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ECONOMICS **9708/22**

Paper 2 Data Response and Essay **October/November 2016**

MARK SCHEME

Maximum Mark: 40

Published

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1 (a) (i) Compare the US balance of trade with India in 2009 with that in 2014. [2]

The US has a deficit in both years (1 mark)

The deficit has grown or increased or worsened. (1 mark)

It is essential that the candidate uses the term 'deficit'. If figures are shown with a negative sign, but there is no reference to deficit: no marks.

(ii) Explain two factors, other than India's ban on US agricultural products, that could explain the change in the US balance of trade that you have identified. [4]

A growth in the deficit could be caused by a number of factors. These include:

- A decline in India's exchange rate against the US dollar.
- A change in tastes away from US goods in favour of India's goods.
- An improvement in the efficiency of Indian industry that means that the price of Indian goods is lower than the price of American goods.
- The imposition of tariffs on US goods by the Indian government.

Accept any valid factor identified (1 mark) and explained (1 mark).

(Up to 2 marks for each explanation)

If the candidate identifies factors that would explain the deficit in the two years but does not explain why the deficit has grown then maximum of 1 + 1

References to China are not accepted, unless the factor identified could be applied to India.

(iii) In addition to the balance of trade in goods, what other balances would you require to calculate the US current account balance with India? [2]

Any two from: Balance on Services (1 mark)

Balance on Income (1 mark)

Balance on Current Transfers (1 mark)

Allow 1 mark for 'Invisibles' with no further elaboration. If the candidate lists different types of services: 1 max.

Allow reference to primary and secondary income here.

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(b) (i) Use a diagram to show how an import duty on a product affects its price. [2]

For an accurate diagram. (Up to 2 marks) A supply and demand diagram showing a shift to the left in the supply curve as a result of the indirect tax and the resulting rise in equilibrium price is acceptable. Also acceptable is the tariff diagram that shows the world supply and demand before and after the imposition of the tax. No explanation needed. If the candidate shows a supply and demand diagram with a rise in price, but no shift in supply this is worth 0 marks.

(ii) What is likely to determine the extent of the change in sales when an import duty is imposed on US cars in China? [2]

For clear recognition that this depends upon the price elasticity of demand (1 mark)
For clear understanding that the fall in sales will be greater if the price elasticity of demand is high. (Or less if the price elasticity of demand is low). (1 mark)

(Allow 1 mark if the candidate states that it depends upon the size of the import duty)

(iii) Explain a possible reason why China imposed export quotas on tungsten and molybdenum. [2]

The effect would be to raise the export price (1 mark) and as a result raw material costs for the production of a range of American products would rise giving an advantage to Chinese producers of these goods (1 mark) (Up to 2 marks)

There are a number of other possible reasons that could be explained by the candidate.

- e.g. to preserve declining/scarce resources and ensure a supply for domestic producers
- to increase revenue from exports due to the increase in price.
- to reduce production of tungsten and molybdenum because of the environmental impact of their production.

Award 2 marks to any valid reason that is explained.

(c) Consider whether the protectionist measures adopted by countries such as India, China and Argentina regarding trade with the US could ever be justified. [6]

For argument(s) in favour of protectionism. These include the infant industry argument, the anti-dumping argument etc. (Up to 3 marks)

One argument well explained could be awarded 3 marks

For argument(s) against protectionism. These include reference to the principle of comparative advantage, the dangers of retaliation and trade wars etc. (Up to 3 marks)

One argument well explained could be awarded 3 marks

5 marks maximum for the arguments for and against protectionism

Reserve a mark for a reasoned conclusion on whether protectionist measures could ever be justified. (1 mark)

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2 (a) Explain, with the help of a diagram, what happens in the market for a product when the price of a substitute increases, and how economists would measure the relationship between these two products. [8]

For **knowledge and understanding** of the impact of a rise in the price of a substitute using a supply and demand diagram(s). (Up to 4 marks)

The diagram should be correctly labelled (1 mark) and show an increase in demand for a good as the price of its substitute rises (1 mark). It should also show a rise in the equilibrium price of the good (1 mark) and a rise in the equilibrium quantity (1 mark).

An alternative diagram shows the change in the price of one good and the change in the quantity demanded of the other good on the axes together with a curve showing the direct relationship between the two goods. This is acceptable, but please ensure that the impact on the price of the substitute and the quantity of the substitute demanded is explained to ensure that 'what happens in the market' is considered.

For **application** using the cross elasticity of demand to show how economists measure the relationship between substitutes. (Up to 4 marks)

For understanding of the cross elasticity of demand in terms of what it measures (1 mark)

For an accurate formula (1 mark)

For explaining why substitutes have a positive value for cross elasticity**.** For stating that substitutes have a positive cross elasticity (1 mark) and explaining why this occurs (1 mark) (Up to 2 marks)

(b) Discuss how habit-forming demerit goods and goods with lots of substitutes are each likely to respond to price rises, and consider the extent to which knowledge of their likely response would be useful to government policy makers. [12]

Habit-forming demerit goods are likely to be price inelastic and goods with lots of substitutes are likely to be price elastic. Government policy makers will use this information to assess which products to tax and also the extent to which the consumption of demerit goods will fall if the goods are taxed.

For **analysis** explaining how habit-forming demerit goods and goods with lots of substitutes are each likely to respond to price rises (only one type of good considered: 3 max) (Up to 4 marks)

For **analysis** explaining how government policy makers could use the information (only one type of good considered: 3 max) (Up to 4 marks)

8 marks maximum

For **evaluative comment** on the extent to which this information would be useful. A concluding comment is essential for full marks. (Up to 4 marks)

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3 (a) Explain any two factors that cause the supply of a product to be price-inelastic. [8]

For **knowledge and understanding** of the meaning of price elasticity of supply and 'inelastic' in this context. (Up to 4 marks)

Accurate formula: (up to 2 marks). If no formula provided allow 1 mark for clear understanding of what price elasticity of supply measures.

Accurate and clear understanding of what is meant by price inelastic supply (up to 2 marks). For both marks it is essential that the candidate shows understanding that price inelastic supply means that the **percentage** change in quantity supplied is less than the **percentage** change in price.

4 marks maximum

For **application** with explanation of any two factors that are likely to cause the elasticity of supply of a product to be inelastic. For e.g. shortage of factors of production, the nature of the product, the time period under consideration, availability of stocks etc.

Up to 3 marks for each factor explained

4 marks maximum

(b) Discuss the policies that a government might adopt to increase the price elasticity of supply of agricultural goods in an economy and consider which policy is likely to be most effective. [12]

For **analysis** of at least **two** policies that might be adopted to increase elasticity of supply of agricultural products such as reduced import controls, subsidies and a range of supply side policies including training schemes to increase the supply of skilled labour and tax reductions to increase incentives. (Up to 8 marks)

For each policy explained (up to 4 marks)

Allow 1 mark for the identification of the policy and up to 3 marks for explaining how this could increase the price elasticity of supply.

If the candidate provides a list of policies without explanation 3 marks maximum for analysis.

8 marks maximum

For **evaluative comment** on the effectiveness of the policies explained. A concluding comment on which policy is likely to be most effective is essential for full marks.
(Up to 4 marks)

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4 (a) Explain what is used as money in a modern economy and how an increase in the quantity of money can cause prices to rise. [8]

For **knowledge and understanding** of 'money' in a modern economy.

(Up to 4 marks)

- For an understanding of what is meant by money in terms of its general acceptability in settlement of debt or as a medium of exchange when purchasing goods and services (1 mark)

- For explaining what acts as money in a modern economy: cash and bank deposits (Up to 3 marks)

If there is no reference to bank deposits 2 maximum. For elaboration reward recognition of modern methods of transferring bank deposits for example cheques and contactless payments and what is meant by 'near money'.

4 marks maximum

For **application** showing how an increase in the money supply can cause an increase in aggregate expenditure and demand-pull inflation. (Up to 4 marks)

4 marks maximum

(b) Discuss the policy options available to a government faced with inflation and consider which is most likely to be effective. [12]

A range of policies are available such as contractionary fiscal or monetary policy that are designed to reduce aggregate demand, or supply-side policies that are designed to shift aggregate supply to the right to match the excess aggregate demand. Supply-side policies might also be used to solve the problem of cost-push inflation. This type of inflation might also be solved by other policies such as support for the exchange rate.

For **analysis** explaining the policies available and how each is designed to solve the problem of inflation.

For an explanation of any policy designed to solve the problem of inflation.

(Up to 4 marks)

8 marks maximum

For evaluative comment on the most effective policy. This might include a consideration of the strengths and weaknesses of each policy and whether the policy is appropriate given the type of inflation that is present. A concluding comment on which policy is most likely to be effective is essential for full marks.

4 marks maximum

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