Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/23**

Paper 3 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.

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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)	**State whether the Malaysian ringgit depreciated or appreciated against the US dollar over the period July 2013 to July 2017. Justify your answer.** The Malaysian ringgit depreciated (**1 mark)** So the Malaysian ringgit is worth less dollars (or the US dollar is worth more ringgits) **(1 mark)** **Max 2 marks**	**2**	The ringgit has depreciated from 3.1RM to 4.2RM per US dollar**.** It is necessary to state that the ringgit has depreciated for the first mark. The candidate does not need to provide precise figures. Figure 1.2 makes it clear that the Malaysian ringgit is now worth less dollars or the US dollar is worth more ringgit. A clear statement along these lines is sufficient for the second mark.
1(b)(i)	**Describe the relationship you would expect between a change in the foreign exchange rate of a country and its balance of trade in goods and services.** For description of a **fall** in the exchange rate and an increasing surplus or a decreasing deficit **(1 mark)** **And** For description of a **rise** in the exchange rate and a decreasing surplus or an increasing deficit **(1 mark)** **Max 2 marks**	**2**	In general, a depreciation of a foreign exchange rate should lead to a positive change in the balance of trade e.g. a deficit becomes a surplus. An appreciation should lead to a negative change in the balance of trade e.g. a surplus becomes a deficit. How the change in the foreign exchange rate actually affects the balance of trade is determined by the price elasticity of demand for exports and imports, but this is not required.
1(b)(ii)	**Explain whether the evidence in Fig. 1.1 and Fig. 1.2 confirms this relationship.** In general the information in the two figures does not confirm this relationship because the two graphs do not appear to be closely related (**1 mark)** for reference to the data to illustrate a time period when the relationship is not confirmed or they can refer to a time period when the relationship is confirmed (**1 mark)** **Max 2 marks**	**2**	If a candidate reverses the direction of causation this can be allowed if explained well.

Question	Answer	Marks	Guidance
1(c)	**In July 2017, Malaysia's balance of trade in goods and services was RM22045 million and its current account balance was RM9642 million.** **Explain the reason for this difference.** The difference can be attributed to the absence of Primary and Secondary income balances. **(1 mark)** For an explanation that the sum of these two missing balances must be negative. (**1 mark)** **Max 2 marks**	**2**	Accept older terms to describe the components of the current account balance of trade. For example, the income account or current transfers. If the candidate states that 'other parts' of the current account might be absent then allow 1 mark.
1(d)	**Other than exchange rate changes, explain two possible reasons for Malaysia's increasing balance of trade in goods and services surplus from July 2016 to July 2017.** For identification of a valid reason **(1 mark)** and for accompanying explanation **(2 marks)**	**6**	There are many possible reasons for Malaysia's increasing surplus on the balance of trade. Candidates should identify a possible reason and then explain why the factor identified could lead to an increasing surplus. For example, government intervention such as subsidies to export industries **(1 mark)** this will reduce the price of exports **(1 mark)** and make Malaysian goods and services more competitive in world markets **(1 mark)** An increase in the rate of direct taxes in Malaysia **(1 mark)** will reduce disposable incomes **(1 mark)** and make imports less affordable **(1 mark)** **Allow any valid reason.**

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Question	Answer	Marks	Guidance
1(e)	**Discuss whether the Malaysian government should be concerned about persistent surpluses in its balance of trade in goods and services.** Award **up to 3 marks** for analysis of the advantages of a surplus. Award **up to 3 marks** for analysis of the disadvantages of a surplus. **5 marks maximum** Reserve **1 mark** for an evaluative comment that makes clear whether the Malaysian government should or should not be concerned.	**6**	Persistent surpluses on the balance of trade in goods and services could increase aggregate demand in Malaysia leading to high employment and a rise in real GDP. This is a positive outcome, but it could generate demand-pull inflation if the economy is operating at full capacity. In addition, if the surpluses are maintained through government intervention there might be tension with trading partners and competitors. This might lead to retaliation.

Question	Answer	Marks	Guidance
2(a)	**Using diagrams, explain what might cause a market to be in disequilibrium, and how market forces would lead to equilibrium being restored.** **For knowledge and understanding**: using a diagram to show equilibrium in a market **(1 mark)** with a clear statement of what is meant by 'equilibrium' **(1 mark)** **2 marks** **For application:** that shows disequilibrium in a market and why it might arise. A shift in the demand or supply curve **(1 mark)** with a cause of this shift **(1 mark)** and the disequilibrium in terms of an excess demand or excess supply **(1 mark)** and the new equilibrium price and quantity indicated **(1 mark)** And application that explains how the new equilibrium is restored by market forces **(Up to 2 marks)**	**8**	A market is in equilibrium when, given present circumstances, there is no tendency for change. In other words demand and supply are equal with an equilibrium price and quantity. The market clears at this point. Disequilibrium will occur when either the demand curve or supply curve shifts. Change will have to come about to restore equilibrium. Equilibrium is restored through price changes or changes in demand and/or supply in the market. Accept maximum or minimum prices as a cause of disequilibrium.

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Question	Answer	Marks	Guidance
2(b)	**Discuss whether the incidence of an indirect tax on a product always affects its consumers more than its producers.** **Analysis:** Up to **4 marks** for an explanation of the incidence of an indirect tax and how it affects consumers in terms of the price paid and the consumer surplus with due reference to the price elasticity of demand and supply. Up to **4 marks** for an explanation of the incidence of an indirect tax and how it affects producers in terms of the price received and the producer surplus with due reference to the price elasticity of demand and supply. **8 marks max** Up to **4 marks** for **evaluation**. Reserve 1 mark for a clear conclusion of whether it is always consumers rather than producers who are most affected. **Up to 4 marks maximum**	**12**	Incidence refers to the relative impact of an indirect tax on consumers and producers. The extent of the incidence depends on the price elasticity of demand and supply of the product. The more inelastic the PED, the greater the burden of the tax on consumers and so on. Evaluative comment might consider those goods that are habit forming and often considered as demerit goods in terms of the impact of an indirect tax on incidence and consumption.

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Question	Answer	Marks	Guidance
3(a)	**Explain what is meant by income elasticity of demand and, with the help of examples, show how it can be used to determine whether a good is normal or inferior.** For **knowledge and understanding**: up to **2 marks** for an explanation of the concept. What it measures **(1 mark)** and the formula **(1 mark)** For **application** to different types of good. Normal goods have a positive sign **(1 mark),** and why this comes about **(1 mark).** This should be justified with an appropriate example to illustrate the case **(1 mark)** **3 marks** Inferior goods have a negative sign **(1 mark),** and why this comes about **(1 mark).** This should be justified with an appropriate example to illustrate the case **(1 mark)** **3 marks** **8 marks max**	**8**	Income elasticity of demand is a numerical measure of the responsiveness of demand following a change in income. A formula is equally acceptable. The sign and size are important when determining whether a good is normal or inferior.

Question	Answer	Marks	Guidance
3(b)	**Discuss whether knowledge of price elasticity of demand or price elasticity of supply is more useful to a car manufacturer.** For **analysis**: Up to **4 marks** for an explanation of the usefulness of PED to a car manufacturer. Up to **4 marks** for an explanation of the usefulness of PES to a car manufacturer. **8 marks max** For **evaluation**; that compares the usefulness of the two measures **(up to 3 marks)** to arrive at a reasoned conclusion **(1 mark)** **Up to 4 marks maximum**	**12**	The idea behind this question is for candidates to consider the two elasticities and say which one provides the best information in this context. Each measure should be analysed. Re-PES, it is relevant to explain that this will show whether the manufacturer has the capacity to produce more or less as price changes. Reference to the ability to produce vehicles for stock is relevant. PED is most useful when the manufacturer is looking at whether to change the price of vehicles.

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Question	Answer	Marks	Guidance
4(a)	**A government embarks on a supply-side policy involving substantial additional funding for new road schemes and for new training schemes designed to raise labour productivity.** **Use an AD/AS diagram to explain the effects of this funding on the level of output in the economy.** For **knowledge and understanding**: For an accurate AD/AS diagram that shows national output in equilibrium **(2 marks)** **For application:** For a clear understanding of aggregate demand **(1 mark)** using an accurate diagram to show that the AD curve will shift to the right because of the increase in government spending **(1 mark)** and that this will increase the level of national output **(1 mark)** For a clear understanding of aggregate supply **(1 mark)** using an accurate diagram to show that the AS curve will shift to the right because of the increase in productivity **(1 mark)** and that this will increase the level of national output **(1 mark)** **8 marks max**	**8**	In the short run there will be an increase in Aggregate Demand. This can be shown by a shift of the AD function to the right. Longer term, the AS function may also shift to the right as the quality of the labour force increases.

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Question	Answer	Marks	Guidance
4(b)	**Discuss the extent to which a supply-side policy involving new road schemes and new training schemes will increase the rate of inflation in the economy.** For **analysis** of supply side policies with reference to the aims and why the rate of inflation might not increase (**up to 4 marks)** For analysis of the impact upon AD and why the rate of inflation might increase. (**up to 4 marks)** **8 marks max** For **evaluation**: that considers whether the overall effect will be to increase the rate of inflation with **1 mark** reserved for a reasoned conclusion. **4 marks max**	**12**	An increase in the rate of inflation is likely to occur in the short run, if following the increase in AD, there is no spare capacity in the economy. The increase in the rate of inflation may be reduced if the increase in AS provides more capacity. Evaluative comment might refer to the scale of additional funding and how these resources have been funded. Or it might refer to the distinction between the short-run and long-run impact.

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