CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2012 series

9708 ECONOMICS

9708/23 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.

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1 (a) (i) Compare the price of petrol in the US and China between January 2008 and September 2009. [2]

US petrol dearer pre-October 2008 (1 mark), Chinese petrol dearer post October 2008 (1 mark), Chinese price rose while U.S. price fell (1 mark), Chinese price less volatile (1 mark)
Any two points. (2 marks total)

(ii) How does Fig. 1 confirm that it is in China rather than in the US that the price of petrol is set by the government? [2]

The stepped nature and period of stability (1 mark) suggest that it is government action rather than market forces that determine price in China (1 mark).
Allow analysis from the US view i.e. US price more volatile (1 mark), because it is subject to market forces (1 mark) (Up to 2 marks)

(b) Explain how the consumption of petrol generates externalities. [4]

Externalities affect third parties (spill-over effects) (1 mark); they can be negative externalities (1 mark). In the case of petrol they are harmful and they generate air pollution that contributes to ill-health and global warming. (up to 2 marks) (Up to 4 marks)

(c) (i) Identify two points about the PED of petrol on which the studies agree. [2]

PED of both is inelastic (1 mark) short-run PED is more inelastic than long-run PED in both cases (1 mark), both have negative value confirming expected inverse price/demand relationship, (1 mark)
Any two points. (2 marks total)

(ii) Explain why the values of the short-run and long-run PEDs for petrol are different. [4]

In the short-run the consumer has less time to respond to the price change by adjusting spending (1 mark). One further mark for elaboration of this statement (1 mark) (up to 2 marks)
In the long-run the consumer has more time to substitute cars for other forms of transport (1 mark). One further mark for elaboration of this statement (1 mark) (up to 2 marks)

(Up to 4 marks)

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(d) Discuss the possible consequences of the Chinese price fixing policy between January 2008 and September 2009. [6]

Keeping the price lower will help low income consumers, reduce inflationary pressure and keep production costs down. It may encourage waste, cause petrol producers to lose money and cause shortages. (up to 4 marks)
Keeping the price higher will reflect market pressures, encourage responsible use through less waste. It may harm consumers, especially those on low incomes.
(up to 4 marks)
Also, allow marks for stability (up to 4 marks)
General arguments concerning the efficiency of resource allocation should be credited.
(6 marks maximum)

2 (a) Explain, with the aid of a diagram, what changes will alter the amount of consumer surplus available from the consumption of a good. [8]

For **knowledge and understanding** of consumer surplus illustrated with an appropriate diagram. (Up to 4 marks. Allow 3/1 or 1/3 split).
For an **analysis** of how changes in demand and/or supply change consumer surplus through their impact upon price. (Up to 4 marks)

(8 marks total)

(b) Discuss why in many countries some services, such as education and healthcare, are supplied both by the government and private producers. [12]

For **knowledge and understanding** of private goods and merit goods. (Up to 2 marks)
For an **analysis** of government and private supply of education and healthcare.
(Allow 4/2 or 2/4 split) (Up to 6 marks)
For **evaluative comment** on government and private supply of education and healthcare.
(Up to 4 marks)

(12 marks total)

3 (a) Explain the factors that might cause a fall in a country's terms of trade. [8]

For **knowledge and understanding** of the terms of trade with illustration of a fall in the index.
(Up to 4 marks. Allow 3/1 or 1/3 split).
For an **analysis** of the factors that cause a fall in terms of trade e.g. exchange rate depreciation, relative rates of inflation etc.) (Up to 4 marks)

(8 marks total)

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(b) Discuss the view that unrestricted free trade has as many disadvantages as advantages. [12]

For **knowledge and understanding** of meaning of 'unrestricted free trade' (Up to 2 marks)
For an **analysis of the advantages** and disadvantages of unrestricted free trade (Allow 4/2 or 2/4 split) (Up to 6 marks)
For **evaluative** comment on relative strength of the advantages and disadvantages. (Up to 4 marks)

(12 marks total)

4 (a) Explain how an economy may face a deficit in its trade in goods yet have a surplus on its current account of the balance of payments. [8]

For **knowledge and understanding** of the relevant structure of the current account deficit in trade in goods and surplus on current account. (Up to 4 marks. Allow 3/1 or 1/3 split).
For an **analysis** of the offsetting inflows that create a surplus on current account. (Up to 4 marks)

(8 marks total)

(b) Discuss whether a satisfactory balance of payments, a strong exchange rate and a low rate of inflation are likely to be achieved at the same time. [12]

For **knowledge and understanding** of the targets identified. (Up to 2 marks)
For an **analysis** of the relationships between the targets. (Up to 6 marks)
For **evaluative comment** on the compatibility of the targets and likelihood of the targets being achieved at the same time. (Up to 4 marks)

(12 marks total)

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