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Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 2014 series

9708 ECONOMICS

9708/23 Paper 2 (Data Response and Essay – Core), maximum raw mark 40

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1 (a) (i) What is the overall trend in U.K. real expenditure on alcohol purchased in shops for consumption off the premises between 2008 quarter 1 and 2012 quarter 2? [1]

The trend is downward. (1 mark)

Year-on-year description gets zero marks, but make sure that the answer does not contain trend comment amidst chronological approach.

(ii) Explain how a change in one demand factor might have caused the change in weekly alcohol consumption for the 'average for all age groups' shown in Table 1. [2]

One mark for identifying a valid demand factor, and one mark for elaboration.

E.g. A fall in income (1 mark), means that consumers can afford less alcohol so this will reduce expenditure (1 mark) (ceteris paribus). Allow similar identification and elaboration on other demand factors such as a change in tastes, a fall in the price of substitutes and so on.

(b) (i) Identify the age group that has shown the greatest change in average weekly alcohol consumption between 2006 and 2010. [1]

16-24 age group. (1 mark)

(ii) For the age group you have identified, explain one possible economic reason for the change in its average weekly alcohol consumption compared with the other age groups. [2]

Any feasible, age related reason.

E.g. Rise in unemployment amongst this age group, education campaigns aimed at younger age groups, rise in alternative leisure pursuits. (Up to 2 marks)

The answer must explain why the group identified has the greatest change.

(c) If the minimum price per unit were fixed at 50 pence rather than 45 pence, explain, with the help of a diagram, how the higher price would affect the consumer surplus in this market. [4]

- For clear understanding of consumer surplus. (1 mark)
- For an accurate diagram showing how the consumer surplus falls as the price rises. (Up to 2 marks)
- For elaboration. For example, stating that the extent of the fall depends upon the price elasticity of demand. (1 mark)

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(d) Explain, with reference to the data, how crime and hospital admissions arising from excessive alcohol consumption contribute to social costs. [4]

For knowledge and understanding that social costs are equal to private costs and negative externalities. (1 mark)

For knowledge and understanding of private costs. (1 mark)

For knowledge and understanding of negative externalities. (1 mark)

For evidence drawn from the text, e.g. 'alcohol-related violent crimes or hospital admissions' are spillover effects affecting a third party. (1 mark)

(e) Discuss whether the problems associated with excessive alcohol consumption are better dealt with through a minimum price per unit for alcohol rather than through an education campaign. [6]

For **analysis** of how a minimum price and an education campaign are designed to remove the problems of excessive alcohol consumption with reference to the advantages and disadvantages of each. (Up to 5 marks)

Allow a 3 / 2 or 2 / 3 split.

For **concluding comment** on which approach is better overall. (1 mark)

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Essays

2 (a) Show how the economic problem can be explained with the use of a production possibility curve. [8]

For **knowledge and understanding** of the economic problem and the production possibility curve. (Up to 4 marks)

For an explanation of the economic problem. (Up to 3 marks)

For an explanation of the production possibility curve. (Up to 3 marks)

For **application** explaining how the economic problem can be illustrated through the use of the production possibility curve. (**Up to 4 marks**)

Application marks will be awarded for good use of the production possibility curve in illustrating various aspects of the economic problem.

- For explanation that a movement along the production possibility curve, shows choice and opportunity cost and that this stems from the economic problem. (Up to 3 marks)
- For explanation that the production possibility curve shows the limits to production and that this arises from the fact that resources are scare. (Up to 3 marks)

(b) Discuss whether an outward shift in a country's production possibility curve will always raise the welfare of the citizens of that country. [12]

For **analysis** explaining that an outward shift in the production possibility curve will increase the goods and services produced. This has the potential to raise the welfare of the citizens of a country. There are several reasons, however, why welfare might not be raised despite this increase in goods and services. For example, the shift in the PPC might have occurred because of technology changes which result in negative externalities. In addition, it might be the case that the increase in goods and services might be available only to a few citizens in the country as inequality increases. Candidates need to show a good understanding of why the outward shift in the PPC might not raise welfare for full marks. (Up to 8 marks)

For **evaluative comment** on the 'always raise the welfare' aspects of the question. (Up to 4 marks)

Candidates need to make a judgement based upon an assessment of the likelihood that the benefits of the extra production might outweigh the problems that might arise from the production of the extra goods and services. Some might draw a distinction between the short-term and the long-term effects of the change.

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3 (a) Explain why an increase in the money supply and rising world energy prices are categorised as different causes of inflation in an economy. [8]

For **knowledge and understanding** of demand-pull inflation and **application** to show how this can be caused by an increase in the money supply. (Up to 4 marks)

For **knowledge and understanding** of cost-push inflation and **application** to show how rising world energy prices can cause this. (Up to 4 marks)

Application marks for both types of inflation could be achieved through the use of aggregate demand and aggregate supply curves, although this is not essential.

(b) Discuss whether a floating exchange rate is consistent with the policy objective of a low and stable rate of inflation. [12]

For **analysis** showing how a floating exchange rate affects the rate of inflation. (Up to 8 marks)

Candidates need to explain how both a downward float and an upward float in the exchange rate can affect the rate of inflation in an economy.

An exchange rate that floats downwards leads to a fall in the price of exports and a rise in the price of imports.

An exchange rate that floats upwards leads to a rise in the price of exports and a fall in the price of imports.

For **evaluative comment** upon whether a low and stable rate of inflation can be achieved with a floating exchange rate. (Up to 4 marks)

Marks will be awarded for evaluation for reasoned judgement concerning the likelihood that a stable rate of inflation can be achieved with a floating exchange rate. It could be argued that this is difficult and might lead to pressures for a managed float. Others might argue that if excessive fluctuations in the exchange rate could be avoided there would be no pressure on prices. Reward quality of discussion rather than the conclusion reached.

4 (a) Explain how comparative advantage shows that specialisation and international trade can improve the welfare of consumers in an economy. [8]

For **knowledge and understanding** of the Law of Comparative Advantage. (Up to 4 marks)

Candidates are required to show an understanding of the law of comparative advantage and its assumptions. Reference to opportunity cost is essential.

For **application** showing how the law of comparative advantage shows the benefits of specialisation and trade. (Up to 4 marks)

To gain application marks candidates are likely to use an economic model to demonstrate how specialisation and trade can improve consumer welfare.

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(b) Discuss whether an economy would benefit more from an unfavourable rather than a favourable movement in its terms of trade. [12]

For **analysis** showing how an economy is affected by an unfavourable and a favourable movement in the terms of trade. (**Up to 8 marks**)

For an explanation of the meaning of an unfavourable movement in the terms of trade and the impact upon consumption, employment, prices and so on. (Up to 6 marks)

For an explanation of the meaning of a favourable movement in the terms of trade and the impact upon consumption, employment, prices and so on. (Up to 6 marks)

For **evaluative comment** on the overall benefit of an unfavourable movement compared to a favourable movement in an economy's terms of trade. (**Up to 4 marks**)

For evaluation marks, candidates need to provide reasoned judgement on the relative benefits of each movement. Candidates need to provide a conclusion based upon the discussion.

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