Cambridge International AS & A Level

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ECONOMICS **9708/21**

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.

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

Cambridge International is publishing the mark schemes for the October/November 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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.

Question	Answer	Marks	Guidance
1(a)(i)	**Describe, using Fig. 1.1, the immediate impact of demonetisation on India's M1 money supply.** • it fell **(1 mark)** • from about 28 trillion rupees to about 20 trillion rupees OR by about 8 trillions of rupees **(1 mark)**	**2**	Candidates can either write that it has fallen from about 28 to about 20 or that it has fallen by 8 to gain the second mark, but with either answer there must be an explicit reference to <u>trillion rupees</u> as this is how the vertical axis is labelled in Fig. 1.1.
1(a)(ii)	**Explain a possible reason why India's M1 money supply increased early in 2017, as shown in Fig. 1.1, after the most used bank notes were withdrawn from circulation.** • Many of the Indian population may have opened bank accounts **(1 mark)**; to deposit the 500 and 1000 rupee notes before they were no longer valid **(1 mark)**. **OR** • The Indian monetary authorities may have increased the supply of smaller denomination notes **(1 mark)**; to offset the fall in the money supply **(1 mark)**.	**2**	The question asks for the explanation of 'A possible reason'. The marks cannot be split across more than one possible reason. The information given to candidates says that this is the total supply of notes and coins in circulation plus deposits in bank accounts. Hence the explanation must be for an increase in either <u>cash</u> or <u>bank account balances</u>.
1(b)	**Explain whether a cheque should be regarded as money.** • a cheque is a method of payment / a means of facilitating a transaction / transfers money from one account to another **(1 mark)** • however, it is not a form of money as it is not always acceptable **(1 mark)**	**2**	A cheque can be used as a means of payment for goods and services, but it is not the same as money because a cheque is not always acceptable. It is an instrument instructing a financial institution to pay a specific amount of money from a particular transactional account held in a person's name with that institution. 'No' by itself does not gain a mark as the question requires an explanation. If a candidate states that a cheque should be regarded as money – **0 marks**.

Question	Answer	Marks	Guidance
1(c)	**Explain how the Indian government's decision to withdraw the two most used bank notes is likely to affect the use of cash as a store of value in India over time.** • explanation of the function of money as a store of value or wealth **(up to 2 marks)** • explanation of how the Indian government's decision is likely to affect the use of cash as a store of value in India over time **(up to 2 marks)**	**4**	Quantities of cash can be held over a period of time and stores value by transferring purchasing power from the present to the future. The function of money as a store of value is likely to reduce at first, given that the two most used notes were withdrawn from circulation, but over time it will have less of an effect. The store of value depends upon the banknotes retaining their real worth. The short-notice removal of large denomination banknotes will have reduced peoples' confidence in holding them as a store of value since they may lose value almost instantly if not cashed in within the deadline. Smaller banknotes would be unlikely to be withdrawn so could continue as a store of value. However, these would be much less convenient (too bulky and harder to store) so would not be a perfect substitute. This use of banknotes as a store of value is liable to decline, although in the long-run people may forget or downgrade the risk.

Question	Answer	Marks	Guidance
1(d)	**Explain the possible impact of demonetisation on the Indian government's fiscal policy.** Explanation of the possible impact of demonetisation on India's fiscal policy **(up to 4 marks)** • a smaller informal economy and a larger formal economy • would enable the authorities to better understand the fiscal situation • currently only 1% of workers pay income tax • more people are likely to be brought within the tax structure • tax revenue may increase • the Indian government will be able to increase public expenditure	**4**	
1(e)	**Discuss whether demonetisation in India is likely to be inflationary.** • for an explanation that it is likely to be inflationary **(up to 3 marks)** • for an explanation that it is **not** likely to be inflationary **(up to 3 marks)** **<u>5 marks maximum</u>** for the explanation Plus **1 mark** for a conclusion	**6**	It could be inflationary if the government's increased tax revenue is used to stimulate aggregate demand in the Indian economy, but it depends on whether the government spends the tax revenue. However, if the wages of employees are paid directly into bank accounts, it may reduce the extent of liquidity in the economy, reducing any inflationary threat. Also, if some people are more fearful of the future of the economy, they may be more cautious in their spending patterns, again dampening down inflation. Credit reference to Quantity Theory of Money (although not on AS syllabus): the immediate impact is that the money supply goes down, when it will not be inflationary, but there will be an eventual increase in the money supply as people open bank accounts (as shown in Fig. 1.1), which could be inflationary.

Question	Answer	Marks	Guidance
2(a)	**Explain, with the help of a diagram, how a free market would react if a minimum price which had been set above the equilibrium is removed.** For correct diagram: • axes correctly labelled: P/Q **(1 mark)** • market equilibrium shown **(1 mark)** **(KU: up to 2 marks)** • minimum price shown above equilibrium in diagram **(1 mark)** • reference to the existence of excess supply **(1 mark)** • explanation in terms of the process whereby a minimum price set above the equilibrium is removed. **(up to 4 marks)** **(APP: up to 6 marks)**		• The guaranteed minimum price or price floor, set above the equilibrium, would be removed • This would lead to the excess supply disappearing • The market would revert to an equilibrium position, leading to a fall in price with an increased quantity traded • There would neither be an excess supply nor an excess demand in the free market: the quantity demanded will increase and the quantity supplied will reduce, so eliminating the excess • A market clearing position would be established • The impact on the producer revenue will depend on the elasticities of demand and supply • Consumer surplus will increase

Question	Answer	Marks	Guidance
2(b)	**Discuss, with the use of examples, the extent to which a supermarket could make use of the concept of income elasticity of demand in relation to the different types of goods being sold when there was an increase in consumer incomes.** • analysis in relation to normal goods, using appropriate examples **(up to 3 marks)** • analysis in relation to inferior goods, using appropriate examples **(up to 3 marks)** • analysis in relation to necessity goods, using appropriate examples **(up to 3 marks)** **(AN: up to 8 marks)** • assessing the **extent** to which a supermarket could make use of the concept of income elasticity of demand in relation to the different types of goods being sold when there was an increase in consumer incomes **(up to 3 marks)**; plus a concluding comment **(1 mark)** **(EV: up to 4 marks)**		YED is the percentage change in the quantity demanded of a product divided by the percentage change in incomes. For a normal good, the YED will be positive for normal goods, i.e. as consumer incomes rise, the demand for products will rise. For an inferior good, the YED will be negative for inferior goods, i.e. as consumer incomes rise, the demand for products will fall. If there is an increase in consumer incomes, a supermarket is likely to stock more normal goods and fewer inferior goods. Necessity goods have a positive YED, but it is rather low, e.g. less than one (inelastic). If there is an increase in incomes, there is unlikely to be very much of an effect on supermarkets in terms of the stocking of necessity goods.

Question	Answer	Marks	Guidance
3(a)	**Explain, with the help of a diagram, the effect and incidence of a subsidy in a market for essential transport.** For correct diagram: • axes correctly labelled: P/Q **(1 mark)** • market equilibrium shown **(1 mark)** **(KU: up to 2 marks)** • shift of supply curve to the right **(1 mark)** • lower price and higher quantity shown **(1 mark)** • explanation in terms of incidence in relation to the impact of different elasticities **(up to 2 marks)** • explanation in terms of incidence in a market for essential transport where demand is likely to be relatively inelastic **(up to 2 marks)** **(APP: up to 6 marks)**	**8**	The effect of introducing a subsidy in a market for essential transport is that the lower price is likely to increase the demand for the transport, making it more affordable, especially for those on lower incomes. The extent of this increase will depend on the price elasticity of demand for transport, as will the incidence of the subsidy, i.e. the eventual distribution of the advantage of a subsidy. The demand for essential transport is likely to be relatively price inelastic.

Question	Answer	Marks	Guidance
3(b)	**Discuss, with the use of examples, whether a government should directly provide certain goods and services in an economy.** • analysis of reasons for a government to directly provide certain goods and services in an economy, using appropriate examples **(up to 4 marks)** • analysis of reasons for a government **not** to directly provide certain goods and services in an economy, using appropriate examples **(up to 4 marks)** **(AN: up to 8 marks)** • assessing whether a government is justified in directly providing certain goods and services in an economy – public goods have to be provided by the government as these otherwise would not be provided at all **(up to 3 marks)**; and a concluding comment **(1 mark)** **(EV: up to 4 marks)**	**12**	Reasons for: • To enable benefits in terms of economies of scale if a large firm is created, lowering cost and possibly price • Justifiable where the goods and services are public goods • To encourage consumption of merit goods • To take account of externalities, both positive and negative • Justifiable if high levels of capital expenditure are required • Justifiable in the case of a natural monopoly, avoiding a wasteful duplication of resources • Possible strategic argument • Prevention of private sector monopoly power Reasons against: • Lack of incentive to be efficient and innovative • There may be an absence of competitive pressure • Political, not economic, decision

Question	Answer	Marks	Guidance
4(a)	**Explain, with the help of a diagram, the difference between what causes (i) a movement along an aggregate supply curve and (ii) a shift in an aggregate supply curve.** For correct diagram: • axes correctly labelled: price level, GDP/real output **(1 mark)** • AS/AD correctly labelled **(1 mark)** **(KU: up to 2 marks)** • explanation of a movement along an AS curve **(up to 3 marks)** • explanation of a shift in an AS curve **(up to 3 marks)** **(APP up to 6 marks)**	**8**	Movement along an AS curve: • this is caused by a change in the price level; it could also be caused by a change in the AD curve and there is then a movement along an AS curve to restore the equilibrium position Shift in an AS curve: • this is caused by any reason other than a change in the price level, e.g. a change in the costs of factors of production, a change in the taxes on firms, a change in the productivity/quality of inputs or a change in the quantity of resources

Question	Answer	Marks	Guidance
4(b)	**Discuss whether supply-side policies are likely to be effective in increasing employment in an economy.** • analysis of potential benefits of supply-side policies to increase employment in an economy, using appropriate examples **(up to 4 marks)** • analysis of potential limitations of supply-side policies to increase employment in an economy, using appropriate examples **(up to 4 marks)** **(AN: up to 8 marks)** • assessing whether supply-side policies are likely to be effective in increasing employment in an economy – it is possible that such policies might actually increase unemployment **(up to 3 marks)**; and a concluding comment **(1 mark)** **(EV: up to 4 marks)**	**12**	Possible benefits of supply-side policies: • Privatisation of firms to make them more efficient, leading to an increase in employment • Increased spending on education and training to increase labour productivity and so increase employment • Lower corporate taxes can leave firms with more money to spend on employing more workers • Subsidies may be provided, encouraging firms to increase employees • Policies to make the labour market more flexible may lead to an increase in employment • Policies to encourage competition, leading to an increase in employment • Financial support to encourage spending on R&D, leading to an increase in employment Possible limitations of supply-side policies: • May be expensive to implement • Can take a long time to take effect, e.g. policies on education and training • Privatisation could actually lead to an increase in unemployment.