Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **October/November 2020**

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.

Cambridge International will not enter into discussions about these mark schemes.

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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)	**Describe the functions of an entrepreneur in the production process.** • For a reference to taking decisions/organising, combining or coordinating the factors of production **(1 mark)** • For a reference to taking a risk **(1 mark)**	**2**	Candidates need to have both of these functions to gain 2 marks
1(b)	**How does a customs union differ from a free trade area?** • For clear explanation of a customs union **(1 mark)** • For a clear explanation of a free trade area **(1 mark)** The key difference between them is the common external tariff; this is part of a customs union, but not part of a free trade area. This difference needs to be made explicit to gain both marks, e.g. through words such as 'whereas' or 'however'.	**2**	Customs union: • an agreement between two or more countries to remove trade barriers and reduce or eliminate customs duties on mutual trade • a customs union has a common external tariff against non-member countries Free trade area: • an agreement between two or more countries that allows the countries to freely trade with each other • a free trade area does not have a common external tariff; the countries are allowed to charge whatever tariffs they want against non-member countries
1(c)	**Use a supply and demand diagram to explain how the exchange rate against the euro was maintained as shown in Fig. 1.1.** • For a supply and demand diagram showing the equilibrium at 0.7 Latvian Lats per euro **(Up to 2 marks)** • For an explanation of how a government can intervene in a market to maintain a particular price/exchange rate throughout the period from 2007 to 2013 **(Up to 2 marks)** **4 marks maximum**	**4**	A government can intervene in a market to maintain this particular exchange rate on a regular basis through: • sales of foreign reserves • buying/selling of currency on the foreign exchange market

Question	Answer	Marks	Guidance
1(d)(i)	**Explain what is meant by a 'budget deficit'.** • A budget shows the details of government expenditure and government revenue **(1 mark)** • A budget deficit is the amount by which government expenditure exceeds government revenue **(1 mark)**	**2**	
1(d)(ii)	**Analyse, using a diagram, how fiscal measures to reduce the budget deficit could be used by the Latvian government to lower the relatively high rate of inflation.** • Analysis of the impact of fiscal measures of reducing government expenditure and increasing government taxation to lower the relatively high rate of inflation in Latvia **(Up to 2 marks)** • For an AD/AS diagram showing the shift of the AD curve to the left and a lowering of the general price level **(Up to 2 marks)**	**4**	Measures to reduce government expenditure: • deflationary fiscal policy to reduce public expenditure • policy of government to move from a budget deficit to a balanced budget Measures to increase government taxation: • increases in direct taxes, e.g. taxes on income • increases in indirect taxes, e.g. taxes on expenditure Impact on inflation: • the impact of reduced government expenditure and increased government taxation will be to reduce inflationary pressure in the economy

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Question	Answer	Marks	Guidance
1(e)	**Discuss whether it is better for Latvia to specialise in banking services rather than having a more diversified economy** • For a discussion of the advantages of Latvia specialising in banking services **(Up to 3 marks)** • For a discussion of the advantages of Latvia having a more diversified economy **(Up to 3 marks)** • **5 marks maximum** **Reserve 1 mark for a conclusion** **6 marks maximum**	**6**	Advantages of Latvia specialising in banking services: • advantages of specialisation, such as in relation to comparative advantage and the existence of a lower opportunity cost ratio • builds up expertise • further establishes its reputation as a banking centre • banking services do not have significant transport costs, especially online banking Advantages of Latvia having a more diversified economy: • avoids over-specialisation • this could be advantageous if there is a reduced demand for financial services • spreads risks

Question	Answer	Marks	Guidance
2(a)	**Explain, with the help of examples, how imperfect information among consumers affects their consumption of merit goods and demerit goods.** **Up to 2 marks for Knowledge and Understanding** • Knowledge and understanding of imperfect information in relation to a merit good and a demerit good, with the help of suitable examples **(Up to 2 marks)** **2 marks maximum** **Up to 6 marks for Application** • Application of the idea of imperfect information to the under-consumption of a merit good **(Up to 3 marks)** • Application of the idea of imperfect information to the over-consumption of a demerit good **(Up to 3 marks)** **6 marks maximum**	**8**	**Merit good:** • a particular type of private good • it is rival and excludable • it has intrinsic benefits for an individual • examples include education or health care **Demerit good:** • a particular type of private good • it is rival and excludable • it is potentially damaging for an individual • examples include alcohol or tobacco **Imperfect information and a merit good:** • problem of information failure • merit goods are likely to be under-consumed and under-produced • consumers do not fully appreciate the value of a merit good **Imperfect information and a demerit good:** • problem of information failure • demerit goods are likely to be over-consumed and over-produced • consumers do not fully understand the potential dangers of a demerit good

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Question	Answer	Marks	Guidance
2(b)	**Discuss why in most mixed economies, resources are mainly allocated using market forces and the price mechanism**. **Up to 8 marks for Analysis** • Analysis of market forces/price mechanism element **(Up to 4 marks)** • Analysis of government intervention element (the use of the word 'mainly' makes it clear that market forces/price mechanism is not the exclusive method of resource allocation) **(Up to 4 marks)** **8 marks maximum** **Up to 4 marks for Evaluation** For exercising some judgement on why in most mixed economies, resources are mainly, but not exclusively, allocated using market forces and the price mechanism **Reserve 1 mark for a conclusion** **4 marks maximum**	**12**	**Features of market forces:** • existence of price mechanism • prices operate as signals to indicate consumer preferences • private sector ownership/decision-making with no or very little government intervention **Features of government intervention:** • existence of public sector • public goods and merit goods can be provided by the government

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Question	Answer	Marks	Guidance
3(a)	**Cross elasticity of demand for bread with respect to the price of rice is +1.4 while the cross elasticity of demand for bread with respect to the price of butter is -0.7. Explain why the cross elasticity of demand figures for bread differ.** **Up to 2 marks for Knowledge and Understanding** • What is meant by XED **(1 mark)** • The formula for XED **(1 mark)** **2 marks maximum** **Up to 6 marks for Application** • Application to goods as substitutes/positive XED **(1 mark)** • Application to bread and rice as substitutes **(1 mark)** • Application to figure and strong relationship **(1 mark)** • Application to goods as complements/negative XED **(1 mark)** • Application to bread and butter as complements **(1 mark)** • Application to figure and weak relationship **(1 mark)** **6 marks maximum**	**8**	**Cross elasticity of demand:** • the percentage/proportionate change in the quantity demanded of Good A divided by the percentage/proportionate change in the price of Good B

Question	Answer	Marks	Guidance
3(b)	**Explain the implications of price elasticity of demand and income elasticity of demand for business decisions. Discuss which measure is likely to be more useful to a business.** **Up to 8 marks for Analysis** • Analysis of the usefulness of price elasticity of demand to a business **(Up to 4 marks)** • Analysis of the usefulness of income elasticity of demand to a business **(Up to 4 marks)** **8 marks maximum** **Up to 4 marks for Evaluation** For exercising some judgement on the relative extent to which price elasticity of demand and income elasticity of demand can be of use to a business **Reserve 1 mark for a conclusion** **4 marks maximum**	**12**	**Potential usefulness of PED:** • it can be helpful in giving a business an indication of the extent to which a change in price may affect revenue • this will show that to increase revenue, the price of an elastic good should be reduced and the price of an inelastic good should be increased • however, to be able to make appropriate calculations, a businessman will need to take into account the availability of substitutes, the width of the definition of the product, the amount spent on the product and the time period under consideration **Potential usefulness of YED:** • it can be helpful in giving a business an indication of the extent to which a change in income may affect revenue • however, to be able to make appropriate calculations, a businessman will need to take into account whether a good is a normal or an inferior good, the proportion of income that is spent on a particular good, the width of the definition of the product and the level of economic development of the particular economy

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Question	Answer	Marks	Guidance
4(a)	**Explain, with the aid of a diagram, the impact of a subsidy to domestic producers of a product on the export revenue from that product.** **Up to 2 marks for Knowledge and Understanding** For correct diagram: • Vertical axis correctly labelled: P/Price Horizontal axis correctly labelled: Q/Quantity **(1 mark)** • Shift of the supply curve to the right and new equilibrium price and equilibrium quantity shown **(1 mark)** **2 marks maximum** **Up to 6 marks for Application** • Explanation in relation to the impact of a subsidy to domestic producers of a product on the export revenue from that product. **(Up to 3 marks)** • Explanation in relation to the effect of PED/PES on export revenue **(Up to 3 marks)** **6 marks maximum**	**8**	Both knowledge and understanding marks are for the diagram **Impact of a subsidy in a market:** • government payment of a subsidy to a firm will reduce the costs of production • this will encourage firms to supply more output at any given price • this will cause the supply curve to shift to the right • the equilibrium price in the market will be lower • the equilibrium quantity in the market will be higher • the effect on change in revenue will depend on PED/PES

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Question	Answer	Marks	Guidance
4(b)	**Discuss whether supply-side policies are an effective way of correcting a deficit on an economy's current account of the balance of payments.** **Up to 8 marks for Analysis** • The potential advantages of supply-side policies **(Up to 4 marks)** • The potential disadvantages of supply-side policies **(Up to 4 marks)** **8 marks maximum** **Up to 4 marks for Evaluation** For exercising some judgement on whether supply-side policies are an effective way of correcting a deficit on an economy's current account of the balance of payments **Reserve 1 mark for a conclusion** **4 marks maximum**	**12**	**Supply-side policies could include:** • increasing incentives to work by lowering income tax and unemployment benefits, but this will not necessarily lead to an increase in the supply of labour, especially if there are no jobs • increasing expenditure on education and training, but this will not necessarily lead to an increase in labour productivity or to an increase in the occupational mobility of labour, and its effect can take a long time to show • reducing the power of trade unions, but this will not necessarily lead to a reduction in the number of days lost through industrial action • encouraging the privatisation of firms, but this will not necessarily lead to an increase in the efficiency of firms and a way of correcting such a deficit • encouraging deregulation, e.g. through reducing the barriers of entry into an industry, but this will not necessarily lead to an increase in the number of firms entering an industry • providing more information about job vacancies in different parts of a country, but this will not necessarily lead to the correction of a current account deficit

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