Cambridge International AS & A Level

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ECONOMICS **9708/21**

Paper 2 Data Response and Essay **October/November 2018**

MARK SCHEME

Maximum Mark: 40

Published

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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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Question	Answer	Marks
1(a)	April 2015: 236.0 January 2016: 238.1 Increase of 2.1 divided by 236.0 = 0.88383% Accept answers of and between 0.8% and 0.9% 1 mark for use of the correct formula, but with an incorrect answer	**2**
1(b)	The weights give an indication of the relative importance of expenditure on different items by people in an economy This takes into account the fact that price rises of some goods and services will have a more significant effect than the price rises of other goods and services; this will give a more accurate indication of the overall price level change. **(1 mark)** Examples: Food, housing and transport are likely to be given a higher weighting than other items because these usually represent a higher proportion of the average person's expenditure (the question does refer to examples, so there must be more than one example included in the explanation) **(1 mark)** An answer that does not use examples to support the explanation can only gain 1 mark	**2**
1(c)	The Digital Price Index (DPI) could be used more extensively to measure the rate of inflation in the future. The DPI has several advantages over the conventional approach. • The Digital Price Index (DPI) includes three-quarters of online spending at America's top 500 retailers. It tracks 1.4 m products, compared with the CPI's 80 000, so it is a more comprehensive indicator with a greater number of items. • It is based on actual purchases rather than advertised prices, increasing its accuracy. • It is easier to collect the data electronically once the database is established. • It is likely to be easier to keep up-to-date. • There will be time to make improvements to overcome its current weaknesses and omissions	**2**

Question	Answer	Marks
1(d)	Explanation: The case study does suggest that official statistics may be missing significant price movements, especially in electrical goods. It was found that the price of computers fell by 13.1% in the year to January 2016, almost double the 7.1% fall recorded in the CPI. This could be because of an increase in supply in the market for computers, causing the equilibrium price in the market to fall; this could arise because of a fall in the cost of components, improvements in technology or more competition from new entrants into the market. The CPI fall would be less as it includes price changes of products whose prices fell less than that of computers, remained unchanged or rose; the average will be less than a single item **(1 mark for the explanation)** Diagram: P, Q, D and S all correctly shown and labelled [1] Shift of the supply curve to the right [1] Fall in equilibrium price and rise in equilibrium quantity [1] **(Up to 3 marks for the diagram)**	**4**
1(e)	A borrower will benefit from inflation (1) because the borrower will be paying less back in real terms (1) **(Up to 2 marks)** A saver will be made worse off by inflation (1) because the saver will be receiving less back in real terms (1) **(Up to 2 marks)**	**4**
1(f)	Monetary policy is sometimes used to control the rate of inflation in an economy, especially when the rate of inflation rises above the targeted rate of inflation. Changes in interest rates and/or the supply of money can be used to bring down the rate of inflation. Decisions about the correct changes in the rate of interest and/or the money supply will be taken in relation to what is known about the rate of inflation. However, if the rate of inflation in an economy is not measured accurately, the decisions taken in relation to changes in the rate of interest and/or the money supply may not be the correct ones. In such a situation, monetary policy will not operate effectively and the rate of inflation may eventually be higher or lower than what was intended when the monetary decisions were taken. For **identification** and **explanation** of how these monetary policies might be used to cure inflation. **(Up to 4 marks)** For **evaluative comment** on whether monetary policy can operate effectively if inflation is not measured accurately. **(Up to 2 marks, reserve 1 mark for a conclusion)**	**6**

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Question	Answer	Marks
2(a)	For **knowledge** and **understanding** of the factor capital. Capital refers to the factor of production that includes all the human-made aids to production, e.g. tools, equipment, plant, machinery and factories. Capital is a factor of production that can be used in the production process. It can be combined with the other factors of production to produce goods and services which can be sold in the market. Note: Do not credit answers that refer to capital as money. **(KU: up to 4 marks)** For **application** showing how capital is rewarded in a modern economy through interest payments. **(APP: up to 4 marks)**	**8**
2(b)	For **analysis** of an outward shift of the production possibility curve in a mixed economy. A production possibility curve shows the different combinations of products that can be produced if an economy is working at full capacity. Over a period of time, it is possible for there to be economic growth resulting from the availability of more resources and/or the more productive use of existing resources. Decisions in relation to the quantity and the quality of resources in a mixed economy can be taken by either the public sector, i.e. the government, or the private sector, i.e. firms. Decisions taken by entrepreneurs could contribute to the outward shift of an economy's production possibility curve. **(Up to 4 marks)** An outward shift of the production possibility curve of a mixed economy could take place as a result of investment decisions taken by a government. **(Up to 4 marks)** **(AN: up to 8 marks total)** For **evaluative comment** on whether enterprise is crucial to the outward shift of a mixed economy's production possibility curve. **(EV: up to 4 marks, reserve 1 mark for a conclusion)**	**12**

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Question	Answer	Marks
3(a)	For **knowledge** and **understanding** of the concept of price elasticity of supply. Candidates should define PES as the percentage change in the quantity supplied of a product divided by the percentage change in the price of the product. **(Up to 2 marks)** They can then comment on the different values of PES: perfectly inelastic (zero), inelastic (greater than zero but less than 1), unitary (1), elastic (greater than 1 but less than infinity) and perfectly elastic (infinity). **(Up to 2 marks)** **(KU: up to 4 marks total)** For **application of factors** to the determination of the PES of a product. Candidates should refer to the possible factors that could affect the PES for a product: • the number of producers in a market • the availability of stock/ the difficulty of keeping stocks of some products • the time period • the extent of spare capacity • the length of the production period • the availability and nature of resources • the degree of factor mobility/the possibility of switching factors of production The question does refer to factors, i.e. a minimum of two factors need to be explained. A candidate needs to explain a minimum of two factors to gain all 4 marks. **(APP: up to 4 marks)**	**8**

Question	Answer	Marks
3(b)	For **analysis** of the importance of income elasticity of demand (YED) to a firm. Comment on whether YED is useful. Comment on whether it is positive, which will be the case with normal goods, or whether it is negative, which will be the case with inferior goods. YED is important to the decisions of a firm, enabling it to estimate the effect on the demand for its products of a change in incomes. For example, if incomes are rising in an economy, a firm would be expected to increase the production of normal goods and decrease the production of inferior goods. Candidates need to consider that the extent to which YED is likely to be important to a firm will depend on a number of factors, such as the proportion of income that is spend on a particular product. The demand for some products will not be very sensitive to a change in income because they are not very expensive, whereas the demand for other more expensive products will be much more sensitive to a change in income. **(Up to 4 marks)** Candidates could then discuss other elasticities of demand, such as PED or XED. One of these done very well could gain all 4 marks, or two done reasonably well. **(Up to 4 marks)** Note: Accept PES as a possible answer **(AN: up to 8 marks total)** For **evaluative comment** on whether YED is likely to be the most important measure of elasticity to a firm. **(EV: up to 4 marks, reserve one mark for a conclusion)**	**12**
4(a)	For **knowledge** and **understanding** of tariffs and quotas. Candidates should define: • tariffs: a tax that is imposed on an imported product to make it more expensive. **(Up to 2 marks)** • quotas: a limit on the imported products that are allowed into a country **(Up to 2 marks)** **(KU: up to 4 marks)** For **application** of tariffs and quotas to the operation of protectionism, stressing the difference between them in the way they operate. Candidates should apply each method to how they can be used to protect a domestic industry: • tariffs: operate through an increase in price, with the effect depending on the PED. **(Up to 2 marks)** • quotas: operate through a limit on imports. **(Up to 2 marks)** **(APP: up to 4 marks)**	**8**

Question	Answer	Marks
4(b)	For **analysis** of the importance of free trade in preference to protectionism. **(Up to 8 marks)** Candidates should consider the potential advantages of free trade: • world output can be increased • resources are allocated more efficiently • consumers have a wider range of products to choose from • there can be a substantial increase in economic growth • this will lead to an improved standard of living and quality of life **(Up to 4 marks)** Candidates should consider possible situations where protectionism could be preferred to free trade: • support for infant/sunrise industries, at least as a temporary measure • support for sunset/declining industries, at least as a temporary measure • support for a strategic industry • protection against dumping • a means of reducing a current account deficit • tariffs can be used as a means of raising government revenue **(Up to 4 marks)** **(AN: up to 8 marks total)** For **evaluative comment** on the extent to which free trade should always be preferred to protectionism. **(EV: up to 4 marks, reserve one mark for a conclusion)**	**12**

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