Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **October/November 2021**

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 2021 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.

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.

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.

Question	Answer	Marks	Guidance
1(a)	**Explain how inflation can halve the 'real value' of money.** • The real value is the *quantity* of products that can be bought for a certain amount of money **(1 mark)** • If *prices double*, the quantity that can be bought will be halved **(1 mark)**	**2**	
1(b)	**With the aid of a diagram, explain why 'rapid price rises encourage panic-buying by consumers, creating shortages that further increase inflation'.** For an appropriate diagram that shows a further increase in inflation **(up to 2 marks)** For an explanation of why rapid price rises encourage panic-buying by consumers, creating shortages that further increase inflation **(up to 2 marks)**	**4**	Candidates can adopt a micro or a macro approach: • increase in demand • excess demand created in short run • price increases • causes expectation of further price increases • so more purchases • leading to a price spiral
1(c)	**With reference to <u>one</u> function of money explain why hyperinflation in Zimbabwe caused the country to abandon its currency in 2008.** For an explanation of the potential impact of hyperinflation on **one** function of money: • a medium of exchange **(up to 2 marks)** • a unit of account/a measure of value **(up to 2 marks)** • a store of value/a store of wealth **(up to 2 marks)** • a standard for deferred payment **(up to 2 marks)** **2 marks maximum** 1 mark for the identification of one function of money 1 mark for the explanation of how hyperinflation might impact on this function and cause the country to abandon its currency	**2**	Hyperinflation can prevent money serving as a medium of exchange when people lose confidence in money Hyperinflation, as in Zimbabwe, can prevent money serving as a unit of account/a measure of value in an economy Hyperinflation is likely to prevent money serving effectively as a store of value/a store of wealth because its real value, i.e. its purchasing power, will be reduced Hyperinflation is likely to prevent money serving effectively as a standard for deferred payment because people will be reluctant to exchange anything on a credit basis if the value of money is rapidly falling

Question	Answer	Marks	Guidance
1(d)	**Using aggregate demand and aggregate supply analysis, discuss whether it is possible to use monetary policy to achieve <u>both</u> a high level of investment <u>and</u> a low rate of inflation.** For an explanation of the use of monetary policy to achieve both a high level of investment and a low rate of inflation, using AD/AS analysis **(up to 3 marks)** For an explanation of the limitations of monetary policy in achieving both a high level of investment and a low rate of inflation, using AD/AS analysis **(up to 3 marks)** **5 marks maximum** **Reserve 1 mark for a conclusion** **6 marks maximum**	**6**	Monetary policy involves the use of changes in interest rates and/or changes in the money supply and/or changes in the exchange rate If an expansionary policy is used to encourage a high level of investment, interest rates could be lowered Such an approach is likely to increase the level of aggregate demand in an economy and this could lead to an increase in inflation if AD exceeds AS However, investment could increase AS in the economy and contribute to a lower rate of inflation The timeframe is important; AD increases will occur before the investment can increase AS and so it is likely that the short-run effect would be inflationary, but the long-run effect may not be It may be possible to lower the interest rate without causing inflation if an economy has spare capacity; if the LRAS curve is horizontal, investment could be encouraged (AD shifting right) without inflation

Question	Answer	Marks	Guidance
1(e)	**Discuss whether everybody in an economy such as Venezuela would be worse off as a result of hyperinflation.** For an explanation that some people in an economy could be worse off as a result of a high rate of inflation **(up to 3 marks)** For an explanation that some people in an economy could be better off as a result of a high rate of inflation **(up to 3 marks)** **5 marks maximum** **Reserve 1 mark for a conclusion** **6 marks maximum**	**6**	Possible negative consequences of a high rate of inflation/hyperinflation: • it erodes the real value of money • it reduces individuals' purchasing power • it makes a country's exports uncompetitive • it creates a redistribution of income, with those on fixed incomes badly affected • menu costs • shoe leather costs • it creates uncertainty in an economy Possible positive consequences of a high rate of inflation/hyperinflation: • if prices rise by more than costs, it can increase firms' profits • this can encourage firms to expand, leading to a reduction in the level of unemployment in an economy • borrowers will gain from inflation because the debt will be less in real terms

Question	Answer	Marks	Guidance
2(a)	**With the aid of a diagram, compare what happens to an economy's resources to cause a movement along its production possibility curve with what happens to an economy's resources to cause a shift of its production possibility curve.** For correct diagram: Axes correctly labelled: Good A and Good B or equivalent (e.g. capital goods and consumer goods or agricultural products and manufactured products) **(1 mark)** PPC correctly drawn, touching both axes **(1 mark)** **KU: 2 marks maximum** Application of PPC in terms of a movement along a curve **(up to 3 marks)** Application of PPC in terms of a shift of a curve **(up to 3 marks)** **APP: 6 marks maximum**	**8**	The shift of the PPC can be to the right or to the left or both A movement along a PPC shows different combinations of outputs that can be produced from the given resources; this movement along a PPC from one point to another will involve a re-allocation of those resources A shift of a PPC, say to the right, comes about as a result of an increase in the quantity and/or quality of resource/s, leading to an expansion in the productive capacity or potential output of an economy, allowing more of one/both goods to be produced

Question	Answer	Marks	Guidance
2(b)	**Discuss whether the advantages of a transition from a planned economy to a market economy always outweigh the disadvantages.** **For Analysis** Analysis of the advantages of a transition from a planned economy to a market economy **(up to 4 marks)** Analysis of the disadvantages of a transition from a planned economy to a market economy **(up to 4 marks)** **AN: 8 marks maximum** **For Evaluation** For exercising some judgement on whether the advantages of a transition from a planned economy to a market economy always outweigh the disadvantages **(up to 4 marks)** **Reserve 1 mark for a conclusion** **EV: 4 marks maximum**	**12**	Advantages of a transition from a planned economy to a market economy: • existence of price mechanism • prices operate as signals to indicate consumer preferences • private sector ownership/decision-making with no or very little government intervention • competition between firms can lead to greater efficiency Disadvantages of a transition from a planned economy to a market economy: • some products will be under-provided and under-consumed • some products will be over-provided and over-consumed • some products will not be provided or consumed at all • there will be consequences of information failure In addition to the market failures outlined above, there could also be negative consequences of a market economy, including: • a higher level of unemployment • a higher level of inflation

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>3(a)</td><td>With the aid of a diagram, explain the consequences for consumers and producers of introducing a minimum price in the market for a product.

For Knowledge and Understanding

For correct diagram:
Axes correctly labelled: P/Q (1 mark)

Minimum price shown above equilibrium in diagram (demand and supply curves need to be correctly labelled) (1 mark)

KU: 2 marks maximum

For Application

Consequences for <u>consumers</u> of the establishment of a minimum price in a market (up to 3 marks)

Consequences for <u>producers</u> of the establishment of a minimum price in a market (up to 3 marks)

APP: 6 marks maximum</td><td>8</td><td>Consequences for <u>consumers</u> of introducing an effective minimum price in the market for a product:
• consumers will need to pay a higher price compared to the price that would have been charged where demand and supply in a market were in equilibrium
• this will discourage the consumption of the product by consumers
• this will be beneficial for consumers if the product is a demerit good

Consequences for <u>producers</u> of introducing an effective minimum price in the market for a product:
• the minimum price will help producers to increase their incomes
• there will be an excess supply that consumers do not buy at the higher minimum price
• government action may be required to buy up this excess supply or to restrict production</td></tr>
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Question	Answer	Marks	Guidance
3(b)	**Discuss whether decisions made by a business are more likely to be influenced by knowledge of the price elasticity of demand for its product or by knowledge of the price elasticity of supply of its product.** Analysis of the usefulness of knowledge of price elasticity of demand to a business **(up to 4 marks)** Analysis of the usefulness of knowledge of price elasticity of supply to a business **(up to 4 marks)** **AN: 8 marks maximum** For exercising some judgement on whether decisions made by a business are more likely to be influenced by knowledge of the price elasticity of demand for its product or by knowledge of the price elasticity of supply of its product **(up to 4 marks)** **Reserve 1 mark for a conclusion** **EV: 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 PES: • it can be helpful in giving a business an indication of the extent to which a change in the price of a product can lead to a change in the quantity supplied of a product • it can help a business to make decisions about how much stock to hold • it can help a business decide on the extent of spare capacity to provide for • it can help a business decide on the factors of production it is going to need Note: No marks for KU of PED and PES

Question	Answer	Marks	Guidance
4(a)	**With the aid of a diagram, explain how a central bank intervenes to maintain a fixed exchange rate when the economy is experiencing a current account deficit on its balance of payments.** For correct diagram: Axes correctly labelled: Exchange rate or price of one currency in terms of another/Q of currency **(1 mark)** Demand and supply curves correctly labelled **(1 mark)** **KU: 2 marks maximum** Explanation that a CA deficit causes downward pressure on the exchange rate **(up to 3 marks)** Explanation of the intervention of a central bank to maintain the exchange rate **(up to 3 marks)** **APP: 6 marks maximum**	**8**	CA deficit means that demand for imports exceeds foreign demand for exports, so domestic demand for foreign currency exceeds foreign demand for the domestic currency. This will put downward pressure on the exchange rate If the value of a currency is about to fall, a central bank will increase demand by: • buying the domestic currency, using their foreign currency reserves • and/or increasing interest rates

Question	Answer	Marks	Guidance
4(b)	**Discuss whether expenditure-reducing policies are likely to reduce the current account deficit on the balance of payments for an economy with a floating exchange rate.** Analysis of potential success of expenditure-reducing policies in reducing the current account deficit on the balance of payments for an economy with a floating exchange rate **(up to 4 marks)** Analysis of the limitations of expenditure-reducing policies in reducing the current account on the balance of payments for an economy with a floating exchange rate **(up to 4 marks)** **AN: 8 marks maximum** For exercising some judgement on whether expenditure-reducing policies are likely to reduce the current account deficit on the balance of payments for an economy with a floating exchange rate **(up to 4 marks)** **Reserve 1 mark for a conclusion** **EV: 4 marks maximum**	**12**	Expenditure-reducing policies are actions taken by a government to reduce the total level of spending in an economy They are designed to lead to: • a fall in imports • and/or a rise in exports Examples can include: • raising interest rates • reducing money supply • increasing taxes • reducing public spending Possible limitations can include: • there may still be a strong demand for imports • resources may not be released for exports