Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay **October/November 2023**

MARK SCHEME

Maximum Mark: 60

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.

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).

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.

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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.

Assessment objectives

AO1 Knowledge and understanding.

- Show knowledge of syllabus content, recalling facts, formulae, and definitions.
- Demonstrate understanding of syllabus content, giving appropriate explanations and examples.
- Apply knowledge and understanding to economic information using written, numerical, and diagrammatic forms.

AO2 Analysis

- Examine economic issues and relationships, using relevant economic concepts, theories, and information.
- Select, interpret, and organise economic information in written, numerical, and diagrammatic form.
- Use economic information to recognise patterns, relationships, causes and effects.
- Explain the impacts and consequences of changes in economic variables.

AO3 Evaluation

- Recognise assumptions and limitations of economic information and models.
- Assess economic information and the strengths and weaknesses of arguments.
- Recognise that some economic decisions involve consideration of factors such as priorities and value judgements.
- Communicate reasoned judgements, conclusions, and decisions, based on the arguments.

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Table A: AO1 Knowledge and understanding and AO2 Analysis

Use this table to give marks for each candidate response for AO1 Knowledge and understanding and AO2 Analysis for **Questions 2(b)**, **3(b)**, **4(b)** and **5(b)**.

Level	Description	Marks
3	• A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate. • The response clearly addresses the requirements of the question and explains economic issues, and fully develops these explanations. • Analysis is developed and detailed and makes accurate and relevant use of economic concepts and theories. Where necessary, there is accurate and relevant use of analytical tools such as diagrams and formulae, and these are fully explained. • Responses are well-organised, well-focused and presented in a logical and coherent manner.	**6–8**
2	• Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies. • The response addresses the general theme of the question and the relevant economic issues, with limited development. • Analysis is generally accurate with some development but little detail. Uses analytical tools such as diagrams and formulae where necessary. Use of these tools is partially accurate or not fully explained. • Responses are generally logical and coherent but are sometimes lacking in focus or organisation.	**3–5**
1	• A small number of relevant knowledge points are included, and the response is limited by significant errors or omissions. • The response has little relevance to the question. • Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. • Responses show limited organisation of economic ideas.	**1–2**
0	• No creditable response.	**0**

Table B: AO3 Evaluation

Use this table to give marks for each candidate response for AO3 Evaluation for **Questions 2(b)**, **3(b)**, **4(b)** and **5(b)**.

Level	Description	Marks
2	• Provides a justified conclusion or judgement that addresses the specific requirements of the question. • Makes developed, reasoned and well-supported evaluative comment(s).	**3–4**
1	• Provides a vague or general conclusion or judgement in relation to the question. • Makes simple evaluative comment(s) with no development and little supporting evidence.	**1–2**
0	• No creditable response.	**0**

Section A

Question	Answer	Marks
Follow the point-based marking guidance at the top of this mark scheme.		
1(a)	**Using the data in Table 1.1, calculate the percentage change in the average real global price of oil between 2014 and 2020**. • For an answer which clearly states the change is –57.4 **% (2)** • For an answer that simply states a change of 57**.**4 % **(1)** and indicates this is a fall/decrease in the average real global price of oil **(1)** • For an answer that states the price has fallen and does not provide an accurate figure **(1 maximum)** **Guidance** Allow figures between 57% and 58%. Do not accept a negative value unless the answer is within –57% and –58%	**2**
1(b)	**Explain why the price of oil on the world market fell in 2020.** The pandemic/increased demand for electric cars led to a fall in demand for oil products **(1)** so the demand curve shifted to the left/this led to a surplus so producers were forced to reduce prices to sell **(1).**	**2**

Question	Answer	Marks
1(c)	**With the help of a diagram, explain why the supply problem referred to may lead to increases in the price of electric cars in the future and consider <u>one</u> policy that may be used to overcome this supply problem.** The shortage of lithium may be caused by a fall in its supply or an increase in its demand (not matched by an increase in its supply). For an accurate supply and demand diagram showing the effect on the price of lithium and/or the price of electric cars due to either of these changes **(1)** explaining that this will add to the cost of production of electric cars **(1)** and therefore increase the price of electric cars **(1).** **IF** an accurate supply and demand diagram is drawn to illustrate the increase in the price of electric cars without any reference to the price of lithium and its importance as a cost of production then **1 mark MAX.** Clearly there are several potential valid policies, but these **must** clearly address the problems identified in the data i.e., a worldwide shortage in the supply of **lithium** needed for car batteries in electric vehicles. Evaluation **must** therefore focus on increasing the supply of lithium and **not** electric cars and methods may include: • R and D into alternative raw materials other than lithium or improve its extraction • Tax and subsidy incentives to increase R and D • Tax and subsidy incentives to increase the number of lithium mines. Identify and explain valid policy and briefly explain how that this might overcome the problem of a lack of lithium **(1)** **<u>Guidance</u>** Any valid way should be rewarded but it must clearly relate to the problems identified in the data and explain how the problem may be overcome for full marks.	**4**

Question	Answer	Marks
1(d)	**Explain whether unemployment caused by the diversification of petrostates away from oil and gas production is likely to be cyclical or structural and assess which type of unemployment is likely to be more damaging to these economies.** **Up to 4 marks for the explanation/analysis** For explaining that the potential unemployment in this situation is likely to be structural and why **(1)** For analysis and comparison of the problems caused by **both** cyclical **and** structural unemployment (maximum of 2 marks if only one type of unemployment is considered) **(3)** That leads to **Up to 2 marks for evaluation – these can only be awarded for relevant analysis of the problems.** • **Must** be related to issues faced by petrostates. • Which must compare the problems of both types of unemployment within such economies? • Reaches an overall and justified conclusion about which type of unemployment would be most damaging for these economies. **Guidance** The explanation, analysis, and evaluation should consider both types of unemployment and points to consider may include: • Structural unemployment is likely to be caused by problems within the supply side whereas cyclical unemployment is caused by a lack of AD in the economy. • Long and short run impacts • The ease of curing the different types of unemployment • The potential costs to an economy	**6**

Question	Answer	Marks
1(e)	**Assess whether diversification is likely to be more successful in Venezuela or Saudi Arabia as they reduce their dependence on oil production.** **Up to 4 marks for the explanation/analysis** Answers should analyse the extent of the likely success of diversification for **both** economies. • Up to 3 marks for valid analysis for Venezuela • Up to 3 marks for valid analysis for Saudi Arabia **(with a maximum of 4 marks overall)** If the answer is just a generalised discussion of the impact of diversification without any valid reference to Venezuela or Saudi Arabia, then a **maximum of 1 mark** **Up to 2 marks for evaluation** • that considers why the success of diversification may differ in **each** case. • and reaches a justified conclusion as to which country's economic growth is most likely to be impacted. **Guidance** Clearly, according to the extract, the common problem for both economies is the forecast fall in oil demand led by the need to reduce carbon emissions and deal with climate change. However, as the data also makes clear, the impact of this will be different for countries such as Saudi Arabia and countries such as Venezuela, and the analysis and evaluation must refer to these differences for full marks. Points to consider from the extract may include: • The relative wealth and access to both internal and external capital • The relative focus on short- and long-term growth • The relative ease of diversifying e.g., Saudi Arabia has already begun investing in renewable energy and tourism, whereas Venezuela is suffering high rates of emigration and lacks the funds to do so. • The possible difference in the willingness of other economies to offer the needed support to Saudi Arabia and Venezuela respectively and the possible difference in the receptiveness to any aid offered.	**6**

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Section B

Question	Answer	Marks
EITHER		
2(a)	**With the help of a formula, explain what is meant by the term price elasticity of demand for a product and consider the extent to which it allows an entrepreneur to determine the effect of price changes on the total expenditure on their product.** Follow the point-based marking guidance at the top of this mark scheme and award: • up to 3 marks for AO1 Knowledge and understanding • up to 3 marks for AO2 Analysis • up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** For a clear understanding of the meaning of price elasticity of demand **(1)** plus an accurate formula **(1)** plus a clear understanding of what is meant by price elastic and price inelastic that refers to relative proportionate or percentage changes rather than large or small changes **(1)** **AO2 Analysis (max 3 marks)** **Up to 2 marks** for clear analysis of how total expenditure on a product is affected by price changes if the demand is price elastic. **Up to 2 marks** for clear analysis of how total expenditure on a product is affected by price changes if the demand is price inelastic. **Note:** as the question refers to price changes it is expected that answers should consider both price increases and price decreases. If either part of the analysis only considers a price rise **or** a fall, then **a maximum** of 1 mark for that part of the analysis. If both parts of the analysis consider a price rise or fall then a **maximum** mark of **2** i.e., **1 + 1.** **AO3 Evaluation (max 2 marks)** **Up to 2 marks** for considering the **extent** to which the concept can help the entrepreneur and making a judgement. • Consideration of the accuracy of the measure and the ease of calculation for an entrepreneur • Consideration of other factors which may affect total expenditure on a product when price changes. • Reserve **1** mark for a conclusion that focuses on the extent to which it allows the entrepreneur to determine the effect of price changes.	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
2(b)	**Assess whether the concept of price elasticity of supply or cross elasticity of demand will be the more useful to a business wanting to increase its total sales in a growing economy.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** Analysis of the concept of price elasticity of supply may explain its use in increasing a business' total sales by examining the following. • Usefulness depends on the type of goods and whether decisions need to be made in the short run or long run. • It may help businesses with regards to stock holding and decisions about which products to focus on • It may help businesses make decisions about productive capacity and whether e.g., to invest in new technology **BUT** • It depends on the accuracy of the data used to produce the value. • This may change over time and the value may have little value in a growing economy. • Some products, such as agricultural/perishable products, will naturally have a more price inelastic supply and knowledge of the value may have little use. Analysis of the concept of cross elasticity of demand may explain its use in increasing a business's total revenue by examining the following. • It will mean the business understands the relationship between its product and others i.e., whether they are complements or substitutes. • It also measures the closeness of the relationship and informs decisions about how quickly and the extent to which it should react for example if a competitor changes its prices. • It should assist a business to develop a pricing strategy that maximises opportunities to generate more sales **BUT** • The usefulness depends on the accuracy of the data and in a growing economy, it may not be possible to keep the value up to date. It is therefore often dependent on estimates that may be inaccurate. • Businesses may not be able to act on the data by changing prices if their cost structure cannot be easily changed. • Other variables other than cross elasticity of demand may be more important for example non price determinants such as brand loyalty. **Better answers will refer directly/implicitly to their usefulness to a business operating in a growing economy. Answers which do not are unlikely to gain more than L3 lower band.** **One sided response i.e., those that only consider one concept or do not analyse the problems of at least one concept will not gain beyond L2.**	**12**

Question	Answer	Marks
2(b)	**AO3 Evaluation** • Consideration of the likely effectiveness of both measures in increasing total sales in a growing economy that assesses which is most likely to be effective. If there is no direct/implicit reference to a growing economy, **then L1 upper maximum.** • Candidates may consider an alternative concept e.g., YED to assess whether sales would actually grow in these circumstances, • A justified conclusion which is most likely to be effective. Accept all valid responses. **A one-sided response cannot gain any marks for evaluation.**	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Question	Answer	Marks
OR		
3(a)	**With the help of examples, explain the difference between free goods and public goods <u>and</u> consider the view that public goods can never be provided in a market economy**. Follow the point-based marking guidance at the top of this mark scheme and award: • up to 3 marks for AO1 Knowledge and understanding. • up to 3 marks for AO2 Analysis • up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** Free goods are not scarce and have zero opportunity cost/no prices as no factors of production are required to produce them **(1)** Public goods have two main characteristics of non-excludability **and** non-rivalry with a brief explanation of both terms **(1)** Provide accurate examples of both e.g., fresh air **and** street lighting respectively **(1)** **AO2 Analysis (max 3 marks)** Explanation of why each of the two characteristics of public goods lead to the free rider problem (**1 + 1)** and why this makes it impossible/unrealistic to charge a price for them so the market economy would not supply them and therefore they must be provided by the government **(1)** **AO3 Evaluation (max 2 marks)** • Consideration of the view that pure public goods can never be provided in a market economy unless they are directly funded by the government **(1)** • **Or** could be considered to be quasi or semi-public goods in which case a price could be charged, and they could be provided by a market economy **(1)** • Reserve one mark for a justified conclusion **(1)**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
3(b)	**The provision of merit and demerit goods differs from the provision of other private goods.** **Assess the view that the consequences of imperfect information are more serious in a market economy than in a mixed economy.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content**: responses may include: **AO1 Knowledge and understanding and AO2 Analysis** • An analysis of how private goods (which include merit and demerit goods) are allocated within an economy through the demand and supply mechanism. • An explanation of the existence of imperfect information with respect to merit **and** demerit goods and the associated problems of under **or** overconsumption. • An explanation of how this is likely to lead different methods of allocation for both merit and demerit goods than for other private goods, (how other private goods are allocated and how this differs from the provision of merit and demerit goods and any other problems that may be associated with their allocation.) • Analysis should consider the consequences of imperfect information in **both** a market **and** a mixed economy for the provision of merit and demerit goods compared to other private goods. • **Answers which do not compare the provision of merit/demerit goods in both a market economy and a mixed economy cannot gain more than L2**. **AO3 Evaluation** Points to consider include. • Merit goods and demerit goods need government intervention because of the issues of under and over consumption due to imperfect information, so the market economy fails to operate efficiently. • Other types of private good can be efficiently provided by the market economy without government intervention but the process of allocation may mean e.g., low-income groups do not have the same access to certain goods. • **Leading to** a justified conclusion answering the question of whether the consequences of imperfect information are more serious in a market economy than a in mixed economy. Accept all valid responses. **A one-sided response cannot gain any marks for evaluation.**	**12**
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Section C

Question	Answer	Marks
EITHER		
4(a)	**Explain the difference between the terms of trade and the balance of trade in goods <u>and</u> consider whether an economy should be more concerned about its terms of trade than its balance of trade in goods.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding. up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** The term of trade is a numerical measure of the relationship/ratio between export and import prices **(1)** with an accurate formula showing the measure as an index **(1)** whereas the balance of trade in goods measures the revenue earned from exports of **goods** minus the expenditure on imports of **goods (1)** **AO2 Analysis (max 3 marks)** Analysis must consider issues concerning both the terms of trade and the balance of trade in goods. These may include: • Up to **2 marks** for an analysis of the effects of changes to the terms of trade e.g., relative change in competitiveness, increase in cost-push inflation, effects on balance of trade in goods and services. • Up to **2 marks** for an analysis of the effects of changes to the balance of trade e.g., an increase in the demand for exports ceteris paribus may lead to an increase in the balance of trade, impact on employment levels, economic growth, inflation. • **MAX 3 marks overall** **AO3 Evaluation (max 2 marks)** Evaluation should use **relevant analysis** to consider the importance of **both** measures and make a judgement as to which one may be of most concern to an economy **(1)**. Reserve one mark for a justified conclusion **(1)**.	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

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Question	Answer	Marks
4(b)	**Assess whether a rise or a fall in the terms of trade will benefit the macroeconomic performance of an open economy that is heavily dependent on international trade.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** Better answers will examine the impacts on the wider economy i.e., employment, price stability, economic growth as well the on the current account. Reference will also be made to the dependency on international trade. **For a rise in the terms of trade:** • This may lower inflation if raw material import prices are lower. • Depending on price elasticity of demand, it may lead to economic growth if the income earned from exports increases and a boost to employment. • It may however lead to lower economic growth if it leads to a current account deficit. **For a fall in the terms of trade:** • Exports may be boosted, and this may lead to higher economic growth. • It may reduce a current account deficit. • It may however be a sign of a weak economy with exports that are less in demand and therefore lead to lower economic growth. • If imports are price inelastic, this may lead to import cost-push inflation if the economy is highly dependent on imported goods. • **Answers which do not refer to the heavy dependence on international trade cannot gain more than L2.** • **Answers which only refer to a rise or a fall in the terms of trade cannot gain more than L2.** • **At least one negative effect in addition to positive effects (either for a rise or a fall in the terms of trade) should be considered within the analysis to gain lower L3.** **AO3 Evaluation** • Evaluation should consider both price elasticity of demand for exports and imports and the dependency on international trade. **N.B. reference to the Marshall-Lerner condition may be rewarded but must not be expected as that is an AL topic.** • The benefits and drawbacks of both a rise in the terms of trade and a fall in the terms of trade should be carefully considered and compared to form a judgement about their impact on the wider economy. • This should lead to a considered conclusion about which is **more likely** to be of benefit. Accept all valid responses. **A one-sided response cannot gain any marks for evaluation.**	**12**

Question	Answer	Marks
4(b)	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Question	Answer	Marks
OR		
5(a)	**With the help of a diagram(s), explain one reason for an increase in aggregate demand and one reason for an increase in aggregate supply <u>and</u> consider whether an increase in aggregate demand will always lead to inflation.** Follow the point-based marking guidance at the top of this mark scheme and award: • up to 3 marks for AO1 Knowledge and understanding. • up to 3 marks for AO2 Analysis • up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** Aggregate demand is the total demand for an economy's goods and services at a given price level/it is the total of C + I + G +(X-M) **(1)** Aggregate supply is the total output that producers in an economy are willing and able to supply at a given price level **(1)** An accurate diagram showing AD and AS curves **(1)** **AO2 Analysis (max 3 marks)** Analysis must explain a valid cause of an increase in AD **(1)** and a valid cause of an increase in AS **(1)** and show these increases by rightward shifts in **both** curves **and** the resultant impacts on the price level on an accurate diagram **(1)** **AO3 Evaluation (max 2 marks)** Whether an increase in AD will always lead to an increase in the price level (inflation) will depend on the increase in AS and/or the shape of/position on the AS curve **(1)**. This must be clearly explained, and reserve one mark for a valid judgement **(1)**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
5(b)	**Assess whether the internal effects of inflation are more serious than the external effects of inflation for an economy.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** The internal effects of inflation are those which affect the domestic economy directly and may include: • Income redistribution • Menu costs (or the costs to firms of having to change their prices frequently) • Shoe leather costs (or the inconvenience of having to hold smaller quantities of cash/searching for the best rate of interest) • Uncertainty in transactions • But also, may provide a stimulus for output and be a sign of economic growth. The external effects of inflation are those which affect its international trade and may include. • Declining price competitiveness of exports and increased competitiveness for imports • This may increase the current account deficit. • May lead to a depreciation of the exchange rate. • Uncertainty in international transactions • But also, depending on price elasticity of demand, it may boost revenue from exports plus it will improve the terms of trade and may be a sign of increased demand for its goods and further stimulate output. • Both internal and external effects need to be considered to gain more than L2. • One positive effect (in addition to negative effects) only for internal **or** external can gain low L3. • Positive effects **and** negative effects analysed for **both** internal **and** external can gain top L3. **AO3 Evaluation** • Consideration of both the internal and external effects of inflation for an economy • An assessment of which effects are likely to be the most serious. • A justified conclusion as to which effect is likely to be the most serious. Accept all valid responses. **A one-sided response cannot gain any marks for evaluation.**	**12**

Question	Answer	Marks
5(b)	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4