CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2012 series

9708 ECONOMICS

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

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 will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2012 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

CAMBRIDGE
International Examinations

1 (a) (i) Calculate the approximate price of sugar in January 2008. [2]

Approximate value is 11.5 US cents per pound (2).

(ii) Compare the behaviour of sugar prices with that of average food prices between January 2008 and August 2009. [3]

Similar until July 2008 (1), sugar price then rose, while average food price fell (1), sugar price rose overall, all food price fell overall (1), both fluctuated, (1)

(b) With the use of diagrams, contrast the weather explanations of the sugar price rise with the ethanol explanations of the sugar price rise. [5]

Bad weather decreases supply (1), with diagram showing leftward shift of the supply curve and rise in price (1). Ethanol use increases demand (1) with diagram showing rightward shift of the demand curve and rise in price (1). Reserve (1) for clear understanding of the quantity change in both cases.

(c) Explain the likely reaction of

(i) consumers of sugar, and
1 mark for understanding that consumers would reduce quantity demand and 1mark for some elaboration of this idea. (2)

(ii) producers of sugar
1 mark for understanding that producers would increase quantity supplied and 1 mark for some elaboration of this idea (2)

to a continual, rapid rise in its price. [4]

(d) With reference to the data, discuss the likely effects of [6]

(i) the actions of the Indian government, and

Increased supply of sugar as a result of the export ban has reduced prices of sugar in India.
This will help Indian consumers, especially the lower income groups. India's current account will be affected as sugar exports fall. Sugar farmers will reduce cultivation of sugar and this is likely to increase prices in the future. It may also lead to unemployment. Allow comment on world impact, such as new areas under cultivation. Also impact on Indian's balance of trade. (Up to 4 marks)

(ii) the actions of the Malaysian government.

A maximum price would cause an excess demand in the market for sugar in Malaysia. This would help those lucky enough to obtain sugar but would mean shortages and the problem of allocation would arise. The outcome would be queuing and black markets unless an effective rationing system could be devised. (Up to 4 marks)

© Cambridge International Examinations 2012

2 (a) Explain, with the help of a production possibility diagram, how the opportunity cost of producing different combinations of goods can be measured. [8]

For knowledge and understanding of the ppc and opportunity cost (Up to 4 marks. Allow 3/1 or 1/3 split). For an analysis of how the ppc can be used to measure opportunity cost (Up to 4 marks).

(b) Discuss the ease with which a planned economy may be changed into a market economy. [12]

For knowledge and understanding of planned and market economies (2).
For an analysis of the nature of the changes required to transform a planned economy into a market economy. (Up to 2 marks for identified features with implications that they need to change). (Up to 6 marks) For evaluative comment on the ease of transformation.

3 (a) Explain what determines the demand for and supply of a currency in the foreign exchange market. [8]

For knowledge and understanding of the determinants of the demand and supply of a currency in the foreign exchange market (Up to 4 marks. Allow 3/1 or 1/3 split). For analysis of how changes in these determinants impact upon the foreign exchange market (Up to 4 marks).

(b) Discuss the extent to which a decline in the value ofthe national currency (depreciation or devaluation) will improve a country's balance of trade. [12]

For knowledge and understanding of depreciation or devaluation and the balance of trade (2). For analysis of how depreciation affects the balance of trade (Up to 6 marks). For evaluative comment on the conditions for a successful outcome (Up to 4 marks).

4 (a) Explain why governments measure changes in the general price level and why they usually have more than one measure of these changes. [8]

For knowledge and understanding of anyone method of measuring changes in the general price level e.g. CPI, RPI, WPI etc (Up to 4 marks). For analysis of why it is measured and why a number of measures are needed (Up to 4 marks. Allow 3/1 or 1/3 split).

(b) Discuss whether it is better for a government to raise the economy's rate of productivity growth or to control its rate of inflation. [12]

For knowledge and understanding of inflation and productivity (2). For analysis of the effects of inflation and productivity growth (Up to 6 marks). For evaluative comment on 'whether it is better' aspect of the question (Up to 4 marks).

© Cambridge International Examinations 2012