Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/22**

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.

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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	Guidance
1(a)(i)	The deficit **(1 mark)** has grown or increased etc **(1 mark)**	**2**	Here we are looking for the appropriate phrase i.e. 'deficit' together with recognition that this has grown or is greater or has increased. If the candidate says the **deficit has worsened** that is worth both marks, but if they just say that the balance of trade has 'worsened' this scores 0 marks because this could apply to a declining surplus. Similarly, if the candidate simply uses negative figures without stating that this is a deficit then 0 marks.
1(a)(ii)	The services balance is in surplus **(1 mark)** **whereas** the goods balance is in deficit **(1 mark)**	**2**	The important point here is that this is a surplus rather than a deficit. There has to be clear comparison of the two balances for both marks.
1(b)	For a clear understanding that subsidies will reduce the costs of steel producers in China **(1 mark)**. For a clear understanding of why this is unfair in terms of the efficiency of steel production in China compared to competitors **(1 mark)**	**2**	Subsidies give Chinese steel makers an unfair advantage because the subsidy will reduce costs for Chinese steel producers and this is not a reflection of the true costs of steel production in China. The candidate must show some understanding of why the subsidies are unfair for both marks. It is not enough to simply state that the subsidies allow China's steel firms to lower price, it must be clear that the subsidies cause price to fall below costs or do not reflect efficiency.

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Question	Answer	Marks	Guidance
1(c)	A simple but accurate diagram that shows the shift of the supply curve **(1 mark)** and the rise in price of imported steel **(1 mark)** together with an accompanying explanation that covers the rise in domestic production of steel and the fall in the share of imports. **(Up to 2 marks)** A more complex diagram that shows the shift in supply **(1 mark)** and the rise in price of imported steel **(1 mark)** and the change in domestic share of the market together with the change in imports **(1 mark)** This should have appropriate indicative annotation together with an accompanying explanation **(Up to 2 marks)** **NB 4 marks maximum**	**4**	Most candidates use one of these two diagrams. One is a simple shift of the supply curve of imports to the left. This will raise price and reduce the demand for imports. The accompanying explanation will need to develop the idea that this will increase the demand for home produced steel. A full tariff diagram will show the changes in price, and the changes in the share of domestic production and imported steel.
1d(i)	For identification of a loser in China **(1 mark)** For explanation of why they would lose **(1 mark)**	**2**	It is clear that those employed in China's steel mills will lose and the steel making firms will also make less profit. In addition, the Chinese government will lose as there are costs in removing steel making capacity. It is also acceptable to refer to the impact on those who live in steel making regions. Some candidates may refer to multiplier effects. This is acceptable, but not essential for both marks.
1(d)(ii)	For identification of a loser in the EU **(1 mark)** For explanation of why they would lose **(1 mark)**	**2**	The losers in the EU are those firms that use subsidised Chinese steel in their manufacturing. They will have to pay higher prices for this component. Also, consumers of products that use subsidised Chinese steel.

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Question	Answer	Marks	Guidance
1(e)	For a statement that comparative advantage refers to the production of goods or services that have the lowest opportunity cost **(1 mark)** For an explanation of the benefits of specialisation and allowing free trade in products based upon comparative advantage **(Up to 2 marks)** For evaluation of whether free trade with China can be justified given the claims of protectionism in the text with 1 mark reserved for a reasoned conclusion based upon the analysis. **(Up to 3 marks)**	**6**	The rise in sales of services to China could be application of the principle of comparative advantage and it could be argued that the EU should specialise in services and China in steel. If the size of China's exports of steel to the EU has resulted from dumping, however, this does not suggest lower opportunity costs in steel making in China. There are also strategic reasons for maintaining steel making in the EU.
2(a)	For **knowledge and understanding of the concept of cross elasticity of demand**. What it measures i.e. the relationship between the change in the price of one product and the change in the demand for another product **(1 mark)** and the correct formula **(1 mark)** **(KU: up to 2 marks)** and **application** to explain the relationship between goods with a cross elasticity value that is negative i.e. they are complementary **(1 mark)** because a rise(fall) in the price of one product leads to a fall(rise) in the demand for the other product **(1 mark)** **(Up to 2 marks)** and **application** to explain the relationship between goods with a cross elasticity value that is positive i.e they are substitutes **(1 mark)** because a rise(fall) in the price of one product leads to a rise(fall) in demand for the other product **(1 mark)** **(Up to 2 marks)** and **application** to explain the relationship between goods with a cross elasticity value of zero. i.e. they are unrelated **(1 mark)** because a change in the price of one product has no effect on the demand for the other product **(1 mark)** **(Up to 2 marks)** **(APP: up to 6 marks)**	**8**	The candidate may provide the formula for cross elasticity, but not give an explicit explanation of what this measures. The candidate could still be awarded the mark for 'what it measures' if it is clear from the application that this is clearly understood.

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Question	Answer	Marks	Guidance
2(b)	For **analysis** of the usefulness of **each** of the three measures **(Up to 3 marks)** • For an explanation of how this measure might be useful **(Up to 2 marks)** • For an explanation of the weaknesses or drawbacks of using this measure **(Up to 2 marks)** **3 marks maximum for each measure** **(AN: up to 8 marks)** Up to 4 marks for evaluative comment on the relative usefulness of each measure. **(EV: up to 4 marks)**	**12**	Price elasticity of demand will inform the tourist organisation of the impact of price changes in terms of quantity demanded and total revenue. Income elasticity will help to inform tourist organisations of the impact of the changes in demand as incomes change, for example during a recession. Price elasticity of supply will inform the organisation of the ability of hotels etc to respond to changes in price. Evaluative comment might include for example, the fact that changes in price are under the control of suppliers whereas changes in income are not and this inhibits the ability of the organisation to develop a policy to react to income changes.

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Question	Answer	Marks	Guidance
3(a)	For **knowledge and understanding** of what is meant by deflation i.e. a fall in the general price level **(1 mark)** and how it is measured i.e. a fall in the Consumer Price Index (CPI). **(1 mark)** Allow reference to other methods of measuring changes in the price level such as the GDP implicit deflator. **(KU: Up to 2 marks)** For **application** explaining the impact of deflation on an economy. For each impact explained **(Up to 3 marks)** So a minimum of **two** impacts explained is necessary for all the available marks here. Please note however that some answers might contain a number of impacts within one developed explanation. There is no maximum in terms of the number of impacts explained, but it is essential that there is explanation of each rather than an **unexplained** list **(1 mark maximum)**. **(APP: up to 6 marks)**	**8**	The term deflation is used to describe a period in which there is a fall in the general price level. It is the opposite of inflation. It is usually measured through falls in the CPI. There are a number of effects. For example, the value of savings increases. Consumers usually put off purchases hoping that prices will be lower in the future. This means that firms usually lower wages to preserve profits, but often they have to reduce production and this often causes unemployment. Investment also often declines. Although deflation is likely to lead to a fall in the terms of trade it may well result in an increase in revenues from exports. Also, the relative price of imports rises and this may result in lower import expenditures.
3(b)	For **analysis** of how expansionary monetary policy is designed to solve the problem of deflation with due reference to any weaknesses or disadvantages of this approach. **(Up to 4 marks)** For **analysis** of how expansionary fiscal policy is designed to solve the problem of deflation with due reference to any weaknesses or disadvantages of this approach. **(Up to 4 marks)** **(AN: up to 8 marks)** For **evaluative comment** that **compares** the relative merits of each approach **(3 marks)** to arrive at a conclusion on which approach is most likely to be effective. **(1 mark)** **(EV: up to 4 marks)**	**12**	Policies to solve the problem of deflation include expansionary monetary policy and running a fiscal deficit. Whether either policy can be effective depends upon the extent to which consumers and businesses respond to the stimulus.

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Question	Answer	Marks	Guidance
4(a)	For **knowledge and understanding** of the features of a public good. Public goods are non-excludable: what this means **(1 mark)** and non-rival in consumption: what this means **(1 mark)** **(KU: up to 2 marks)** For **application** that considers whether a motorway could be classified as a public good through an examination of whether it is excludable or non-excludable. For example, free riders can be excluded through tolls but it may not be practicable to erect toll-booths. **(Up to 3 marks)** For **application** that considers whether a motorway could be classified as a public good because there is rivalry in consumption. Traffic jams for example may occur. These however might only occur at peak periods. **(Up to 3 marks)** If a candidate simply says that it is a public good because it is provided by the government then no marks are to be awarded for application. The consideration must test the classification of the motorway against the features of a public good. **(APP: up to 6 marks)**	**8**	Public goods have the features of non-excludabilty, non-rivalry in consumption. A motorway is often cited by candidates as a public good, but consumers can be excluded from motorways through tolls and there is rivalry in consumption as traffic jams prove. If a candidate provides a reasoned argument that under some circumstances a motorway might be non-excludable and/or there is no rivalry in consumption this can be an acceptable approach. Some might argue that a motorway could be classified as a quasi-public good. Some candidates might refer to non-rejectability as a feature of public goods. Please allow credit for this if it adds to the general quality of the application.

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Question	Answer	Marks	Guidance
4(b)	For **analysis** of the impact of increased government spending upon aggregate demand with reference to the intersection of the increased aggregate demand with the aggregate supply curve. **(Up to 4 marks)** For **analysis** of the impact of increased government spending upon infrastructure and aggregate supply with reference to the intersection of the increased aggregate supply with the aggregate demand the curve. **(Up to 4 marks)** **(AN: up to 8 marks)** For **evaluative comment** with due reference to the relative shifts of each curve and their point of intersection **(Up to 3 marks)** to arrive at a conclusion on whether the increased spending will always cause a rise in the rate of inflation **(1 mark)**. **(EV: up to 4 marks)**	**12**	The focus of this question is the impact of increased government spending and increased infrastructure upon the aggregate demand and aggregate supply curves. The impact depends upon where aggregate demand intersects aggregate supply and if the increased spending generates inflation if this intersection is close to full employment. The improved infrastructure should increase aggregate supply to offset the increase in aggregate demand. Evaluative comment might include reference to the long time-period required to improve the infrastructure.

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