CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2012 series

9708 ECONOMICS

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

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1 (a) Between 1995 and 2007 which country was

(i) the least successful and [1]

UK or France

(ii) the most successful in increasing the overall educational participation rate? [1]

South Korea

(b) Explain TWO possible economic reasons why the educational participation rate of 15–19 year-olds is higher than that of 20–29 year-olds as shown in Table 1. [4]

e.g. legal requirement
direct costs
opportunity costs
age – family responsibilities etc. (2 × 2)

(c) (i) What is the difference between production and productivity? [2]

Production relates to output from all factors of production (1)
OR
Production is the process of providing goods and services
Productivity is output per unit of input (often labour) (1)

(ii) Explain how education may affect labour productivity and the production possibility curve. [4]

Education results in greater skills leading to higher productivity (1)
Higher productivity leads to higher output (1)
Understanding of ppc (1) – either written or accurate diagram
Outward shift of ppc (1)

(d) Why is education considered to be an example of a merit good? [2]

EITHER
Merit goods are under-consumed because of lack of information (1)
Individuals not aware of benefits (1). In terms of long term income/career opportunities/ personal development (1)
OR
Education has positive externalities (1). Benefits to society on top of individual benefits (1). More educated labour force contributes to higher national welfare (1)

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(e) Discuss the extent to which the provision of education is different from the provision of national defence. [6]

Education is a private good but defence is a public good (1)
Explanation of (Non) excludability/(Non) rivalry/(Non) rejectability (2)
(1 mark if any 2 of the above are correctly identified but not explained)
In market economy – education under-provided, defence not provided at all (1)
Both can be totally provided by the public sector from taxation (1)
Defence can **only** be provided by public sector (1) + reason (1)
Education can be provided by public and private sectors (1)
Reason for public sector provision of education (1)
Reason for private sector provision of education (1)
Comments on contrast of provision (1)

2 (a) Explain, with the use of diagrams, the different effects on the price and quantity of a product of the removal of a subsidy and the removal of an indirect tax on that product. [8]

A subsidy is a grant to producers that lowers their costs of production. Its removal will shift the supply curve to the left and result in a higher price and a lower quantity traded.
An indirect tax, e.g. VAT or GST, is levied on goods and services and raises the cost of production. Its removal would shift the supply curve to the right and result in lower price to the consumer with a greater quantity traded.

For **knowledge and understanding** of subsidies and indirect taxes (4)

For an **analysis** of how the removal of a subsidy and indirect would affect price and quantity of a product. (4)

(b) Discuss the possible benefits and drawbacks of government subsidies to agriculture. [12]

Subsidies lower producer costs and increase output. This benefits consumers who pay lower prices and producers who receive higher incomes. This may be justified in terms of maintaining essential products, supporting lower income groups, preventing dependence on foreign suppliers, improving the balance of trade, retaining a traditional form of life and contributing to environmentally friendly activity that has positive externalities.

Subsidies have opportunity costs in terms of alternative government expenditure, may reduce the efficient allocation of resources, may encourage dependence on the state, may reduce producer initiative and may raise taxes with disincentive effects.

For **knowledge and understanding** of the impact of subsidies on costs (1) prices and output (1) (2)

For an **analysis** of the benefits (4 max.) and drawbacks (4 max.) of subsidies. (6)

For an **evaluation** of the overall impact of subsidies. (4)

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3 (a) Explain, with the use of an aggregate demand (AD) and aggregate supply (AS) diagram, the different effect of cost-push and demand-pull inflation on real output. [8]

Inflation is a persistent rise in the general price level. Cost-push is based on rising costs such as wages, raw materials, taxes and affects the AS curve. Demand-pull results when consumption, investment, government spending or exports minus imports shift the AD curve.

A shift to the right of the aggregate demand curve on an upward-sloping section of the aggregate supply curve will cause inflation and Increase real output. A shift to the left of the aggregate supply curve will also cause inflation but will reduce real output.

For **knowledge and understanding** of cost-push inflation, demand-pull inflation and real output (Max. of 2 for anyone) (4)

For an **analysis** of the effects on real output. (4)

(b) Discuss whether the effect of the rate of inflation on the exchange rate is more or less important than the effect of the exchange rate on the rate of inflation. [12]

A relatively high rate of inflation will make a country less competitive in international trade. Exports may fall, imports may rise and the current balance may worsen. International confidence in the currency may fall reducing investment and the financial flow may become adverse. There will be less demand for and increased supply of the currency and it may depreciate. A low rate of inflation may not have a noticeable effect.

Changes in the exchange rate affect the rate of inflation within an economy. A depreciating exchange rate will make imports more expensive (cost-push inflation) and exports cheaper (demand pull inflation). An appreciation will reduce inflationary pressure. Candidates may consider the extent to which each influence is the major or only influence on the other. For example inflation may be influenced by a wide range of domestic factors while the exchange rate may be significantly affected by the trade position. A decision on the importance of the two links will depend on the conditions assumed.

For **knowledge and understanding** of the rate of inflation (1) and the exchange rate (1) (2)

For an **analysis** of how the rate of inflation can affect the exchange rate (4 max.) and how the exchange rate can affect the rate of inflation (4 max.) (6)

For an **evaluation** of the importance of the influences. (4)

4 (a) Explain the different types of international economic integration. [8]

The common forms of integration are free trade areas, customs unions, and economic unions. They differ in their levels of integration. The main differences relate to common external tariffs, freedom of movement of factors of production, common currency systems and common economic policies. The different forms will reflect the intentions of the members, the similarities of members' economies and their ability to achieve common policies.

For **knowledge and understanding** of international economic integration and its main types(4)

For an **analysis** of the features of each type. (4)

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(b) Discuss the possible economic effects of a global ban on all forms of trade protection. [12]

Trade protection involves measures to restrict the flow of international trade, such as tariffs, quotas, subsidies and exchange controls. The outcome is that the domestic market faces less international competition. A ban on protection would mean free trade with greater international competition. This has the benefit of more efficient production based on comparative advantage, cheaper prices, wider choice, higher employment and greater welfare. The change might cause casualties in the short run that might justify temporary protection. The usual cases involve infant industries, sunset industries, structural adjustment, loss of government revenue and harm to the terms of trade. It has been suggested that globalisation has benefited developed countries at the expense of developing economies.

For a **knowledge and understanding** of a 'global ban on trade protection' (2)

For an **analysis** of the benefits (4 max.) and drawbacks (4 max.) of a global ban on trade protection. (6)

For an **evaluation** of the overall desirability of a global ban on trade protection. (4)

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