea explained well, but 4 maximum for this part of the question.

(b) Discuss whether the combination of improved technology and globalisation will result in solving the basic economic problem. [12]

The basic economic problem is the allocation of limited resources between unlimited wants and the existence of scarcity. The need for choice and the operation of opportunity cost follow from this. Improved technology increases output by raising productivity. Globalisation brings many advantages including the benefits of specialisation. These result in a rise in the standard of living and may reduce poverty and hardship. Some groups may be harmed by the two influences. Scarcity will continue as new wants will arise and benefits may not be spread equitably. The position may improve as a result of the changes but the economic problem will continue to exist.
Understanding of the basic economic problem (2 marks)
Analysis of the impact of improved technology (up to 4 marks) **and** globalisation (up to 4 marks)
6 maximum for this part of the question
Discussion of the continued existence of the economic problem. (Up to 4 marks)
Reserve 1 mark for a reasoned conclusion.

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3 (a) Explain the influences which determine the level of demand for healthcare in an economy. [8]

Demand will depend on price, population size and age distribution, health needs, income levels (income elasticity), balance between public and private provision, attitudes to health, awareness of availability of services, government policy (charging) etc.
Identification of relevant demand factors (up to 4 marks)
Explanation of relevant demand factors (up 4 marks per explanation with 6 maximum).

(b) Discuss whether healthcare can and should be provided by the free market. [12]

Healthcare is provided by both the private sector (free market) and the public sector. It has the properties of a private good. Within the private sector standards are often thought to be better (shorter waiting times, better conditions, efficient use of resources, little time wasting, etc.). The profit motive means that patients have to pay and it does not reflect need. This limits the availability of the healthcare and is considered inequitable. It may lead to the provision of non-essential services e.g. cosmetic surgery. Healthcare is a merit good (imperfect information) and generates positive information. This justifies free or subsidised provision by the state when the private sector does not meet the need or provides insufficient levels. Private healthcare is possible but will provide limited availability so justifying government provision.
Understanding of the nature of healthcare (2)
Discussion of the benefits of free market provision (up to 6 marks)
Discussion of the limits of free market provision (up to 6 marks)
Reserve 1 mark for a reasoned conclusion.

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4 (a) Explain what might cause an improvement in a country's terms of trade. [8]

The terms of trade are a ratio of the index of export prices to an index of import prices. The terms of trade may become more favourable, depending upon the relative movement of the two indices. An export price rise and import price fall can contribute to an improvement, although relative changes are most important. Price changes may result from changes in exchange rates, tariffs and subsidies, demand and supply conditions, costs of production, profit margins etc.
Basic idea of terms of trade (2) and a favourable movement (2)
Explanation of underlying influences that cause an improvement in the terms of trade (4).

(b) Discuss whether a country should be more concerned by a fall in its terms of trade or a fall in its domestic price level. [12]

A fall in the terms of trade may be associated with cheaper exports or dearer imports. This will reduce the international purchasing power of a country but may, depending upon elasticities, improve the balance of trade position and the level of employment. A fall in the domestic price level is deflation. This may recruit economic activity, harm business confidence, raise unemployment, reduce spending etc. However it may make the country more competitive internationally. The impact of falling terms of trade has been experienced by many countries over a long period and some have managed to cope with it. Deflation has more harmful effects on an economy and is likely to be more serious.
Understanding of a fall in terms of trade and a fall in domestic price level (4)
Analysis of the impact of the fall in terms of trade (up to 4 marks)
Analysis of the impact of the fall in domestic price level (up to 4 marks)
(6 maximum for this part of the question)
Discussion of the relative extent and impact of each occurrence (up to 4 marks)
Reserve 1 mark for a reasoned conclusion.

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