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 2019**

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)	**Suggest two reasons that would explain why Ethiopia's current account balance differs from its balance of trade in goods and services in 2015 as shown in Table 1.1.** • reference to the balance of profits, interest and dividends (primary income balance) **(1 mark)** • reference to the balance of current transfer payments (secondary income balance) **(1 mark)** The terms 'primary income balance' and 'secondary income balance' are not yet used regularly in all centres so these terms are not required for both marks available. It is essential however that the candidate makes reference to at least one item from each category to score both marks.	**2**	The current account balance and the trade balance differ because of primary and secondary income balances. The primary balance refers to the balance of profits, interest and dividends. The secondary balance mainly refers to the balance of current transfer payments. The candidate should show knowledge of both categories, so if only profits, interest and dividends is referred to with no reference to components of the secondary income balance, this only gains 1 mark. If the candidate uses the terms 'primary income balance' and 'secondary income balance', but is clearly confused on what these mean, e.g. reference to capital flows, then 1 mark maximum.
1(a)(ii)	**Explain one possible impact on Ethiopia's balance of trade in goods and services of operating the new railway line to Djibouti.** For an explanation that the cost of exporting **and**/**or** importing goods should fall **(1 mark)** and that this • could have a 'positive' effect on the balance of trade in goods and services if the new railway line results in exports becoming greater than imports **(1 mark)** **OR** • could have a 'negative' effect on the balance of trade in goods and services if the new railway line results in exports becoming less than imports **(1 mark)** **OR** • could have no effect on the balance of trade in goods if the new railway line results in exports becoming equal to the imports **(1 mark)**	**2**	It is clear from the data that both the cost of transporting freight, and the time it takes to reach the port, will be significantly reduced. Cutting the travel time/cost should lead to an increased volume of international trade. Although the mark scheme states that candidates should explain that the 'cost' of exporting goods has fallen, accept alternatives such as, 'time', 'convenience', 'ease'. The impact upon the balance of trade can only be assessed after consideration of the impact upon both import expenditure and export expenditure. Candidates who only consider the effect upon imports or exports have not fully assessed the overall impact upon the balance of trade in goods and services and will not gain both marks.

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Question	Answer	Marks	Guidance
1(b)	**Identify <u>two</u> ways in which China's economy would benefit from the building of infrastructure in Ethiopia.** For identification of any **two** benefits e.g. • inflow of profits to China • reduction in unemployment **(2 @ 1 mark)**	**2**	It is essential that the benefits identified relate to China's economy. An inflow of profits for example will benefit China's balance of payments. There will also be more employment, higher incomes, the reduction of excess capacity in the steel industry and so on. Identification without explanation can gain both marks, however there may be a need to be clear why the identified point is beneficial, e.g. a candidate might state that China's currency might appreciate. This might be a benefit but might also be a disadvantage. If there is doubt that the effect is beneficial it needs to be clarified.
1(c)	**Use a production possibility curve to explain the opportunity cost that Ethiopia would face if it did not have access to help from China in building new infrastructure.** For an accurate PPC with appropriate choices on the axes **(1 mark)**; that demonstrates the opportunity cost of choosing infrastructure or consumption/living standards **(1 mark)**. For a clear **explanation** of the opportunity cost of using internal resources rather than Chinese funds in terms of the sacrifice of living standards that would be required **(up to 2 marks)**. If the candidate is discussing incorrect choices in the diagram and the resulting explanation but it is clear that they are correctly demonstrating an accurate understanding of what opportunity cost means (i.e. the cost of giving up the next best alternative) either on the diagram or in the resulting explanation then the response may be given a **maximum mark of 1 only.**	**4**	The context of the text makes it clear that a large number of the Ethiopian population are living in 'extreme poverty'. This means that the infrastructure without external help could only be developed through sacrifice of current living standards. The production possibility curve would show infrastructure or an example of infrastructure e.g. railways (accept capital goods) and consumer goods on the axes. The accompanying explanation should refer to the choice between developing the infrastructure and the opportunity cost of a reduction in consumption if Chinese funds are not available. A candidate may explain that not investing in infrastructure will incur a cost in terms of lost production. This is represented by a shift to the left of the PPC. This is incorrect because this does not accurately describe opportunity cost in terms of the sacrifice entailed in choosing between infrastructure and consumer goods. This approach could still score one mark for an accurate diagram.

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Question	Answer	Marks	Guidance
1(d)	**Consider whether a road network, such as that upgraded in Ethiopia with government funds, should be classified as a public good.** • explaining two characteristics of public goods: non-excludability **(1 mark)**; non-rivalry in consumption **(1 mark)** • applying these characteristics to the upgraded road network and concluding that the network is **not** a public good **(up to 2 marks)**	**4**	The upgraded road network cannot be classified as a public good because it is excludable and rival in consumption. Non-rejectability is not relevant in the case of a road network. If a candidate explains that a road network is a quasi-public good, not a public good this is an acceptable approach and can gain full marks if explained well.

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Question	Answer	Marks	Guidance
1(e)	**Use aggregate demand and aggregate supply analysis to discuss how output, employment and prices might be affected by the development of infrastructure in Ethiopia.** • spending on infrastructure will shift the aggregate demand curve to the right **(1 mark)** • development of infrastructure will shift the aggregate supply curve to the right **(1 mark)** • **discussion of the impact** upon output, employment and prices that considers the relative change in both aggregate demand and aggregate supply **(up to 4 marks)** If only the impact of a shift in either AD or AS (but not both) is discussed then, because the relative change is not considered, **2 marks maximum**	**6**	The effect of the improved infrastructure will increase both aggregate demand and aggregate supply. The impact upon output, employment and prices depends upon where the curves intersect and whether there is unused capacity in the economy. Candidates need to recognise this when explaining the impact upon each economic indicator. Accept answers that suggest that the spending on the new railway can increase as a result of more consumption expenditure as more are employed to build the new infrastructure, or increased investment as businesses are encouraged to invest more as the expectation of profits increase, or increased net exports as the new railway results in more exports. However, do not reward answers that argue that consumption will increase as a result of lowered prices due to improved efficiency/lowered costs of transport, etc. as this would not lead to a shift in AD merely a movement along the curve. Candidates should be credited for effective use of appropriate diagrams; however, the question does not ask for a diagram so full marks are available even if no diagram is provided. For full marks, the impact on output, employment and prices must be discussed.

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Question	Answer	Marks	Guidance
2(a)	**Explain, with the help of a diagram, the process through which the equilibrium price and equilibrium quantity of a good changes when there is an improvement in the technology underlying the production of that good.** • accurate **diagram** showing the demand and supply of a good **(1 mark)** • with equilibrium market price and quantity **(1 mark)** **(KU: up to 2 marks)** • explanation that an improvement in technology will shift the supply curve to the right **(1 mark)**; because more can be produced at each price / the same quantity can be produced at lower costs/price **(1 mark)** • accurate **diagram** showing a shift to the right of the supply curve **(1 mark)**; and the resulting fall in equilibrium price and rise in equilibrium quantity **(1 mark)** • explanation of the **process** that drives price down and quantity to rise to re-establish equilibrium **(up to 2 marks)** **(APP: up to 6 marks)**	**8**	When there is an improvement in technology the supply curve will shift to the right, this causes an excess supply and as a result, equilibrium market price will fall, and equilibrium quantity will rise. The candidate may provide two diagrams. One to show equilibrium price and quantity and one to show the impact of a shift in the supply curve to the right which results from the improvement in technology. It is possible however to show knowledge and understanding and application of the key points on one diagram. If clearly drawn and labelled this could be awarded the full 4 diagram marks. For a diagram to be considered 'accurate' it must have appropriate labels. To be awarded marks for the process that explains how equilibrium is re-established the candidate must explain that price falls because of an excess supply in the market and the fall in price leads to an extension or rise in equilibrium quantity demanded.

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Question	Answer	Marks	Guidance
2(b)	**Discuss the problems in applying supply-side policies in an economy and assess whether these problems can be overcome.** • explanation the general aims of supply-side policy and the specific aims of at least two supply-side measures **(up to 4 marks)** • explanation of the problems encountered in implementing supply-side policies **(up to 4 marks)** **(AN: up to 8 marks)** • evaluation assessing whether the problems can be overcome **(up to 3 marks)**; and a concluding comment **(1 mark)** **(EV: up to 4 marks)**	**12**	The general aim of supply-side policy is to shift the aggregate supply curve to the right. The candidate needs to show an understanding of at least two supply side measures and the difficulties in implementing them. Possible measures that could be explained are wide ranging. These include: Improved training of labour, reductions in personal and/or business taxes, deregulation of markets, privatisation, subsidisation of investment, etc. The problems in implementation could be general or specific to the measures explained although the better answers are likely to focus on the problems associated with the specific measures explained. General problems include the cost and the long time period required to increase supply.

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Question	Answer	Marks	Guidance
3(a)	**Explain how knowledge of the price elasticity of demand for a good can help businesses to assess the impact of price changes upon their total revenue.** • states what price elasticity of demand measures **(1 mark)** • accurate formula **(1 mark)** **(KU: up to 2 marks)** • accurate explanation of the meaning of relatively price elastic demand **(1 mark)**; and the link between changes in the price of elastic goods and changes in total revenue **(1 mark)** • accurate explanation of the meaning of relatively price inelastic demand **(1 mark)**; and the link between changes in the price of inelastic goods and changes in total revenue **(1 mark)** • accurate explanation of the meaning of unitary price elastic demand **(1 mark)**; and the link between changes in the price of unitary elastic goods and changes in total revenue **(1 mark)** **(APP: up to 6 marks)**	**8**	Price elasticity of demand measures the response of demand to a change in price. An 'accurate explanation' will refer to relative % changes in price and quantity demanded e.g. in the case of goods that are relatively price elastic a % change in price will lead to a greater % change in quantity. If the candidate uses more vague terms to express the relationship between changes in price and changes in quantity demanded such as, 'price changes, and demand changes to a greater extent', then 1 mark maximum in each case. It must be clear that the candidate understands the relationship between % changes in price and % changes in quantity. Effective use of diagrams that explain the relationship between changes in price, the value of elasticity and changes in total revenue can be awarded 2 marks if it is clear that the candidate understands the concept of elastic/inelastic/unitary elastic.

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Question	Answer	Marks	Guidance
3(b)	**'Since the demand for a demerit good such as cigarettes is price inelastic, a tax on the product is a waste of time. What is needed is better awareness amongst consumers of the negative effects of smoking cigarettes'. Discuss this view.** • analysis that explains why there will not be a significant reduction in consumption of demerit goods when indirect taxes are imposed if the demand is price inelastic **(up to 4 marks)** • analysis that explains that since the consumption of demerit goods is due to information failure an awareness campaign can be used to decrease demand **(up to 4 marks)** **(AN: up to 8 marks)** • evaluation that considers the overall impact of the indirect tax **(up to 3 marks)**; and a concluding comment on whether this is 'a waste of time' **(1 mark)** **(EV: up to 4 marks)**	**12**	This discussion relates to whether a tax on cigarettes is a 'waste of time' because the demand for cigarettes is price inelastic. The discussion also requires a consideration of policies to create better awareness amongst consumers. If the demand for a demerit good is price inelastic, the imposition of an indirect tax will not significantly reduce its consumption. The demand for demerit goods needs to be reduced. This could be done by using the revenue gained from an indirect tax to fund an awareness campaign. This will result in the demand curve for cigarettes shifting to the left. Diagrams are not required, but award credit if these are used effectively to support the explanation. Evaluative comment might suggest that the taxation is not a waste of time because it will reduce smoking to some extent. Others might suggest that revenue from the taxation could be used to fund the awareness campaign.

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Question	Answer	Marks	Guidance
4(a)	**Explain how the terms of trade of an economy will be affected by changes in that economy's exchange rate.** • states what the terms of trade measures **(1 mark)** • an accurate formula of the terms of trade index **(1 mark)** **(KU: up to 2 marks)** • a rise in an economy's exchange rate means that there is a fall in the price of imports **(1 mark)**; and a rise in the price of exports **(1 mark)**; and that this will lead to a rise (accept 'improvement') in the terms of trade **(1 mark)** • a fall in an economy's exchange rate means that there is a rise in the price of imports **(1 mark)**; and a fall in the price of exports **(1 mark)**; and that this will lead to a fall (accept 'deterioration') in the terms of trade **(1 mark)** **(APP: up to 6 marks)**	**8**	The terms of trade measures the relationship between changes in the price of an economy's exports and changes in the price of its imports. The formula needs to express the idea that we are measuring the ratio between changes in export prices and changes in import prices. This could be in the form of an index or more loosely a simple ratio between the two. The meaning of a rise in an economy's exchange rate is that more foreign currency can be bought with a given unit of that economy's currency. The meaning of a fall in an economy's exchange rate is that less foreign currency can be bought with a given unit of that economy's currency. If the exchange rate rises this will lead to a rise in the terms of trade. If the exchange rate falls, this will lead to a fall in the terms of trade.

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Question	Answer	Marks	Guidance
4(b)	**Discuss, using examples, whether an expenditure-reducing or an expenditure-switching policy is the more effective response in economies faced with a deficit on the current account of the balance of payments.** • analysis explaining **how** an expenditure-reducing policy can correct a deficit in the current account **(up to 3 marks)**; with reference to a disadvantage of this approach **(1 mark)** • analysis explaining **how** an expenditure-switching policy can correct a deficit in the current account **(up to 3 marks)**; with reference to a disadvantage of this approach **(1 mark)** **(AN: up to 8 marks)** • evaluative comment comparing the advantages and disadvantages of the two approaches **(3 marks)**; conclusion on which is the more effective **(1 mark)** **(EV: up to 4 marks)**	**12**	Candidates need to be able to explain how expenditure-reducing and expenditure-switching can correct a deficit in the current account of the balance of payments and explain at least one disadvantage of each. Expenditure-reducing policies are designed to reduce the general level of demand in an economy. These include: • Contractionary fiscal policies • Contractionary monetary policies One disadvantage is that the reduction in aggregate demand leads to unemployment, etc. Expenditure-switching policies are designed to change expenditure from imports to domestic goods and services or to increase exports. These include: • Import controls • Export subsides • Competitive devaluation/depreciation One disadvantage is that consumer choice is restricted.

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