Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **October/November 2022**

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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Social Science-Specific Marking Principles
(for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
b DO credit alternative answers/examples which are not written in the mark scheme if they are correct
c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

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3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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Question	Answer	Marks	Guidance
1(a)	**Explain how 'a product's price acts as a signal of its scarcity'.** For a reference to a situation where there are limited resources to satisfy unlimited wants and needs and so price rations the available resources among competing buyers (1 mark) For a development in terms of a rising demand for a product, relative to its supply, will push up prices and act as an incentive to increase the quantity; the existence of scarcity giving rise to the need to make choices between the different uses that can be made of the scarce resources (1 mark) **2 marks maximum**	**2**	
1(b)	**Explain one possible reason why the Government of Iran may have decided to raise the minimum price of fuel in 2019.** For an identification of one possible reason (1 mark) For a more developed explanation of one possible reason (1 mark) **2 marks maximum**	**2**	**Possible reasons could include:** • the need to reduce the demand for fuel; an increase in the price could be effective if the PED for fuel is elastic • this could benefit the country's current account on the balance of payments if a substantial amount of fuel is imported, although Iran does have a large amount of crude oil reserves • this will encourage producers to increase the supply of fuel which will help them to increase their profits • an increase in producer profits could lead to a substantial increase in government revenue from the taxes on profits • if subsidies have been reduced, the money saved could be reallocated

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Question	Answer	Marks	Guidance
1(c)	**Explain, with the help of a diagram, how an effective minimum price would affect the market for a basic food, such as rice in Haiti.** For an explanation of the effect of a minimum price in a market (Up to 2 marks) For a correctly drawn and labelled diagram to show the operation of a minimum price in a market for a basic food, such as rice in Haiti (Up to 2 marks) **4 marks maximum**	**4**	**Effective minimum price:** • a minimum price in a market is where a price floor is established • to be effective, this needs to be above the equilibrium price • the equilibrium price in a market would be higher than would be the case if there was no government intervention • farmers are therefore guaranteed these prices • this is likely to have a positive effect on their incomes • it could lead to excess supply/surplus • this could lead to the possibility of food rotting in warehouses **Diagram:** • One mark for correctly labelled P, Q, D and S • One mark for showing a minimum price line above the equilibrium, for showing a price higher than the equilibrium price and for showing the change in quantity

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Question	Answer	Marks	Guidance
1(d)	**'Governments use stocks to smooth fluctuations in the price of a commodity like cocoa'.** **Consider whether government action to smooth fluctuations helps the workings of the price mechanism.** For an explanation of how government action to smooth price fluctuations may help the workings of the price mechanism (Up to 3 marks) For an explanation of how government action to smooth price fluctuations may not help the workings of the price mechanism (Up to 3 marks) **5 marks maximum** **Reserve 1 mark for a conclusion** **6 marks maximum**	**6**	**Government action might help the workings of the price mechanism:** • it can help to stabilise a market • stocks can be used to smooth fluctuations in the price of commodity, such as cocoa, avoiding/reducing large price variations • a government could buy stocks when there was an excess supply of a product in the market • a government could sell stocks when there was an excess demand for a product in the market **Government action might not help the workings of the price mechanism:** • it could distort the market by not allowing prices to reflect changes in the conditions of demand for, and supply of, a product • the consideration of how such action by a government might not help the workings of the price mechanism can be discussed in relation to the different functions of the price mechanism, i.e. rationing, signalling and the transmission of preferences

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Question	Answer	Marks	Guidance
1(e)	**Discuss whether maximum price controls will always be effective in controlling inflation.** For a discussion of the **advantages** of using maximum price controls to control inflation (Up to 3 marks) For a discussion of the **disadvantages** of using maximum price controls to control inflation (Up to 3 marks) **5 marks maximum** **Reserve 1 mark for a conclusion** **6 marks maximum**	**6**	**The advantages of establishing a maximum price in a market in the form of a price ceiling:** • the price will be lower than what would otherwise be the case if there was no government intervention • this would lead to a lower rate of inflation in an economy • this helps the poor afford the necessities of life • these could include essential foodstuffs, housing rents and transport • specific examples given include the price of foodstuffs, including bread in Benin and rice in Haiti **The disadvantages of establishing a maximum price in a market in the form of a price ceiling:** • lower prices could stimulate demand-pull inflation • the creation of a shortage as a result of the excess demand created in the market • hoarding • black/illegal markets which can charge relatively high prices • queuing or rationing • if the controls are not effective, it will not control inflation

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Question	Answer	Marks	Guidance
2(a)	**Explain <u>two</u> factors that will determine the price elasticity of demand for a particular brand of car and how this price elasticity of demand may change over time.** **For Knowledge and Understanding:** For a correct definition of price elasticity of demand For a correct formula of price elasticity of demand. (Up to 2 marks) **2 marks maximum** **For Application:** Application of **one** factor affecting the PED for a particular brand of car, taking into account how this may change over time. (Up to 3 marks) Application of a **second** factor affecting PED for a particular brand of car, taking into account how this may change over time. (Up to 3 marks) **6 marks maximum**	**8**	**Definition of PED:** the measurement of the extent to which a change in price leads to a change in quantity demanded **Formula of PED:** percentage change in the quantity demanded of a product divided by the percentage change in the price of a product. **Factors affecting PED:** • the availability and price of substitutes: the market contains many firms and so PED for a particular brand of car is likely to be relatively elastic • the price of the product relative to income: the higher the relative proportion of income accounted for by a particular brand of car, the more elastic the PED is likely to be, although this could change over time as incomes rise • loyalty: if consumers have a strong loyalty to a particular brand of car, this will tend to make PED relatively inelastic • need or want: the degree to which a particular brand of car is seen as a necessity or a luxury • the time period: the PED for any particular brand of car is likely to increase over time, so it is more likely to be relatively elastic in the LR than in the SR

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Question	Answer	Marks	Guidance
2(b)	**Discuss whether knowledge of price elasticity of demand or income elasticity of demand would be of greater use to a business that produces cars.** **For Analysis:** Analysis of the usefulness of knowledge of the **price elasticity of demand** to a business that produces cars. (Up to 4 marks) Analysis of the usefulness of knowledge of the **income elasticity of demand** to a business that produces cars. (Up to 4 marks) **8 marks maximum** **For Evaluation:** For exercising some judgement on whether knowledge of price elasticity of demand or income elasticity of demand would be of greater use to a business that produces cars.(Up to 4 marks) **Reserve 1 mark for a conclusion** **4 marks maximum**	**12**	**The usefulness of knowledge of price elasticity of demand:** • the business will be able to predict the effect of a change in the price of a car on demand reasonably accurately • if demand is price elastic, a fall in price will lead to an increase in revenue • if demand is price inelastic, a fall in price leads to a decrease in revenue • if PED is unitary elastic, a change in price will not lead to a change in revenue **The usefulness of knowledge of the income elasticity of demand:** • the business will benefit from knowing about the effect of changes in income in an economy, e.g. as incomes increase, production can shift from a basic car • knowledge of YED will enable the business to plan for the future, e.g. having the resources to meet demand • increases in income in an economy may lead the business to produce better and more luxurious cars with more features and functions (luxuries have a YED of more than 1 and so the business will be able to know whether to produce more luxury goods)

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Question	Answer	Marks	Guidance
3(a)	**Explain, with the use of a diagram(s), how the production possibility curve of an economy could be affected by a decrease in the quantity of labour available, but an increase in its quality.** **For Knowledge and Understanding:** For knowledge and understanding of the production possibility curve of an economy. (Up to 2 marks) **2 marks maximum** **For Application:** For a diagram and explanation of how a decrease in the **quantity** of labour would shift the PPC to the left. (Up to 3 marks) For a diagram and explanation of how an increase in the **quality** of labour would shift the PPC to the right. (Up to 3 marks) **6 marks maximum**	**8**	**Production possibility curve:** • a PPC is based on a two-product economy • a PPC shows the range of combinations of two products that may be produced if the existing level of resources in an economy is being fully utilised **A decrease in the quantity of labour:** • this would lead to a reduction in the productive potential of an economy (1) **Diagram:** • correct labelling of axes and PPC drawn in such a way that it touches both axes (it can be straight or curved) (1) • the PPC shifts to the left (1) **An increase in the quality of labour:** • this would lead to an increase in the productive potential of an economy (1) **Diagram:** • correct labelling of axes and PPC drawn in such a way that it touches both axes (it can be straight or curved) (1) • the PPC shifts to the right (1)

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Question	Answer	Marks	Guidance
3(b)	**Discuss whether supply side policies will be successful in increasing the quantity and quality of the factor enterprise in a modern economy.** **For Analysis:** Analysis of the potential **advantages** of supply side policies in increasing the quantity and quality of the factor enterprise in a modern economy. (Up to 4 marks) Analysis of the potential **limitations** of supply side policies in increasing the quantity and quality of the factor enterprise in a modern economy. (Up to 4 marks) **8 marks maximum** **For Evaluation:** For exercising some judgement on whether supply side policies will be successful in increasing the quantity and quality of the factor enterprise in a modern economy.(Up to 4 marks) **Reserve 1 mark for a conclusion** **4 marks maximum**	**12**	**Potential advantages of supply side policies:** • lower taxes could encourage people to become entrepreneurs • higher expenditure on education and training/reskilling could improve the quality of the factor enterprise, making entrepreneurs more innovative and more willing to take a risk • deregulation could lead to laws being reduced to make the setting up of an enterprise easier • financial support from the government would enable more enterprises to survive and to stay in business **Potential limitations of supply side policies:** • the effects of supply side policies can take a long time to show, e.g. training • some entrepreneurs might become too dependent on government support and so become inefficient • the policies will not guarantee that all enterprises will be successful • a policy of privatisation might actually reduce the quantity of the factor enterprise needed • questionable whether enterprise can be taught/trained

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Question	Answer	Marks	Guidance
4(a)	**Explain, with the use of a diagram(s), <u>two</u> factors that could bring about a depreciation in the value of a country's exchange rate in a freely floating exchange rate system.** **For Knowledge and Understanding:** For a correct explanation of a floating exchange rate system (1 mark) For a correct diagram showing a floating exchange rate system (1 mark) **2 marks maximum** **For Application:** Explanation of **one** factor that could bring about a depreciation in the value of a country's exchange rate in a freely floating exchange rate system. (Up to 3 marks) Explanation of a **second** factor that could bring about a depreciation in the value of a country's exchange rate in a freely floating exchange rate system. (Up to 3 marks) **6 marks maximum**	**8**	**Definition of a floating exchange rate system:** • one in which the exchange rate is determined by the intersection of the demand for a currency and the supply of a currency or not fixed by the government **Diagram:** • vertical axis needs to indicate that it is the price of a currency rather than any price in order for the diagram to be given a mark, assuming that D and S are correctly labelled **Factors that could bring about a depreciation:** • a decrease in the demand for a currency, e.g. if fewer exports are sold • an increase in the supply of a currency, e.g. if more imports are bought • lower interest rates • a higher rate of inflation compared with trading competitors because exports will be less competitive • a deficit in the balance of payments on current account will contribute to a depreciation

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Question	Answer	Marks	Guidance
4(b)	**Discuss whether protectionist policies would be the most effective way to correct a current account deficit on the balance of payments in an economy.** **For Analysis:** The potential **advantages** of protectionist policies to correct a current account deficit on the balance of payments in an economy. (Up to 4 marks) The potential **limitations** of protectionist policies to correct a current account deficit on the balance of payments in an economy. (Up to 4 marks) **8 marks maximum** **For Evaluation:** For exercising some judgement on whether protectionist policies would be the most effective way to correct a current account deficit on the balance of payments in an economy. (Up to 4 marks) **Reserve 1 mark for a conclusion** **4 marks maximum**	**12**	**Potential advantages of protectionist policies:** • tariffs would make imports more expensive and discourage the consumption of them • quotas would restrict the volume of imported products • embargoes would place a complete ban on certain imported products • excessive administrative burdens ('red tape') would make it much more difficult to actually get products into a country • export subsidies would help to make domestic products more price competitive in international markets **Potential limitations of protectionist policies:** • tariffs may not be very effective if the demand for the imported products is relatively price inelastic • some quotas may not be that restrictive • an embargo could lead to retaliation • there may be ways of getting round the excessive administrative burdens • the effect of export subsidies would depend on the PED for the products and could also lead to retaliation

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